BRASKEM SA
Form F-1/A
August 04, 2004

As filed with the Securities and Exchange Commission on August 3, 2004

Registration Statement No. 333-114219

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2
to

Form F-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Braskem S.A.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant s name in English)

Federative Republic of Brazil	**2860**	**N/A**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(IRS Employer Identification Number)*

Avenida das Nações Unidas, 4777
São Paulo, SP CEP 05477-000, Brazil
55-11-3443-9999
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

CT Corporation System
111 Eighth Avenue
New York, NY 10011
(212) 894-8940
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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White & Case LLP	**Simpson Thacher & Bartlett LLP**
Alameda Santos, 1940 3° andar	**425 Lexington Avenue**
01418-200 São Paulo SP, Brazil	**New York, New York 10017**
55-11-3147-5600	**212-455-2000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED , 2004

Class A Preferred Shares

BRASKEM S.A.

(incorporated in the Federative Republic of Brazil)

In the form of American Depositary Shares

We are selling class A preferred shares in the form of American Depositary Shares, or ADSs. Each ADS represents 1,000 class A preferred shares.

We are selling ADSs in the United States and other countries outside Brazil through international underwriters named in this prospectus. In addition, we are concurrently offering class A preferred shares in Brazil.

The ADSs are listed on The New York Stock Exchange under the symbol BAK. The last reported sale price of the ADSs on The New York Stock Exchange on June 2, 2004 was US$16.01 per ADS. Our class A preferred shares are listed on the São Paulo Stock Exchange in lots of 1,000 shares under the symbol BRKM5. The closing price of our class A preferred shares on the São Paulo Stock Exchange on June 2, 2004 was R$50.10 per 1,000 class A preferred shares, which is equivalent to approximately US$16.01 per 1,000 class A preferred shares, based upon an exchange rate of R$3.130 to US$1.00.

The international underwriters have an option to purchase a maximum of additional ADSs to cover over-allotments of ADSs. The Brazilian underwriters also have an option to purchase a maximum of additional class A preferred shares to cover over-allotments of class A preferred shares in the concurrent Brazilian offering.

Investing in the ADSs involves risks. See Risk Factors beginning on page 14.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Braskem S.A.
Per ADS	US$	US$	US$
Total	US$	US$	US$

Delivery of the ADSs will be made on or about , 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston

Credit Suisse First Boston **Unibanco**

UBS Investment Bank

The date of this prospectus is , 2004.

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[PHOTOGRAPHS OF FACILITIES TO COME]

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This prospectus may only be used where it is legal to sell our class A preferred shares or the ADSs. The information in this prospectus may only be accurate on the date of this document.

This prospectus is being used in connection with the offering of class A preferred shares in the form of ADSs in the United States and other countries outside Brazil.

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PROSPECTUS SUMMARY

This summary highlights information presented in greater detail elsewhere in this prospectus. This summary is not complete and does not contain all the information you should consider before investing in the ADSs. You should carefully read this entire prospectus before investing, including Risk Factors and our financial statements. See Presentation of Financial and Other Information for information regarding our financial statements, exchange rates, definitions of technical terms and other introductory matters.

Braskem

We are the leading petrochemical company in Latin America, based on average annual production capacity, and we are one of the five largest Brazilian-owned private sector industrial companies, based on net sales revenue. We recorded net income of R$215.1 million in 2003 on net sales revenue of R$10,135.8 million, in each case under Brazilian GAAP. We produce a diversified portfolio of petrochemical products and have a strategic focus on polyethylene, polypropylene and polyvinylchloride, or PVC. We are the only Brazilian company with integrated first and second generation petrochemical production facilities, and we have 13 plants in Brazil.

We have grown over the past three years primarily as the result of the integration of the operations of six Brazilian petrochemical companies: our company, which was formerly named Copene Petroquímica do Nordeste S.A.; OPP Química S.A., or OPP Química; Polialden Petroquímica S.A., or Polialden; Trikem S.A., or Trikem; Proppet S.A., or Proppet; and Nitrocarbono S.A., or Nitrocarbono. We have merged with these companies, other than Polialden. Our business operations are organized into four business units, which correspond to our principal production processes and products:

- Basic Petrochemicals, which accounted for R$4,765.3 million, or 47.8%, of the net sales revenue of all segments, including net sales to our other business units, and had an operating margin of 10.5% in 2003;
- Polyolefins, which accounted for R$3,386.8 million, or 33.9%, of the net sales revenue of all segments and had an operating margin of 15.6% in 2003;
- Vinyls, which accounted for R$1,371.8 million, or 13.7%, of the net sales revenue of all segments and had an operating margin of 22.9% in 2003; and
- Business Development, which accounted for R$455.3 million, or 4.6%, of the net sales revenue of all segments and had an operating margin of 6.3% in 2003.

We believe the integration of the operations of the companies that formed our company has produced, and will continue to provide, significant synergies and cost savings from reduced taxes, procurement and logistics expenses, general and administrative expenses and other operating expenses. At March 31, 2004, we estimated that the implementation of our integration program will result in our achieving more than R$300 million in annual recurring cost reductions as compared to costs that would have been incurred by our company and the companies that we have acquired. However, we may not be able to realize the full benefit of the existing or future identified annual cost savings in upcoming years.

Basic Petrochemicals Unit

At December 31, 2003, our Basic Petrochemicals facilities had one of the largest average annual production capacities of all first generation producers in Latin America. Our Basic Petrochemicals Unit produces a broad range of basic petrochemicals, including:

- olefins, such as ethylene, polymer and chemical grade propylene, butadiene, isoprene and butenel; and
- aromatics, such as benzene, toluene, para-xylene and ortho-xylene.

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The products of our Basic Petrochemicals Unit are used primarily in the manufacture of intermediate petrochemical products, including those manufactured by our other business units. The operations of our Basic Petrochemicals Unit are conducted at facilities located in the petrochemical complex located in Camaçari in the State of Bahia, which we refer to as the Northeastern Complex.

Polyolefins Unit

At December 31, 2003, our polyolefins production facilities had the largest average annual production capacity of all second generation producers of polyolefins products in Brazil and elsewhere in Latin America. Our Polyolefins Unit produces:

- polyethylene, including low density polyethylene, or LDPE; linear low density polyethylene, or LLDPE; high density polyethylene, or HDPE; and ultra high molecular weight polyethylene; and

- polypropylene.

Approximately two-thirds of our Polyolefins Unit s sales volumes in 2003 was derived from the sale of polyethylene products, and the remainder was derived from the sale of polypropylene products.

In 2003, we had an approximate 29% share of the Brazilian polyethylene market and an approximate 40% share of the Brazilian polypropylene market, based on sales volumes.

We manufacture a broad range of polyolefins products for use in consumer and industrial applications, including plastic films for food and industrial packaging; bottles, shopping bags and other consumer goods containers; automotive parts; and household appliances.

Our polyolefins products are manufactured in facilities located in the Northeastern Complex and in the petrochemical complex located in Triunfo in the State of Rio Grande do Sul, which we refer to as the Southern Complex.

Vinyls Unit

We are the leading producer of PVC in Brazil, based on sales volumes in 2003. At December 31, 2003, our PVC production facilities had the largest average annual production capacity of all second generation producers of PVC in Latin America.

Our Vinyls Unit is the only vertically integrated producer of PVC in Brazil. Our PVC production is integrated through our production of chlorine and other raw materials. Our Vinyls Unit also manufactures caustic soda, which is used by producers of aluminum and paper; ethylene dichloride, or EDC; and chlorine, which is used internally to manufacture EDC. Approximately two-thirds of our Vinyls Unit s net sales revenue in 2003 was derived from the sale of PVC products.

In 2003, we had an approximate 57% share of the Brazilian PVC market based on sales volumes. PVC is a versatile polymer. We manufacture a broad range of PVC resins used in the manufacture of industrial products used in the construction industry, including pipes, sheeting, flooring, fittings and wire and cable coverings; and household and other products, including plastic films and laminated sheets, packaging materials, synthetic leather, window frames and bottles.

Our vinyls products are manufactured in facilities located in the States of Bahia, Alagoas and São Paulo.

Business Development Unit

The principal products of our Business Development Unit are polyethylene teraphthalate, or PET, and caprolactam. PET is used in manufacturing packaging for soft drinks, medications, cleaning products, mineral water and food products, while caprolactam is used in manufacturing Nylon-6 textile thread. Our Business Development Unit also manages certain of our equity investments.

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In 2003, 37.8% of our Business Development Unit s net sales revenue was derived from the sale of PET, and 45.9% was derived from the sale of caprolactam. Our Business Development Unit conducts its manufacturing operations in two plants located in the Northeastern Complex.

Jointly Controlled Companies

We own 29.5% of the voting and total share capital of Copesul Companhia Petroquímica do Sul, or Copesul, the first generation producer based in the Southern Complex. Copesul is the second largest first generation producer in Brazil, with an annual ethylene production capacity of 1,135,000 tons and an annual propylene production capacity of 581,000 tons. In 2003, Copesul s net income on a consolidated basis was R$149.9 million on net sales revenue of R$4,177.9 million, in each case as adjusted to conform to our accounting policies. We are required, under Brazilian GAAP, to account for our interests in Copesul in our financial statements using the proportional consolidation method.

We also own 33.9% of the total share capital of Politeno Indústria e Comércio S.A., or Politeno, including 35.0% of its voting share capital. Politeno is a second generation petrochemical producer operating in the Northeastern Complex. Politeno has an annual production capacity of 145,000 tons of LDPE, and an annual production capacity of 195,000 tons of LLDPE and HDPE. In 2003, Politeno s net income was R$67.2 million on net sales revenue of R$943.9 million. We are required, under Brazilian GAAP, to account for our interests in Politeno in our financial statements using the proportional consolidation method.

Strategy and Challenges

Our vision is to strengthen our position as a world-class petrochemical company. We seek to reinforce our leading position in the Latin American petrochemical market, with a strategic focus on polyethylene, polypropylene and PVC and integration with our production of ethylene and propylene. Our business model focuses on enhancing shareholder value, with strategic drivers consisting of market leadership, cost competitiveness and technological autonomy.

We are the first Brazilian company to integrate first and second generation petrochemical production facilities. Our competitive advantages are derived from our leadership position in the Lain American market and our favorable cost structure, resulting from our production scale and synergies realized from the integration process that formed our company.

The key elements of our strategy include:

Focus on Customer Relationships we seek to establish close, long-term relationships with our customers, which foster customer loyalty during periods of lower demand.

Pursuit of Selected Business Opportunities we are pursuing business opportunities by developing new and specialized products.

Expansion of Our Production Capacity we plan to expand our production capacity, primarily through efficiency enhancements and by modernizing our production technology.

Continued Reductions in Operating Costs and Increases in Operating Efficiencies we have an ongoing program to increase operating efficiencies and to reduce operating costs.

Commitment to Our Employees and Our Communities we are focused on our human resources, which are vital to our competitiveness and growth, and we are also committed to improving the quality of life in the communities in which our facilities are located.

We face numerous challenges and risks in operating our business and executing our strategy, many of which are outside our control. Because approximately two-thirds of our consolidated cost of sales and services rendered are related to purchases of naphtha, increases in the Amsterdam-Rotterdam-Antwerp market price of naphtha result in increases in the costs of our products, and we may not be able to recover these costs through increases in our prices. In addition, our business is subject to risks that may arise from, among other factors, the cyclical nature of our industry, currency fluctuations, debt service requirements on our existing indebtedness, and decisions rendered in pending legal proceedings against us. For a more complete description of these risks and other risks relating to Brazil, our industry, our company and this offering, please see Risk Factors beginning on page 14 of this prospectus.

Principal Shareholders

Our controlling shareholder is the Odebrecht Group, which is one of the 10 largest Brazilian-owned private sector conglomerates based upon net sales revenue. The Odebrecht Group also controls Construtora Norberto Odebrecht S.A., one of the largest heavy construction and engineering companies in Latin America. The Odebrecht Group, through Odebrecht S.A., or Odebrecht, and its wholly-owned subsidiary, ODBPAR Investimentos S.A., or ODBPAR Investments, directly owns 38.5% of our total share capital, including 42.9% of our voting share capital. In addition, the Odebrecht Group owns 50.1% of the voting share capital of Nordeste Química S.A. Norquisa, or Norquisa, which owns 10.7% of our total share capital, including 29.4% of our voting share capital.

Petrobras Química S.A., or Petroquisa, a subsidiary of Petróleo Brasileiro S.A. Petrobras, or Petrobras, which is Brazil s national oil company has an option exercisable through April 2005 to acquire from us, and in certain circumstances from the Odebrecht Group, a number of our common and preferred shares that would provide it with the same equity participation in our voting and total shares as the participation owned collectively by (1) the Odebrecht Group, (2) Petroquímica da Bahia S.A., or Petroquímica da Bahia, which together with its affiliates form a group of companies controlled by the Mariani family, or the Mariani Group, and (3) Norquisa. Accordingly, Petroquisa may become one of the principal shareholders in our company through exercise of this option. We cannot predict whether or not Petroquisa will exercise this option.

The Odebrecht Group has entered into memoranda of understanding with (1) Petroquisa, (2) the pension fund of Banco do Brasil (*Caixa de Previdência dos Funcionários do Banco do Brasil*), or Previ, and the pension fund of Petrobras (*Fundação Petrobras de Seguridade Social Petros*), or Petros, and (3) Petroquímica da Bahia, a member of the Mariani Group and the controlling shareholder of Pronor Petroquímica S.A., or Pronor, with respect to, among other things, the voting and transfer of our shares.

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The following chart presents our current ownership structure. The percentages in bold italics represent the percentage of the voting share capital owned directly by each shareholder, and the percentages not in bold italics represent the percentage of the total share capital owned by each shareholder.

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(1) Includes, in addition to direct shareholdings, 997,813 ADSs outstanding, representing 997,813,000 class A preferred shares, or 1.3% of our total share capital.

(2) Pronor is controlled by Petroquímica da Bahia.

(3) Our subsidiary Copene Participações S.A. owns 0.3% of our total share capital, including 0.6% of our voting share capital.

Our registered office is at Rua Eteno, 1561, CEP 42810-000, Camaçari, Bahia, Brazil, and our telephone number at this address is 55-71-632-5102. Our principal executive office is at Avenida das Nações Unidas, 4777, São Paulo, SP, CEP 05477-000, Brazil, and our telephone number at this address is 55-11-3443-9999.

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The Offering

Issuer	Braskem S.A.
Global offering	The global offering consists of the international offering and the Brazilian offering.
International offering	ADSs, representing class A preferred shares, are being offered through the international underwriters in the United States and other countries outside Brazil.
Brazilian offering	Concurrently with the international offering, class A preferred shares are being offered by the Brazilian underwriters in Brazil.
ADSs	Each ADS represents 1,000 class A preferred shares. ADSs will be evidenced by American depositary receipts, or ADRs.
Offering price	The initial public offering price for the international offering is set forth on the cover page of this prospectus. The offering price for the Brazilian offering is R$ per 1,000 class A preferred shares, which is the approximate real equivalent of the offering price per ADS in the international offering, based upon an exchange rate of R$ to US$1.00.
Over-allotment options	We have granted the international underwriters an option to purchase an additional ADSs, representing class A preferred shares, within 30 days from the date of this prospectus, solely to cover over-allotments, if any. We have also granted the Brazilian underwriters an option to purchase a maximum of class A preferred shares to cover over-allotments of class A preferred shares, if any.
Use of proceeds	We estimate that our net proceeds from the global offering will be approximately US$. We intend to use the net proceeds from the global offering for general corporate purposes, including, among others, working capital and repayment of short-term indebtedness.
Share capital before and after global offering	Our share capital is divided into common shares and preferred shares. Our preferred shares are, in turn, divided into class A preferred shares and class B preferred shares. Each share of our share capital represents the same economic interest, except that the preferred shares are entitled to the preferences described under Description of Share Capital Liquidation and Dividends and Dividend Policy Amounts Available for Distribution. Our outstanding share capital immediately before the global offering will consist of 76,568,187,272 shares, comprised of the following: 25,730,061,841 common shares; 50,608,970,631 class A preferred shares (excluding 621,887,272 shares held in treasury); and 229,154,800 class B preferred shares.

	Immediately after the global offering (and giving effect to a conversion of class A preferred shares into common shares as required by Brazilian law), we will have class A preferred shares outstanding and total shares outstanding, assuming no exercise of the underwriters over-allotment options.
Voting rights	Holders of our class A preferred shares and, consequently, holders of the ADSs do not have voting rights, except in very limited circumstances.
Dividends	Under the Brazilian Corporation Law and our by-laws, we are required to distribute as dividends not less than 25% of our annual net income, subject to adjustments and exceptions. We may also pay dividends in the form of interest attributable to shareholders equity in lieu of dividends. Brazilian companies, including our company, are permitted to pay interest attributable to shareholders equity as a tax-efficient alternative form of dividends to shareholders. Under the terms of a shareholders agreement, we are required, subject to certain limitations, to distribute at least 50% of our adjusted net income in each fiscal year. Under the terms of certain of our debt obligations, we cannot distribute more than 50% of our adjusted net income in any fiscal year. We have not paid dividends since May 20, 2002 because of our accumulated deficit arising from net losses in 2002. We expect to resume paying dividends, which may be in the form of interest attributable to shareholders equity, when we have retained earnings. The holders of ADSs will be entitled to receive dividends to the same extent as the owners of our class A preferred shares, subject to deduction of any fees and charges of the depositary for the ADSs.
Taxation	Dividend distributions with respect to our class A preferred shares or ADSs are not currently subject to withholding of Brazilian income tax. However, payment of interest attributable to shareholders equity (in lieu of dividends) currently is subject to withholding of Brazilian income tax. Gains from the sale or other disposition of ADSs or class A preferred shares outside of Brazil by shareholders not domiciled in Brazil could be subject to Brazilian income tax. For certain Brazilian and U.S. tax consequences with respect to U.S. holders of our class A preferred shares or ADSs, see Taxation.
Lock-up agreements	We have agreed with the underwriters, subject to certain exceptions, not to offer, sell, contract to sell, grant an option to sell or otherwise dispose of, directly or indirectly, or file a registration statement with the U.S. Securities and Exchange Commission, or SEC, or the Brazilian Securities Commission (*Comissão de Valores Mobiliários*) relating to, any shares of our share capital or ADSs or securities convertible into or exchangeable or exercisable for any shares of our share capital or ADSs or warrants or other rights to purchase any shares of our share capital or ADSs, or publicly disclose the intention to make any

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	such offer, sale, disposition or filing, during the 120-day period following the date of this prospectus without the prior written consent of Credit Suisse First Boston LLC, on behalf of the international underwriters. The Odebrecht Group and our directors and executive officers have agreed to substantially similar lock-up provisions, subject to some exceptions.
Listings	The ADSs are listed on The New York Stock Exchange under the symbol BAK. Our class A preferred shares are listed on the São Paulo Stock Exchange under the symbol BRKM5 and on the LATIBEX section of the Madrid Stock Exchange under the symbol XBRK.
ADR depositary	The Bank of New York.
Risk factors	See Risk Factors and the other information in this prospectus before investing in the ADSs or class A preferred shares.

Expected timetable for the global offering (subject to change):

Commencement of marketing of the global offering	, 2004
Announcement of offer price	, 2004
Allocation of ADSs and class A preferred shares	, 2004
Settlement and delivery of ADSs and class A preferred shares	, 2004

Unless otherwise indicated, all information contained in this prospectus assumes no exercise of the international and Brazilian underwriters options to purchase a maximum of additional ADSs and additional class A preferred shares, respectively, to cover over-allotments, if any.

Summary Financial and Other Information

The following summary financial data has been derived from our financial statements.

The summary financial data at December 31, 2003 and 2002 and for the three years ended December 31, 2003 have been derived from our consolidated and combined financial statements included in this prospectus. The summary financial data at December 31, 2001 has been derived from our audited combined financial statements that are not included in this prospectus. The summary financial data at December 31, 2000 and 1999 and for the two years ended December 31, 2000 have been derived from audited financial statements of our company that are not included in this prospectus.

The summary financial data at March 31, 2004 and for the three months ended March 31, 2004 and 2003 have been derived from our unaudited condensed consolidated quarterly information included in this prospectus, which include, in the opinion of our management, all adjustments necessary to present fairly our results of operations and financial condition at the dates and for the periods presented. The results for the three months ended March 31, 2004 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2004.

Our financial statements are prepared in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. For a discussion of the significant differences relating to these financial statements and a reconciliation of net income (loss) and shareholders equity from Brazilian GAAP to U.S. GAAP, see note 29 to our audited consolidated and combined financial statements and note 21 to our unaudited condensed consolidated quarterly financial information included in this prospectus.

This financial information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements in this prospectus. All per thousand share data presented below for periods before October 21, 2003 have been adjusted to give effect to the 20-for-one share split that was effective on that date.

	At and for the Three Months Ended March 31,			At and for the Year Ended December 31,					
	2004(1)	**2004**	**2003**	**2003(1)**	**2003**	**2002**	**2001(2)**	**2000**	**1999**
	(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)	**(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)**		**(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)**	**(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)**				
Statement of Operations Data									
Brazilian GAAP:									
Net sales revenue	US$ 818.6	R$ 2,381.1	R$ 2,459.3	US$ 3,484.8	R$ 10,135.8	R$ 7,576.6	R$ 4,459.5	R$ 2,897.5	R$ 1,874.8
Cost of sales and services rendered	(605.8)	(1,762.2)	(1,947.4)	(2,781.2)	(8,089.3)	(6,175.5)	(3,637.6)	(2,357.1)	(1,344.1)
Gross profit	212.8	618.9	511.9	703.6	2,046.5	1,401.1	821.9	540.4	530.7
Selling and general and administrative expenses	(44.7)	(130.0)	(89.5)	(162.2)	(471.9)	(577.7)	(210.3)	(116.2)	(101.7)
Investment in associated companies, net(3)	(7.6)	(22.1)	7.7	(54.4)	(158.2)	(251.7)	(214.3)	(3.6)	4.2
Depreciation and amortization	(25.1)	(73.1)	(41.9)	(66.5)	(193.5)	(222.4)	(111.3)	(36.5)	(36.1)
Financial expenses	(161.4)	(469.3)	(90.9)	(245.0)	(712.6)	(3,481.5)	(801.2)	(250.0)	(346.6)
Financial income	34.7	100.9	(9.5)	3.1	9.0	619.6	294.7	178.6	173.2
						1,030.1			

Zero-rated IPI credit									
Other operating income (expenses)	7.0	20.5	(9.5)	17.1	49.7	102.6	103.3	(12.5)	5.5
Operating income (loss)	15.7	45.8	278.3	195.7	569.0	(1,379.9)	(117.2)	300.2	229.2
Non-operating expenses, net	0.7	2.0	(1.8)	(1.7)	(4.8)	(98.0)	(120.8)	(0.6)	(9.1)

(Footnotes on pages after tables)

	At and for the Three Months Ended March 31,			At and for the Year Ended December 31,					
	2004(1)	2004	2003	2003(1)	2003	2002	2001(2)	2000	1999
	(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)	(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)		(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)	(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)				
Income (loss) before income tax and social contribution (current and deferred) and minority interest	16.4	47.8	276.5	194.0	564.2	(1,477.9)	(238.0)	299.6	220.1
Income tax and social contribution (current and deferred)	(11.3)	(32.9)	(59.2)	(42.2)	(122.9)	(89.8)	(77.6)	(73.3)	(54.4)
Income (loss) before minority interest	5.1	14.9	217.3	151.8	441.3	(1,567.7)	(315.6)	226.3	165.7
Minority interest	(1.8)	(5.3)	(86.7)	(77.8)	(226.2)	189.0	(108.9)	1.3	0.2
Net income (loss) for the year	US$ 3.3	R$ 9.6	R$ 130.6	US$ 74.0	R$ 215.1	R$ (1,378.7)	R$ (424.5)	R$ 227.6	R$ 165.9
Number of shares outstanding at year end, excluding treasury shares (in thousands):									
Common shares		25,730,062	24,521,820		25,608,114	24,521,820	12,933,860	12,933,860	12,933,860
Class A preferred shares		50,608,971	42,156,480		42,594,754	42,122,880	21,592,900	21,592,900	21,574,900
Class B preferred shares		229,155	229,160		229,154	229,160	229,160	229,160	229,160
Net income (loss) per thousand shares at	US$ 0.04	R$ 0.13	R$ 1.95	US$ 1.08	R$ 3.15	R$ (20.62)	R$ (12.21)	R$ 6.55	R$ 4.78

year end									
Net income (loss) per ADS(4) at year end	0.04	0.13	1.95	1.08	3.15	(20.62)	(12.21)	6.55	4.78
Dividends declared per thousand shares:									
Common shares							1.73	3.44	2.42
Class A preferred shares						0.52	2.08	3.44	2.42
Class B preferred shares						0.52	2.08	2.08	2.08
Dividends declared per ADS(4)						0.52	2.08	3.44	2.42
U.S. GAAP:									
Net income (loss) for the year				US$ 130.0	R$ 378.1	R$ (1,144.0)	R$ (471.0)		
Basic earnings (loss) per thousand shares (weighted average):									
Common shares				1.94	5.63	(47.71)	(26.71)		
Class A preferred shares				1.88	5.48				
Class B preferred shares				0.60	1.74				
Basic earnings (loss) per ADS (weighted average)(4)				1.88	5.48				

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	At and for the Three Months Ended March 31,			At and for the Year Ended December 31,					
	2004(1)	**2004**	**2003**	**2003(1)**	**2003**	**2002**	**2001(2)**	**2000**	**1999**
	(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)	**(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)**		**(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)**	**(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)**				
Diluted earnings (loss) per thousand shares (weighted average):									
Common shares				US$ 1.92	R$ 5.58	R$ (47.71)	R$ (26.71)		
Class A preferred shares				1.88	5.46				
Class B preferred shares				0.60	1.74				
Diluted earnings (loss) per ADS (weighted average)(4)				1.88	5.46				
Balance Sheet Data									
Brazilian GAAP:									
Cash, cash equivalents and other investments	US$ 641.4	R$ 1,865.7		US$ 407.2	R$ 1,184.3	R$ 821.0	R$ 513.2	R$ 708.9	R$ 561.4
Trade accounts receivable	422.3	1,228.2		418.1	1,216.2	959.0	484.1	231.6	188.6
Inventories	409.0	1,189.5		368.4	1,071.6	889.1	667.8	163.4	119.9
Property, plant and equipment, net	1,815.7	5,281.2		1,730.0	5,032.0	5,296.7	4,429.7	1,969.0	1,977.2
Total assets	5,209.5	15,152.4		4,773.1	13,883.0	13,898.2	9,555.3	3,748.7	3,544.3
Short-term loans and financing (including current portion of long-term debt)	834.7	2,427.8		937.4	2,726.5	2,746.1	1,966.4	331.5	257.4
Short-term debentures	159.1	462.9		120.0	349.0	32.1	26.2		
Short-term related company debt				0.1	0.2	8.2	88.7		
Long-term loans and financing	1,416.7	4,120.5		1,243.0	3,615.3	3,891.6	3,101.7	861.8	915.6
Long-term debentures	646.5	1,880.4		393.0	1,143.0	1,190.2	473.6		
Long-term related company debt	62.8	182.8		61.1	177.6	189.3	626.7	0.9	1.1
Minority interest	81.5	237.0		190.6	554.4	433.1	738.0	27.4	30.1
Share capital	753.6	2,192.0		648.9	1,887.4	1,845.4	1,201.6	1,203.9	1,203.9
Shareholders equity	834.9	2,428.5		726.3	2,112.6	1,821.8	1,729.0	2,267.8	2,085.3
U.S. GAAP:									
Total assets				US$ 3,801.9	R$ 11,058.2	R$ 10,531.7	R$ 7,803.0		
Shareholders equity				2.7	7.8	(415.2)	291.4		
Other Financial Information									
Brazilian GAAP:									
Net cash provided by (used in):									

Operating activities	US$ 214.3	R$ 623.2	R$ 448.4	US$ 199.6	R$ 580.5	R$ 790.0	R$ 1,453.9	R$ 550.3	R$ 613.6
Investing activities	(100.2)	(291.3)	(57.2)	(158.3)	(460.4)	(646.7)	(862.2)	(115.6)	(34.6)
Financing activities	280.3	815.4	(327.3)	126.5	367.8	(237.2)	(404.9)	(287.2)	(210.7)
Capital expenditures:									
Property, plant and equipment	15.7	45.6	38.9	73.8	214.7	419.9	318.0	18.4	48.0
Interest in other companies	5.1	14.8	1.8	24.7	71.7	13.1	1,172.3	82.6	26.6

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	At and for the Three Months Ended March 31,			At and for the Year Ended December 31,					
	2004(1)	**2004**	**2003**	**2003(1)**	**2003**	**2002**	**2001(2)**	**2000**	**1999**
	(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)	(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)		(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)	(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)				
Other Information:									
Net debt(5)	US$2,213.5	R$6,438.1	R$6,615.2	US$2,161.3	R$6,286.5	R$6,878.4	R$4,742.3		
EBITDA(5)(6)	US$ 650.6	R$1,892.4	R$2,277.0	US$ 621.8	R$1,808.4	R$2,062.7	R$ 722.5		
Net debt to EBITDA ratio(5)	3.4x	3.4x	2.9x	3.5x	3.5x	3.3x	6.6x		

	At and for the Three Months Ended March 31,		At and for the Year Ended December 31,				
	2004	**2003**	**2003**	**2002**	**2001(2)**	**2000**	**1999**
Operating Data(7):							
Ethylene:							
Domestic sales volume (in thousands of tons)	108.3	127.8	1,047.3	994.8	1,064.8	1,103.8	1,121.1
Average domestic price per ton (in R$)	1,725	1,926	1,634	1,292	1,135	1,046	633
Propylene:							
Domestic sales volume (in thousands of tons)	97.9	84.7	403.4	415.2	421.1	487.7	494.3
Average domestic price per ton (in R$)	1,373	1,540	1,495	1,106	825	875	444
Polyethylene(8):							
Domestic sales volume (in thousands of tons)	118.5	110.7	445.4	491.8	199.0		
Average domestic price per ton (in R$)	2,671	2,773	2,567	2,007	2,108		
Polypropylene(8):							
Domestic sales volume (in thousands of tons)	96.5	104.5	374.9	395.1	140.4		
Average domestic price per ton (in R$)	2,723	2,751	2,689	1,931	1,969		
PVC(9):							
Domestic sales volume (in thousands of tons)	102.1	99.0	342.4	350.1	125.9		
Average domestic price per ton (in R$)	2,636	2,487	2,358	1,969	1,612		
Number of employees (at period end)	2,911	2,824	2,868	2,817	1,424	1,161	1,104

(1) Translated for convenience only using the commercial selling rate as reported by the Central Bank of Brazil *(Banco Central do Brasil)*, or the Central Bank, at March 31, 2004 for *reais* into U.S. dollars of R$2.908=US$1.00.

(2) The financial and other information for 2001 is not comparable with the financial and other information for 2000 and 1999 as a result of our merger with OPP Produtos Petroquímicos S.A., which we accounted for as if it had occurred on July 25, 2001 as a result of the common control exercised by the Odebrecht Group over our company and OPP Produtos Petroquímicos S.A.

(3) Investment in associated companies, net comprises equity in the results, amortization of goodwill, net, foreign exchange variation and tax incentives and other.

(4) Net income (loss) per 1,000 shares or ADS under Brazilian GAAP is based on shares outstanding at the end of each year. Earnings (loss) per 1,000 shares or ADS under U.S. GAAP is based on the weighted average number of class A preferred shares outstanding during each period.

(5) The terms and conditions of the notes issued under our medium-term note program include a covenant prohibiting us, and our subsidiaries, from issuing, directly or indirectly, any debt (subject to certain exceptions) unless our pro forma net debt to EBITDA ratio at the date of such issuance is less than 4.5 to 1.0. We have included a calculation of net debt, EBITDA and the net debt to

(Footnotes continued on next page)

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EBITDA ratio in accordance with this covenant, as we believe that (1) our medium-term note program is our most significant outstanding indebtedness, (2) this covenant is a material term of our medium-term note program and (3) information about this covenant is important for investors to understand our liquidity. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Indebtedness and Financing Strategy for a discussion of our medium-term note program and this covenant. EBITDA is not a measure under Brazilian GAAP and should not be considered as a substitute for net income or loss, cash flow from operations or other measures of operating performance or liquidity determined in accordance with Brazilian GAAP. EBITDA is not intended to represent funds available for dividends or other discretionary uses by us because those funds are required for debt service, capital expenditures, working capital and other commitments and contingencies. The use of EBITDA has material limitations, including:

EBITDA does not include interest expense. Because we have borrowed money to finance some of our operations, interest is a necessary and ongoing part of our costs and assists us in generating revenue.

EBITDA does not include taxes. The payment of taxes is a necessary and ongoing part of our operations.

EBITDA does not include depreciation. Because we must utilize property, plant and equipment in order to generate revenues in our operations, depreciation is a necessary and ongoing part of our costs.

We have calculated EBITDA in accordance with a covenant in our medium-term note program, which calculation may not be comparable to similarly titled measures of other companies.

(6) Our medium-term note program requires that we calculate EBITDA at the end of each fiscal quarter on the basis of our financial results for the twelve-month period then ended. Accordingly, EBITDA as presented under the columns entitled At and for the Three Months Ended March 31, represents EBITDA for the twelve-month periods ended March 31.

(7) Excluding intra-company sales within Braskem.

(8) Represents the sum of the sales volumes of Polialden and OPP Química for 2001.

(9) Represents the sales volume of Trikem for 2001.

RISK FACTORS

Prospective purchasers of ADSs should carefully consider the risks described below, as well as the other information in this prospectus, before deciding to purchase any ADSs. Our business, results of operations, financial condition or prospects could be negatively affected if any of these risks occurs, and as a result, the trading price of our class A preferred shares or the ADSs could decline and you could lose all or part of your investment.

Risks Relating to Brazil

Brazilian political and economic conditions, and the Brazilian government s economic and other policies, may negatively affect demand for our products as well as our net sales revenue and overall financial performance.

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government and unstable economic cycles. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Brazil s economy. The Brazilian government s actions to control inflation and implement other policies have at times involved wage and price controls, blocking access to bank accounts, imposing capital controls and limiting imports into Brazil.

Our results of operations and financial condition may be adversely affected by factors such as:

- fluctuations in exchange rates;
- exchange control policies;
- interest rates;
- inflation;
- tax policies;
- expansion or contraction of the Brazilian economy, as measured by rates of growth in gross domestic product, or GDP;
- liquidity of domestic capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Luiz Inácio Lula da Silva of the Workers Party took office as President of Brazil on January 1, 2003. In the period leading up to and following the October 2002 presidential election, there was substantial uncertainty regarding the policies that the new government would pursue. This uncertainty resulted in a loss of confidence in the Brazilian capital markets and a 34.3% devaluation of the *real* against the U.S. dollar between January 1, 2002 and December 31, 2002. While the Brazilian government has adopted economic measures that are more conservative than initially expected by some observers, the Brazilian government may change these policies in a manner that slows the growth of the Brazilian economy, reducing demand for our products and, consequently, impairing our net sales revenue and overall financial performance. Any negative effect on our overall financial performance would also likely lead to a decrease in the market price of our class A preferred shares and the ADSs.

The Brazilian government s actions to combat inflation may contribute significantly to economic uncertainty in Brazil and reduce demand for our products.

Historically, Brazil has experienced high rates of inflation. Inflation, as well as government efforts to combat inflation, had significant negative effects on the Brazilian economy, particularly prior to 1995. The inflation rate, as measured by the General Price Index Internal Availability (*Índice Geral de Preços Disponibilidade Interna*), reached 2,708% in 1993. Although inflation rates have been substantially lower since 1994 than in previous periods, inflationary pressures persist. Inflation rates were 20.0% in 1999, 9.8% in 2000, 10.4% in 2001, 26.4% in 2002, 7.7% in 2003 and 2.8% during the three months ended March 31,

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2004, as measured by the General Price Index Internal Availability. The Brazilian government s measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions also contributed materially to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

Brazil may experience high levels of inflation in future periods. Increasing prices for petroleum, the depreciation of the *real* and future governmental measures seeking to maintain the value of the *real* in relation to the U.S. dollar, may trigger increases in inflation in Brazil. Periods of higher inflation may slow the rate of growth of the Brazilian economy, which would lead to reduced demand for our products in Brazil and decreased net sales revenue. Inflation also is likely to increase some of our costs and expenses, which we may not be able to pass on to our customers and, as a result, may reduce our profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing our *real*-denominated debt may increase, causing our net income to be reduced. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could adversely affect our ability to refinance our indebtedness in those markets. Any decline in our net sales revenue or net income and any deterioration in our financial condition would also likely lead to a decline in the market price of our class A preferred shares and the ADSs.

Fluctuations in interest rates could raise the cost of servicing our debt and negatively affect our overall financial performance.

Our financial expenses are affected by changes in the interest rates that apply to our floating rate debt. At December 31, 2003, we had R$1,189.3 million of loans and financing and debentures that were subject to the Long-Term Interest Rate, R$783.7 million of loans and financing and debentures that were subject to the CDI (*Certificado Depositário Interbancário*), an interbank rate, and R$1,155.5 million of loans and financing that were subject to LIBOR. The Long-Term Interest Rate is a Brazilian long-term interest rate that includes an inflation factor and is determined quarterly by the Central Bank. In particular, the Long-Term Interest Rate and the CDI rate have fluctuated significantly in the past in response to the expansion or contraction of the Brazilian economy, inflation, Brazilian government policies and other factors. For example, in 2003 the CDI rate ranged from 25.3% per annum at January 31, 2003 to 16.3% per annum at December 31, 2003. See Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk. A significant increase in any of these interest rates could adversely affect our financial expenses and negatively affect our overall financial performance.

Fluctuations in the real/ U.S. dollar exchange rate could increase inflation in Brazil, raise the cost of servicing our foreign currency-denominated debt and negatively affect our overall financial performance.

The exchange rate between the *real* and the U.S. dollar and the relative rates of depreciation and appreciation of the *real* have affected our results of operations and may continue to do so.

The Brazilian currency has devalued often during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the *real* depreciated in value against the U.S. dollar by 15.7% in 2001 and 34.3% in 2002 as compared with appreciation of 22.3% in 2003. The *real* depreciated against the U.S. dollar by 0.7% during the three months ended March 31, 2004 as compared to appreciation of 5.1% during the same period in 2003.

Devaluation of the *real* relative to the U.S. dollar also could result in additional inflationary pressures in Brazil by generally increasing the price of imported products and services and requiring recessionary

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government policies to curb demand. In addition, a devaluation of the *real* could weaken investor confidence in Brazil and reduce the market price of the ADSs. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the country s current account and the balance of payments and may dampen export-driven growth.

We had total foreign currency-denominated debt obligations in an aggregate amount of R$5,765.1 million (US$1,982.1 million) at March 31, 2004, representing 64.8% of our indebtedness, excluding related party debt, on a consolidated basis. We had total foreign-currency denominated obligations in an aggregate amount of R$5,220.0 million (US$1,806.7 million) at December 31, 2003, representing 66.0% of our indebtedness, excluding related party debt, on a consolidated basis. Although we manage a portion of our exchange rate risk through foreign currency derivative instruments, our foreign currency debt obligations are not completely hedged. A significant devaluation of the *real* in relation to the U.S. dollar or other currencies could reduce our ability to meet debt service requirements of our foreign currency-denominated obligations, particularly as our net sales revenue is primarily denominated in *reais.*

In addition, any significant devaluation of the *real* will increase our financial expenses as a result of foreign exchange losses that we must record. For example, the 34.3% devaluation of the *real* in 2002 substantially increased our financial expenses and was a significant factor in our net loss for that year.

The prices of naphtha, our most important raw material, and of some of our other raw materials are denominated in or linked to the U.S. dollar. In 2003, 65.2% of our direct and indirect cost of sales and services represented the cost of naphtha. When the *real* depreciates against the U.S. dollar, the cost in *reais* of our U.S. dollar-linked raw materials increases, and our operating income in *reais* decreases.

Brazilian government exchange control policies could increase the cost of servicing our foreign currency-denominated debt and impair our liquidity.

The purchase and sale of foreign currency in Brazil is subject to governmental control. In the past, the Central Bank has centralized certain payments of principal on external obligations. Many factors could cause the Brazilian government to institute more restrictive exchange control policies, including the extent of Brazil s foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the size of Brazil s debt service burden relative to the economy as a whole, Brazil s policy towards the International Monetary Fund and political constraints to which Brazil may be subject. A more restrictive policy could increase the cost of servicing (and thereby reduce our ability to pay) our foreign currency-denominated debt obligations and other liabilities. At December 31, 2003, 66.0% of our indebtedness on a consolidated basis was denominated in foreign currencies. If we fail to make payments under any of these obligations, we will be in default under those obligations, which could reduce our liquidity as well as on the market price of our class A preferred shares and the ADSs.

Energy shortages in Brazil could cause us to curtail our production, which would negatively affect our net sales revenue and our overall financial performance.

The Northeast and certain other regions of Brazil faced an energy shortage during the second half of 2001. In response, the Brazilian government instituted an electric power rationing program from June 2001 to February 2002 that aimed to reduce electricity consumption by 20%. As a result of this program, we experienced a temporary reduction in our PVC production in our plants located in the state of Alagoas, and many of our customers curtailed their demand for our products. We utilize electricity supplied by Companhia Hidro Elétrica do São Francisco Chesf, or CHESF, for approximately 30% of our power needs at the Northeastern Complex, and most of our power needs in Alagoas. A severe drought in Brazil s northeastern region in 2003 reduced hydroelectric generation in the region. In addition, there are inadequate transmission lines to connect the power grids in northeastern and southeastern Brazil, so that any excess power in the Southeast, as was available in 2003, may not be transmitted to meet energy needs in the Northeast. As a result, electric power to the Northeastern Complex supplied by CHESF was interrupted in November 2003, and we had to shutdown our operations there for three days. Continued energy shortages in the Northeast and a lack of adequate transmission infrastructure may result in further unexpected shutdowns of our operations at the Northeastern Complex in the future, which could cause us to decrease our production and consequently reduce our net sales revenue and negatively affect our overall financial performance.

Changes in tax laws may result in increases in certain direct and indirect taxes, which could reduce our gross margin and negatively affect our overall financial performance.

The Brazilian government regularly implements changes to tax regimes that may increase our and our customers tax burdens. These changes include modifications in the rate of assessments and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. In April 2003, the Brazilian government presented a tax reform proposal, which was mainly designed to simplify tax assessments, to avoid internal disputes within and between the Brazilian states and municipalities, and to redistribute tax revenues. The tax reform proposal provided for changes in the rules governing the federal Social Integration Program (*Programa de Integração Social*), or PIS, the federal Contribution for Social Security Financing (*Contribuição para Financiamento da Seguridade Social COFINS*), or COFINS, the Tax on the Circulation of Merchandise and Services (*Imposto Sobre a Circulação de Mercadorias e Serviços*), or ICMS, the Tax on Bank Account Transactions (*Contribuição Provisória sobre Movimentação ou Transmissão de Valores e de Créditos e Direitos de Natureza Financeira*), or CPMF, and some other taxes.

In December 2003, the Brazilian Federal Senate approved part of this tax reform proposal following its approval by the Brazilian Federal House of Representatives. Other parts of the tax reform proposal were amended by the Senate and returned to the House of Representatives for further examination. If approved, these tax reform measures will be gradually adopted in 2005 and 2007.

The effects of these proposed tax reform measures and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified. However, some of these measures, if enacted, may result in increases in our overall tax burden, which could reduce our gross margin and negatively affect our overall financial performance.

Risks Relating to Our Company and the Petrochemical Industry

The cyclical nature of the petrochemical industry may reduce our net sales revenue and gross margin.

The Brazilian petrochemical industry, including the markets in which we compete, is cyclical and sensitive to changes in supply and demand that are, in turn, affected by political and economic conditions in Brazil and elsewhere. This cyclicality may reduce our net sales revenue and gross margin. In particular:

- downturns in general business and economic activity may cause demand for our products to decline;
- when demand falls, we may be under competitive pressure to lower our prices; and
- if we decide to expand our plants or construct new plants, we may do so based on an estimate of future demand that never materializes or materializes at levels lower than we predicted.

The global petrochemical industry is also cyclical. Historically, the international petrochemical markets have experienced alternating periods of limited supply, which have caused prices and profit margins to increase, followed by expansion of production capacity, which has resulted in oversupply and reduced prices and profit margins. The Brazilian petrochemical industry has become increasingly integrated with the global petrochemical industry for a number of reasons, including increased demand for, and consumption of, petrochemical products in Brazil and the ongoing integration of regional and world markets for commodity products. Prices for our products sold in Brazil are established with reference to international market prices. Our net sales revenue and gross margin are increasingly linked to global industry conditions that we cannot control.

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We face competition from producers of polyolefins, vinyls and other petrochemical products.

We face competition in Brazil from Brazilian and international producers of polyethylene, polypropylene, vinyls and other petrochemical products. In addition, our prices for our second generation products are generally set with reference to the prices charged for these products by foreign producers in international markets. We anticipate that we may experience increasingly intense competition from international producers of polyolefins and vinyls products, both in Brazil and in selected foreign markets in which we sell these products. Many of our foreign competitors are substantially larger and have substantially greater financial, manufacturing, technological and marketing resources than our company.

We face significant competition in the polyethylene market. In 2001, The Dow Chemical Company, or Dow Chemical, commenced operation of a polyethylene facility in Argentina with an annual capacity of 700,000 tons. In addition, Rio Polímeros S.A., or Rio Polímeros, a Brazilian petrochemical company, is currently constructing a large petrochemical plant in Brazil that has announced plans to commence operations in December 2004. The announced annual capacity of this plant is 520,000 tons of ethylene, 75,000 tons of propylene and 540,000 tons of polyethylene (representing an increase of approximately 35% of the current total Brazilian production capacity of polyethylene). Actions by our competitors, including any future increases in their capacity, may make it increasingly difficult for us to maintain our domestic market share in polyethylene.

Higher naphtha costs would increase our cost of sales and services rendered and may reduce our gross margin and negatively affect our overall financial performance.

Naphtha is the principal raw material of our Basic Petrochemicals Unit. In 2003, naphtha accounted, directly and indirectly, for approximately two-thirds of our consolidated cost of sales and services rendered. The price of naphtha supplied by Petrobras is linked to the Amsterdam-Rotterdam-Antwerp market price of naphtha and to the U.S. dollar/*real* exchange rate. The price of naphtha that we purchase from other suppliers is also linked to the Amsterdam-Rotterdam-Antwerp market price.

During 2003, the price of naphtha in U.S. dollars increased by 5.6%, from US$287.00 per ton in December 2002 to US$313.00 per ton in December 2003. The U.S. dollar price of naphtha was volatile during 2003, increasing substantially between January and February prior to the commencement of the war in Iraq, declining sharply through May before rebounding in June and increasing steadily through the end of the year. During the three months ended March 31, 2004, the price of naphtha in U.S. dollars increased by 7.8%, from US$313.00 per ton at December 31, 2003 to US$337.50 per ton at March 31, 2004. Since the end of the first quarter of 2004, the price of naphtha in U.S. dollars has increased further, reaching US$350.00 per ton at April 30, 2004 and US$375.00 per ton at June 2, 2004. The price of naphtha may increase significantly or the *real* may devalue significantly in the future. An increase in naphtha costs would reduce our gross margin and negatively affect our overall financial performance to the extent that we are unable to pass on these increased costs to our customers and could result in reduced sales volumes of our products.

We do not hedge against changes in naphtha prices, so that we are exposed to fluctuations in the price of our primary raw material.

We currently do not hedge our exposure to fluctuations in naphtha prices, which are linked to the U.S. dollar/*real* exchange rate. Although we attempt to pass on increases in naphtha prices through the prices of our products, in periods of high volatility in the U.S. dollar/*real* exchange rate, there is usually a lag between the time that the U.S. dollar appreciates and the time that we may effectively pass on those increased costs in *reais* to our customers in Brazil. As a result, if the *real* depreciates precipitously against the U.S. dollar in the future, we may not immediately be able to pass on all of the corresponding increases in our naphtha costs to our customers in Brazil, which would likely reduce our gross margin and net income.

We depend on Petrobras to supply us with the substantial portion of our naphtha requirements.

Petrobras currently is the only Brazilian supplier of naphtha and supplied 68.8% of the naphtha consumed by our company in 2003. Petrobras produces some of the naphtha it sells to us and imports the balance. Our production volume and net sales revenue would likely decrease and our overall financial performance would likely be negatively affected in the event of:

significant damage to Petrobras refineries or to the port facilities through which Petrobras imports naphtha, or to any of the pipelines connecting us to Petrobras facilities, whether as a consequence of an accident, natural disaster, fire or otherwise; or

any termination by Petrobras of the naphtha supply contract with our company, which provides that Petrobras may terminate the contract for a number of reasons, including as a result of a national emergency affecting the supply of petroleum derivatives in Brazil.

In addition, although regulatory changes have ended Petrobras monopoly in the Brazilian naphtha market and have allowed us to import naphtha, any reversal in the continuing deregulation of the oil and gas industry in Brazil could increase our production costs.

Our Polyolefins and Vinyls Units depend on our Basic Petrochemicals Unit and Copesul to supply them with their ethylene and propylene requirements.

Our Basic Petrochemicals Unit is the only supplier of ethylene to our Vinyls Unit, and our Basic Petrochemicals Unit and Copesul are the only suppliers of ethylene and propylene to our Polyolefins Unit. Because the cost of storing ethylene and propylene is substantial and there is inadequate infrastructure in Brazil to permit the importation of large quantities of these products, our production volumes of, and net sales revenue from, vinyls and polyolefins products would decrease, and our overall financial performance would be negatively affected, in the event of:

significant damage to our Basic Petrochemicals Unit s or to Copesul s facilities through which ethylene or propylene is produced, or to the pipeline or other facilities that connect these units to our Basic Petrochemicals Unit or Copesul, whether as a consequence of an accident, natural disaster, fire or otherwise;

any termination by Copesul of the ethylene and propylene supply contracts with our company; or

any significant reduction in the supply of naphtha to our Basic Petrochemicals Unit or to Copesul, as naphtha is the principal raw material used in the production of ethylene and propylene.

In addition, any significant expansion of the production capacity of our Polyolefins Unit in the Southern Complex will depend on our ability to obtain additional ethylene and propylene from Copesul.

Our indebtedness will require that a significant portion of our cash flow be used to meet debt-service obligations on that indebtedness.

We had R$8,891.6 million of total indebtedness on a consolidated basis at March 31, 2004, including R$461.5 million of indebtedness of our jointly controlled companies, including Copesul, Politeno and Cetrel S.A. Empresa de Proteção Ambiental, or Cetrel, which we consolidate on a proportional basis as required by Brazilian GAAP, and excluding R$182.8 million of related party debt. We had R$7,833.8 million of total indebtedness on a consolidated basis at December 31, 2003, including R$490.7 million of indebtedness of our jointly controlled companies and excluding R$177.6 million of related party debt and R$113.4 million of advances for purchase of credit rights, a form of long-term obligation.

The level of our indebtedness could have important consequences, including the following:

our ability to obtain any necessary financing in the future for working capital, capital expenditures, debt-service requirements or other purposes could be limited;

a substantial portion of our cash flow from operations must be dedicated to pay principal and interest on our indebtedness and may not be available for other purposes, such as the payment of dividends;

our level of indebtedness could limit our flexibility in planning for, or reacting to changes in, our business; and

our level of indebtedness could make us more vulnerable in the event of a downturn in our business.

Any downgrade in the ratings of our company or our debt securities would likely result in increased interest and other financial expenses related to our borrowings and debt securities and could reduce our liquidity.

Standard & Poor s Ratings Services, a division of The McGraw-Hill Companies, Inc., or Standard and Poor s, and Fitch, Inc., or Fitch, maintain ratings of our company and our debt securities. Currently, Standard and Poor s maintains a local rating for our company of Br A, a local currency rating for our company of BB- stable, and a foreign currency rating for our company of B+ positive, and Fitch maintains a local currency rating for our company of Br A with outlook stable. Any decision by these or other rating agencies to downgrade the ratings of our company or of our debt securities in the future would likely result in increased interest and other financial expenses relating to our borrowings and debt securities and could significantly reduce our ability to obtain such financing on satisfactory terms or in amounts required by us and our liquidity.

Some of our shareholders may have the ability to determine the outcome of corporate actions or decisions, which could affect the holders of the ADSs.

The Odebrecht Group directly holds 42.9% of our voting common shares, and its designees currently constitute a majority of the members of our board of directors. In addition, the Odebrecht Group owns 50.1% of the voting share capital of Norquisa, which owns 29.4% of our voting share capital and 10.7% of our total share capital. Some of our other shareholders, consisting of Petroquisa, a subsidiary of Petrobras, and two Brazilian pension funds, have veto and other rights under shareholders agreements as described under Principal Shareholders and Related Party Transactions Principal Shareholders Shareholders Agreements. As discussed below, Petroquisa also has an option to purchase a significant number of common and preferred shares in our company that would give Petroquisa substantial voting and other rights in respect of our company. As a result, the Odebrecht Group, Petroquisa and these other shareholders may have the ability to determine the outcome of major corporate actions or decisions requiring the approval of our shareholders or our board of directors, which could affect the holders of the ADSs.

We may be required to issue over the next twelve months a substantial number of new common and preferred shares to Petroquisa, a subsidiary of Petrobras, which would result in a change in the composition of our board of directors and could influence changes in our strategy and the outcome of major corporate actions and decisions, and also could have a dilutive effect on our net income per 1,000 shares.

Under a memorandum of understanding between Petroquisa, on the one hand, and Odebrecht and other key shareholders, on the other, Petroquisa has an option exercisable through April 30, 2005 to acquire from us, and in certain circumstances from the Odebrecht Group, a number of our common and preferred shares that would provide it with the same equity participation in our voting and total share capital as the participation owned collectively by the Odebrecht Group, Petroquímica da Bahia, and Norquisa (which participation at April 30, 2004 represented an aggregate of 75.6% of our voting share capital and 51.3% of our total share capital). Under this memorandum of understanding, the consideration for the shares issued by our company upon Petroquisa s exercise of the option will consist of shares of Copesul, and the exchange ratio of such consideration for our common and preferred shares will be based upon independent valuations of our company and Copesul. See Principal Shareholders and Related Party

Transactions Petroquisa Memorandum of Understanding for a description of how these valuations will be conducted.

If Petroquisa exercises the option, Petroquisa will also be entitled to representation on our board of directors equal to that of the Odebrecht Group, the Mariani Group and Norquisa, jointly. In addition, Petroquisa and the other shareholders party to the memorandum of understanding will be obligated to coordinate their votes and to vote as a block at meetings of our board of directors and shareholders.

We are unable to predict whether Petroquisa will exercise the option or, because the independent enterprise valuations have not been conducted, the number of new common and preferred shares to be issued by our company if Petroquisa exercises the option. We cannot determine whether the option, if exercised, will have a dilutive effect on our net income per 1,000 shares, which could, in turn, affect the market prices of our class A preferred shares and the ADSs. If it exercises the option, Petroquisa and its controlling shareholder, Petrobras, are required under the terms of the Petroquisa memorandum of understanding to negotiate and enter into a new shareholders agreement with Odebrecht and other shareholders, which may include new or different terms than the Petroquisa memorandum of understanding and as a result, could influence changes in our strategy and otherwise influence the outcome of major corporate actions and decisions.

We may face conflicts of interest in transactions with related parties.

We maintain trade accounts receivable and current and long-term payables with some of our affiliates and other related parties, including Petrobras (which is our sole domestic supplier of naphtha), Copesul in the Southern Complex (which supplies us with ethylene and propylene), and Politeno (which purchases ethylene from our company). Through Petroquisa, Petrobras is the indirect holder of 7.8% of our common shares and 11.1% of our total share capital. These accounts receivable and accounts payable balances result mainly from purchases and sales of goods, which are at prices and on terms equivalent to the average terms and prices of transactions that we enter into with third parties. We also engage in financial and other transactions with some of our shareholders, such as the grant of the Petroquisa option discussed above. These and other commercial and financial transactions between us and our affiliates could result in conflicting interests.

Future adjustments in tariffs on imports that compete with our products could cause us to lower our prices.

We take into account, when setting the domestic prices for our products, tariff rates imposed by the Brazilian government on imports of similar products and the products of our customers. We currently benefit from tariffs that allow us to charge lower prices for our polyolefins and vinyls products than imports of those products. Our margins from sales in the Brazilian market are therefore significantly higher than our margins from exports. However, the Brazilian government has in the past used import and export tariffs to effect economic policies, with the consequence that tariffs can vary considerably, especially tariffs on petrochemical products. Future adjustments of tariffs could cause us to lower our domestic prices, which would likely result in lower net sales revenue and could negatively affect our overall financial performance.

Our business is subject to stringent environmental regulations, and imposition of new regulations could require significant capital expenditures and increase our operating costs.

Our company, like other Brazilian petrochemical producers, is subject to stringent Brazilian federal, state and local environmental laws and regulations concerning human health, the handling and disposal of solid and hazardous wastes and discharges of pollutants into the air and water. Petrochemical producers are sometimes subject to unfavorable market perceptions as a result of the environmental impact of their business, which can have an adverse effect on their results of operations. As environmental laws become more stringent in Brazil and worldwide, the amount and timing of future expenditures required to remain compliant could increase substantially and could decrease the availability of funds for other capital expenditures and other purposes.

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We manufacture products that are subject to the risk of fire, explosions and other hazards.

Our operations are subject to hazards, such as fires, explosions and other accidents, associated with the manufacture of petrochemicals and the storage and transportation of feedstocks and petrochemical products. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment and environmental damage. A sufficiently large accident at one of our plants or storage facilities could force us to suspend our operations temporarily and result in significant remediation costs and lost net sales revenue. Although we maintain insurance coverage for losses due to fire damage and for losses of income resulting from shutdowns due to fire, explosion or electrical damage, those insurance proceeds may not be available on a timely basis and may be insufficient to cover all losses.

The Brazilian antitrust authorities could impose costly or restrictive conditions on the approval of the formation of our company.

As part of our corporate reorganization process that began in 2001, we merged with each of OPP Química, Trikem, Proppet and Nitrocarbono and we acquired Polialden. We closed these transactions, as permitted by Brazilian law, subject to the final approval of the Brazilian antitrust authorities. We have submitted the terms and conditions of these transactions to the Brazilian antitrust authorities. These antitrust authorities will determine whether these transactions negatively impact competitive conditions in the markets in which we compete or whether they would negatively affect consumers in these markets. Although two of the three Brazilian antitrust authorities have issued non-binding opinions recommending the unconditional approval of these corporate reorganization transactions, the third and governing antitrust authority continues to review this matter and may disagree with these opinions and not approve these transactions. Any action by the Brazilian antitrust authorities to impose conditions or performance commitments on our company as part of the approval of these transactions could materially adversely affect our business and negatively affect our overall financial performance.

Unfavorable outcomes in pending litigation may reduce our liquidity and negatively affect our financial performance and financial condition.

We are involved in numerous tax, civil and labor disputes involving significant monetary claims. If unfavorable decisions are rendered in one or more of these lawsuits, we could be required to pay substantial amounts, which could materially adversely affect our financial condition and results of operations. For some of these lawsuits, we have not established any provision on our balance sheet or have established provisions only for part of the amounts in question, based on our judgments about the likelihood of winning these lawsuits.

The lawsuits for which we have not established provisions or have established only partial provisions include the following:

Social Contribution on Net Income. We and some of our subsidiaries have challenged the constitutionality of the Brazilian federal Social Contribution on Net Income (*Contribuição Social Sobre o Lucro Líquido*). A Brazilian Federal Supreme Court *(Supremo Tribunal Federal)* decision in our favor was overruled in a subsequent rescission action filed by the Brazilian tax authorities, and our appeal of that suit is pending. Our total estimated exposure, including interest, was R$476.0 million at March 31, 2004. This amount does not include approximately R$154.4 million in penalties at March 31, 2004 that we believe are not payable because we relied upon a judicial decision in not paying the Social Contribution on Net Income. We believe that it is reasonably possible that we will lose this rescission action, and we believe that there is a remote possibility that we will be required to pay fines and related interest as a result of this tax litigation. We have not established a provision for these lawsuits. However, as there are adverse precedents under Brazilian law that allow rescission actions to relate back to, and to take effect from, the date of the initial decision, we believe that it is reasonably possible that we will be required to pay these taxes from the date of the original decision.

Cost of Living Adjustments on Workers Wages. The unions that represent employers and workers in the Northeastern Complex are involved in a lawsuit over the indices we and other companies have used for cost of living adjustments on workers wages since early 1990. For a description of the legal bases of these suits, see Business Legal Proceedings Labor Proceedings. The Brazilian Federal Supreme Court has held in favor of the employers union, but the workers union has requested reconsideration of the decision, and the decision of the Brazilian Federal Supreme Court is not yet final and does not address damages. We believe it is reasonably possible that the employers union will lose this suit, which could adversely affect us. While we believe that it is possible (although unlikely) that an adverse judgment against the employers union could impact wages that we paid from April 1990 to the present, we believe that any judgment would most likely impact wages that we paid from April 1990 to September 1990 (when the next collective bargaining agreement was entered into). As we believe that it is not probable that the employers union will lose this suit, we have not recorded a provision in respect of this suit. If the employers union loses this suit and we are required to pay damages from April 1990 to September 1990, we estimate that we could be subject to liability of up to R$35.0 million, although additional claims would have to be brought by the workers union or individual employees to quantify the amount of damages that we would be required to pay.

In addition, we and some of our subsidiaries believe that our chances of success are remote in a series of lawsuits in which we challenged the constitutionality of an increase in the COFINS tax rate. For a description of the legal bases of these suits, see Business Legal Proceedings Tax Disputes. We had established total provisions of R$289.9 million at March 31, 2004 for all our lawsuits relating to PIS and COFINS, including separate lawsuits challenging the basis of calculation of PIS and COFINS. Because we have deposited only R$94.0 million of this amount with the courts, we would be required, in the event we and our subsidiaries receive final, unfavorable decisions, to pay the remaining amounts for which we have not made deposits.

We are also parties to a number of lawsuits seeking tax credits that we believe the Brazilian tax authorities have disallowed or limited in violation of the Brazilian Constitution and/or applicable law. In some cases where we have received favorable lower court decisions, we have used these credits to offset other tax obligations and have established provisions in an equivalent amount until a final decision is rendered (adjusting these provisions based on the SELIC (*Sistema Especial de Liquidação e de Custódia SELIC*), or SELIC interest rate). These provisions totaled R$777.1 million at March 31, 2004. If we ultimately lose any of these lawsuits, we would be required to pay the tax obligations we had previously offset with those credits, which could materially reduce our liquidity. We believe that losses related to some of these lawsuits are reasonably possible.

For more information about our legal proceedings, see Business Legal Proceedings.

Risks Relating to Our Class A Preferred Shares and the ADSs

Our class A preferred shares and the ADSs have limited voting rights.

Under the Brazilian Corporation Law and our by-laws, holders of our class A preferred shares and, consequently, the ADSs are not entitled to vote at meetings of our shareholders, except in very limited circumstances. These limited circumstances directly relate to key rights of the holders of class A preferred shares, such as modifying basic terms of our class A preferred shares or creating a new class of preferred shares with superior rights. Holders of preferred shares without voting rights are entitled to elect one member and his or her respective alternate to our board of directors and our fiscal council. However, until our general shareholders meeting in 2006, any member elected to our board of directors by these preferred shareholders must be selected from a list of three nominees chosen by our controlling shareholder. Holders of our class A preferred shares and the ADSs are not entitled to vote to approve corporate transactions, including mergers or consolidations of our company with other companies.

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Holders of ADSs may find it difficult to exercise even their limited voting rights at our shareholders meetings.

Holders may exercise the limited voting rights with respect to our class A preferred shares represented by the ADSs only in accordance with the deposit agreement relating to the ADSs. There are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional steps involved in communicating with ADS holders. For example, we are required to publish a notice of our shareholders meetings in certain newspapers in Brazil. To the extent that holders of our class A preferred shares are entitled to vote at a shareholders meeting, they will be able to exercise their voting rights by attending the meeting in person or voting by proxy. By contrast, holders of ADSs will receive notice of a shareholders meeting by mail from the ADR depositary following our notice to the ADR depository requesting the ADR depository to do so. To exercise their voting rights, ADS holders must instruct the depositary on a timely basis. This noticed voting process will take longer for ADS holders than for holders of class A preferred shares. If it fails to receive timely voting instructions for all or part of the ADSs, the depositary will assume that the holders of those ADSs are instructing it to give a discretionary proxy to a person designated by us to vote their ADSs, except in limited circumstances.

In the limited circumstances in which holders of ADSs have voting rights, they may not receive the voting materials in time to instruct the depositary to vote our class A preferred shares underlying their ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions of the holders of ADSs or for the manner of carrying out those voting instructions. Accordingly, holders of ADSs may not be able to exercise voting rights, and they will have no recourse if the class A preferred shares underlying their ADSs are not voted as requested.

Exchange controls and restrictions on remittances abroad may adversely affect holders of the ADSs and the underlying class A preferred shares.

Brazilian law provides that whenever there is a significant imbalance in Brazil s balance of payments or a significant possibility that such imbalance will exist, the Brazilian government may impose temporary restrictions on the remittance to foreign investors of the proceeds of their investment in Brazil (as it did for approximately six months in 1989 and early 1990) and on the conversion of Brazilian currency into foreign currencies. These restrictions could hinder or prevent the Brazilian custodian of the class A preferred shares underlying the ADSs or holders who have exchanged the ADSs for the underlying class A preferred shares from converting dividends, distributions or the proceeds from any sale of such shares into U.S. dollars and remitting such U.S. dollars abroad. In such an event, the Brazilian custodian for our class A preferred shares will hold the *reais* that it cannot convert for the account of holders of ADSs who have not been paid. Neither the custodian nor the depositary will be required to invest the *reais* or be liable for any interest.

Holders of ADSs may face difficulties in protecting their interests because we are subject to different corporate rules and regulations as a Brazilian company and our shareholders may have fewer and less well-defined rights.

Investors in the ADSs will not be direct shareholders of our company and will be unable to enforce the rights of shareholders under our by-laws and the Brazilian Corporation Law.

Our corporate affairs are governed by our by-laws and the Brazilian Corporation Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the State of Delaware or New York, or elsewhere outside Brazil. Even if a holder of ADSs surrenders its ADSs and becomes a direct shareholder, its rights as a holder of our class A preferred shares underlying the ADSs under the Brazilian Corporation Law to protect its interests relative to actions by our board of directors may be fewer and less well-defined than under the laws of those other jurisdictions.

Although insider trading and price manipulation are crimes under Brazilian law, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or the markets in some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well-defined and enforced in Brazil than in the United States and certain other countries, which may put holders of our class A preferred shares and the ADSs at a potential disadvantage. Corporate disclosures also may be less complete or informative than for a public company in the United States or in certain other countries.

Holders of ADSs may face difficulties in serving process on or enforcing judgments against us and other persons.

We are a corporation (*sociedade anônima*) organized under the laws of Brazil, and all of our directors and executive officers and our independent public accountants reside or are based in Brazil. Most of our assets and those of these other persons are located in Brazil. As a result, it may not be possible for holders of ADSs to effect service of process upon us or these other persons within the United States or other jurisdictions outside Brazil or to enforce against us or these other persons judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain conditions are met, holders may face greater difficulties in protecting their interests in the case of actions by us or our directors or executive officers than would shareholders of a U.S. corporation.

Actual or anticipated sales of a substantial number of class A preferred shares could decrease the market prices of our class A preferred shares and the ADSs.

Sales of a substantial number of our class A preferred shares after the completion of the global offering, or the anticipation of such sales, could negatively affect the market prices of our class A preferred shares and the ADSs. After the global offering (and giving effect to a conversion of class A preferred shares into common shares as required by Brazilian law), we will have a total of shares outstanding, including class A preferred shares, or class A preferred shares if the underwriters over-allotment options are exercised in full. The Odebrecht Group will hold directly 29,902,332,960 shares, consisting of common shares and class A preferred shares. In addition, the Odebrecht Group controls Norquisa, which will hold directly 8,264,861,540 shares, consisting of common shares and class A preferred shares. Moreover, Petroquisa is entitled to exercise an option over the next 12 months to acquire a substantial number of new common and preferred shares from our company. Subject to some exceptions, we and the Odebrecht Group have agreed that we will not sell, offer or contract to sell, grant any option to sell or otherwise dispose of, directly or indirectly, or, in our case, file a registration statement with the SEC or the Brazilian Securities Commission relating to, any shares of our share capital or the ADSs or securities convertible into or exchangeable or exercisable for any shares of our share capital or the ADSs or warrants or other rights to purchase any shares of our share capital or ADSs for a period of 120 days after the date of this prospectus without the prior written consent of Credit Suisse First Boston LLC, on behalf of the international underwriters. If, in the future, substantial sales of shares are made by the Odebrecht Group, Petroquisa or other existing or future holders of class A preferred shares, the market price of our class A preferred shares and, by extension, the ADSs may decrease significantly. As a result, holders of ADSs may not be able to sell the ADSs at or above the price they paid for them.

Holders of ADSs may be unable to exercise preemptive rights with respect to our class A preferred shares underlying the ADSs.

Holders of ADSs will be unable to exercise the preemptive rights relating to our class A preferred shares underlying ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights or to take any other action to make preemptive rights available to holders of ADSs, and we may not file any such registration statement. If we do not file a registration statement or if we and the depositary decide not to make preemptive rights available to holders of ADSs, those holders may receive only the net proceeds from the sale of their preemptive rights by the depositary, or if they are not sold, their preemptive rights will be allowed to lapse.

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Holders of ADSs could be subject to Brazilian income tax on capital gains from sales of ADSs.

Historically, any capital gain realized on a sale or other disposition of ADSs between non-Brazilian holders outside Brazil was not subject to Brazilian income tax. However, a new Brazilian law provides that, commencing on February 1, 2004, the acquiror, individual or legal entity resident or domiciled in Brazil, or the acquiror s attorney-in-fact, when such acquirer is resident or domiciled abroad, shall be responsible for the retention and payment of the income tax applicable to capital gains ... earned by the individual or legal entity resident or domiciled abroad who disposes of property located in Brazil. The Brazilian tax authorities have recently issued a normative instruction confirming that they intend to assess income tax on capital gains earned by non-Brazilian residents whose assets are located in Brazil. It is unclear whether ADSs representing class A preferred shares, which are issued by the depositary outside Brazil, will be deemed to be property located in Brazil for purposes of this law. Accordingly, we cannot determine whether Brazilian tax authorities will attempt to tax any capital gains arising from the sale or other disposition of ADSs, even when the transaction is consummated outside Brazil between non-Brazilian residents.

The relative volatility and liquidity of the Brazilian securities markets may decrease the liquidity and market price of our class A preferred shares and the ADSs.

The Brazilian securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The São Paulo Stock Exchange, which is the principal Brazilian stock exchange, had a market capitalization of US$234.2 billion (or R$676.7 billion) at December 31, 2003 and an average daily trading volume of US$271.9 million for 2003. In comparison, The New York Stock Exchange had a market capitalization of US$17.3 trillion at December 31, 2003 and an average daily trading volume of US$38.5 billion for 2003. There is also significantly greater concentration in the Brazilian securities markets. The 10 largest companies in terms of market capitalization represented approximately 48% of the aggregate market capitalization of the São Paulo Stock Exchange at December 31, 2003. The 10 most widely traded stocks in terms of trading volume accounted for approximately 54% of all shares traded on The São Paulo Stock Exchange in 2003. These market characteristics may substantially limit the ability of holders of the ADSs to sell class A preferred shares underlying ADSs at a price and at a time when they wish to do so and, as a result, could negatively impact the market price of the ADSs themselves.

Developments in other emerging markets may decrease the market price of our class A preferred shares and the ADSs.

The market price of the ADSs may decrease due to declines in the international financial markets and world economic conditions. Although economic conditions are different in each country, investors reaction to developments in one country can affect the securities markets and the securities of issuers in other countries, including Brazil. Brazilian securities markets are, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America. Any return to economic turmoil in Argentina or adverse economic developments in other emerging markets may adversely affect investor confidence in securities issued by Brazilian companies, causing their market price and liquidity to suffer. Any such developments could immediately affect our ability to raise capital when needed and the market price of our class A preferred shares and the ADSs.

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FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. Some of the matters discussed concerning our business operations and financial performance include forward-looking statements within the meaning of the Securities Act of 1933, or the Securities Act, the Securities Exchange Act of 1934, or the Exchange Act.

Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as expects, anticipates, intends, plans, believes, estimates and similar expressions are forward-looking statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us.

Our forward-looking statements may be influenced by factors, including the following:

- general economic, political and business conditions in our company s markets, both in Brazil and abroad, including demand and prices for petrochemical products;
- interest rate fluctuations, inflation and exchange rate movements of the *real* in relation to the U.S. dollar;
- the cyclical nature of the Brazilian and global petrochemical industries;
- the level of our indebtedness and related debt service requirements;
- our ability to obtain financing on satisfactory terms;
- competition;
- actions taken by our major shareholders and other shareholders with options or convertible securities entitling them to acquire significant numbers of our shares;
- prices of naphtha and other raw materials;
- decisions rendered in pending major tax, labor and other legal proceedings;
- final decisions by Brazilian antitrust authorities of the transactions resulting in the formation of our company as it exists today; and
- other factors identified or discussed under Risk Factors.

Our forward-looking statements are not guarantees of future performance, and the actual results or developments may differ materially from the expectations expressed in the forward-looking statements. As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references herein to the *real, reais* or R$ are to the Brazilian *real,* the official currency of Brazil. All references to U.S. dollars, dollar or US$ are to U.S. dollars.

On June 2, 2004, the exchange rate for *reais* into U.S. dollars was R$3.130 to US$1.00, based on the commercial selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank. The commercial selling rate was R$2.908 at March 31, 2004, R$2.889 to US$1.00 at December 31, 2003, R$3.353 at March 31, 2003 and R$3.533 to US$1.00 at December 31, 2002. The *real*/dollar exchange rate fluctuates widely, and the commercial selling rate at June 2, 2004 may not be indicative of future exchange rates. See Exchange Rates for information regarding exchange rates for the Brazilian currency since January 1, 1999.

Solely for the convenience of the reader, we have translated some amounts included in Prospectus Summary Summary Financial and Other Information, Capitalization, Selected Financial and Other Information and elsewhere in this prospectus from *reais* into U.S. dollars for convenience only using the commercial selling rate as reported by the Central Bank at March 31, 2004 of R$2.908 to US$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. Such translations should not be construed as representations that the *real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

Financial Statements

We maintain our books and records in *reais.*

Our consolidated and combined financial statements at December 31, 2003 and 2002 and for each of the years ended December 31, 2003, 2002 and 2001 have been audited, as stated in the report appearing herein, and are included in this prospectus.

Our unaudited condensed consolidated quarterly information at March 31, 2004 and for the three months ended March 31, 2004 and 2003 are included in this prospectus.

We prepare our consolidated financial statements in accordance with accounting practices adopted in Brazil, or Brazilian GAAP, which are based on:

- Brazilian Law No. 6,404/76, as amended by Brazilian Law No. 9,457/97 and Brazilian Law No. 10,303/01, which we refer to collectively as the Brazilian Corporation Law;

- the rules and regulations of the Brazilian Securities Commission; and

- the accounting standards issued by the Brazilian Institute of Independent Accountants (*Instituto dos Auditores Independentes do Brasil*).

Brazilian GAAP differs in significant respects from accounting principles generally accepted in the United States, or U.S. GAAP. For more information about the differences between Brazilian GAAP and U.S. GAAP and a reconciliation of our net income (loss) and shareholders equity from Brazilian GAAP to U.S. GAAP, see note 29 to our consolidated and combined financial statements and note 21 to our unaudited condensed consolidated quarterly information.

Consistent with Brazilian GAAP, our consolidated and combined financial statements at December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 and our unaudited condensed consolidated quarterly information at March 31, 2004 and for the three months ended March 31, 2004 and 2003 proportionally consolidate the results of operations and financial condition of jointly controlled companies which are not our subsidiaries, but which we jointly control with one or more other shareholders. The U.S. GAAP reconciliation eliminates the effects of proportional consolidation for those companies that are not jointly controlled by all voting shareholders.

Share Split

On October 20, 2003, we authorized the split of all of our issued common shares, class A preferred shares and class B preferred shares into 20 shares for each issued share. This share split was effective on October 21, 2003. As a result of this share split, the ratio of our class A preferred shares to ADSs changed

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from 50 class A preferred shares per ADS to 1,000 class A preferred shares per ADS. All references to numbers of shares and dividend amounts in this prospectus have been adjusted to give effect to this 20-for-one share split.

Market Share and Other Information

We make statements in this prospectus about our market share in the petrochemical industry in Brazil and our production capacity relative to that of other petrochemical producers in Brazil and Latin America. We have made these statements on the basis of information obtained from third party sources that we believe are reliable. We have calculated our Brazilian market shares with respect to specific products by dividing our domestic net sales volumes of these products by the total Brazilian domestic consumption of these products estimated by the Brazilian Association of Chemical Industry and Derivative Products (*Associação Brasileira de Indústrias Químicas e de Produtos Derivados*). We derive information regarding the production capacity of other companies in the Brazilian petrochemical industry and the estimated total Brazilian domestic consumption of petrochemical products principally from reports published by the Brazilian Association of Chemical Industry and Derivative Products. Although we have no reason to believe that any of this information is inaccurate in any material respect, neither we nor the underwriters have independently verified the production capacity, market share, market size or similar data provided by third parties or derived from industry or general publications.

Technical and Other Terms

As used in this prospectus, the following terms have these meanings:

EDC	ethylene dichloride, a product of our Vinyls Unit.
first generation producer	a petrochemical cracker that transforms or cracks naphtha and other inputs into basic petrochemicals, such as ethylene and propylene.
HDPE	high density polyethylene, a product of our Polyolefins Unit.
LDPE	low density polyethylene, a product of our Polyolefins Unit.
LLDPE	linear low density polyethylene, a product of our Polyolefins Unit.
PET	polyethylene terephthalate, a product of our Business Development Unit.
production capacity	the annual projected capacity for a particular facility, calculated based upon operations 24 hours for each day of a year and deducting scheduled downtime for regular maintenance.
PVC	polyvinylchloride, a product of our Vinyls Unit.
second generation producer	a producer of resins and other intermediate petrochemical products.
third generation producer	a producer that transforms resins and other intermediate petrochemical products into end-products, such as film, piping and containers.
ton	a metric ton, which is equal to 1,000 kilograms or 2,204.62 pounds.

Rounding

We have made rounding adjustments to reach some of the figures included in this prospectus. As a result, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

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USE OF PROCEEDS

We estimate the net proceeds from the sale of class A preferred shares in the global offering, including the ADSs offered by this prospectus, will be approximately US$ million or approximately US$ million if the underwriters over-allotment options are exercised in full, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds of the global offering for general corporate purposes, including, among others, working capital and repayment of short-term indebtedness.

We have not identified specific short-term indebtedness that we intend to repay with the proceeds of the global offering. Our short-term indebtedness is utilized primarily for working capital purposes, and the interest rates for this indebtedness vary depending on market conditions.

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MARKET INFORMATION

The principal trading market for our common shares, class A preferred shares and class B preferred shares is the São Paulo Stock Exchange. Our common shares and class A preferred shares began trading on the São Paulo Stock Exchange on November 11, 1980, and our class B preferred shares began trading on the São Paulo Stock Exchange on August 19, 1983.

On December 21, 1998, ADSs representing our class A preferred shares began trading on The New York Stock Exchange. On December 31, 2003, there were 969,303 ADSs outstanding, representing 969,303,000 class A preferred shares, or 2.2% of our outstanding class A preferred shares.

On October 8, 2003, we listed our class A preferred shares on the LATIBEX, a stock market for Latin American issuers that is quoted in euros on the Madrid Stock Exchange, under the symbol XBRK. Our class A preferred shares are traded on the LATIBEX in lots of 1,000 shares.

At June 2, 2004, we had approximately 9,500 shareholders, including three U.S. resident holders of our common shares, approximately 46 U.S. resident holders of our class A preferred shares (including The Bank of New York, as depositary) and no U.S. resident holders of our class B preferred shares. At June 2, 2004, there were 217,667,900 common shares, 2,791,886,172 class A preferred shares (including class A preferred shares represented by ADSs), and no class B preferred shares held by U.S. resident holders.

Price History of Our Class A Preferred Shares and the ADSs

The tables below set forth the high and low closing sales prices for our class A preferred shares on the São Paulo Stock Exchange and the high and low closing sales prices for the ADSs on The New York Stock Exchange for the periods indicated.

	São Paulo Stock Exchange		New York Stock Exchange	
	Reais per 1,000 Class A Preferred Shares		U.S. dollars per ADS	
	High	Low	High	Low
1999	R$ 23.72	R$ 3.85	US$ 16.19	US$ 3.68
2000	34.67	20.34	22.88	14.19
2001	31.00	15.43	17.88	6.14
2002	29.24	9.60	12.75	2.57
2003	66.85	7.90	23.39	2.20

	São Paulo Stock Exchange		New York Stock Exchange	
	Reais per 1,000 Class A Preferred Shares		U.S. dollars per ADS	
	High	Low	High	Low
2002				
First Quarter	R$ 29.24	R$ 23.02	US$ 12.75	US$ 10.05
Second Quarter	27.11	18.75	11.77	6.09
Third Quarter	20.35	11.50	7.11	3.18
Fourth Quarter	12.25	9.60	3.50	2.57
2003				
First Quarter	13.25	7.90	4.10	2.20
Second Quarter	20.75	11.40	7.20	3.35

Third Quarter	36.30	19.20	12.49	6.60
Fourth Quarter	66.85	35.80	23.39	12.40
2004				
First Quarter	80.51	63.00	29.25	21.50

	São Paulo Stock Exchange		New York Stock Exchange	
	Reais per 1,000 Class A Preferred Shares		U.S. dollars per ADS	
	High	**Low**	**High**	**Low**
December 2003	R$66.85	R$48.30	US$23.39	US$16.61
January 2004	80.51	67.10	29.25	23.25
February 2004	77.00	63.00	26.00	21.50
March 2004	77.41	72.88	26.79	23.22
April 2004	72.49	58.00	35.53	20.12
May 2004	57.62	40.02	19.51	12.63

Source: Economática Ltda.

On June 2, 2004, the closing sales price of:

our class A preferred shares on the São Paulo Stock Exchange was R$50.10 per 1,000 shares;

our class A preferred shares on the LATIBEX was 13.10 per 1,000 shares; and

the ADSs on The New York Stock Exchange was US$16.01 per ADS.

The following table sets forth the average daily trading volume for our class A preferred shares on the São Paulo Stock Exchange and for the ADSs on The New York Stock Exchange for the periods indicated.

	Average Daily Trading Volume	
	São Paulo Stock Exchange	**New York Stock Exchange**
	Lots of 1,000 Class A Preferred Shares	**ADSs**
2002		
First Quarter	37,027	4,435
Second Quarter	26,946	5,091
Third Quarter	30,059	5,613
Fourth Quarter	42,813	8,988
2003		
First Quarter	74,239	6,672
Second Quarter	81,541	11,435
Third Quarter	106,240	18,414
Fourth Quarter	105,632	14,661
2004		
First Quarter	142,360	29,868

Trading on the São Paulo Stock Exchange

Settlement of transactions conducted on the São Paulo Stock Exchange is effected three business days after the trade date without any adjustment for inflation. Delivery of and payment for shares is made through the facilities of the São Paulo Stock Exchange s clearinghouse *(Companhia Brasileira de Liquidação e Custódia)*. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date.

The São Paulo Stock Exchange is significantly less liquid than The New York Stock Exchange and many other of the world s major stock exchanges. While all of the outstanding shares of a listed company

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may trade on the São Paulo Stock Exchange, in most cases fewer than half of the listed shares are actually available for trading by the public. The remaining shares are often held by a single or small group of controlling persons or by governmental entities.

Trading on the São Paulo Stock Exchange by a holder not deemed to be domiciled in Brazil for Brazilian tax and regulatory purposes, or a non-Brazilian holder, is subject to certain limitations under Brazilian foreign investment regulations. With limited exceptions, non-Brazilians holders may trade on the São Paulo Stock Exchange only in accordance with the requirements of Resolution No. 2,689 of January 26, 2000 of the National Monetary Council. Resolution No. 2,689 requires securities held by non-Brazilian holders to be maintained in the custody of, or in deposit accounts with, financial institutions that are authorized by the Central Bank and the Brazilian Securities Commission. In addition, Resolution No. 2,689 requires non-Brazilian holders to restrict their securities trading to transactions on the São Paulo Stock Exchange or organized over-the-counter markets. With limited exceptions, non-Brazilian holders may not transfer the ownership of investments made under Resolution No. 2,689 to other non-Brazilian holders through private transactions.

Regulation of Brazilian Securities Markets

The Brazilian securities markets are regulated by the Brazilian Securities Commission, which has authority over stock exchanges and the securities markets generally, by the National Monetary Council and by the Central Bank, which has, among other powers, licensing authority over brokerage firms and which regulates foreign investment and foreign exchange transactions. The Brazilian securities market is governed by Brazilian Law No. 6,385/76, as amended, and by the Brazilian Corporation Law and other Brazilian Securities Commission rulings and regulations.

Under the Brazilian Corporation Law, a company may be either public (*companhia aberta*), as we are, or closely held (*companhia fechada*). All public companies are registered with the Brazilian Securities Commission and are subject to periodic reporting requirements. A company registered with the Brazilian Securities Commission may have its securities traded on the Brazilian stock exchanges or in the Brazilian over-the-counter market. The shares of a listed company, like those of our company, also may be traded privately subject to certain limitations.

The Brazilian over-the-counter market consists of direct trades between persons in which a financial institution registered with the Brazilian Securities Commission serves as intermediary. No special application, other than registration with the Brazilian Securities Commission, is necessary for securities of a public company to be traded in this market. The Brazilian Securities Commission must receive notice of all trades carried out in the Brazilian over-the counter market by the respective intermediaries.

Trading of a company s securities on the São Paulo Stock Exchange may be suspended in anticipation of a material announcement. A company must also suspend trading of its securities on international stock exchanges on which its securities are traded. Trading may also be suspended by a Brazilian stock exchange or the Brazilian Securities Commission, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to an inquiry by the Brazilian Securities Commission or the relevant stock exchange.

Brazilian Law No. 6,385/76, as amended, the Brazilian Corporation Law and regulations issued by the Brazilian Securities Commission provide for, among other things, disclosure obligations, restrictions on insider trading and price manipulation and protections for minority shareholders. However, the Brazilian securities markets are not as highly regulated and supervised as securities markets in the United States and some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well-defined and enforced in Brazil than in the United States, which may put holders of our class A preferred shares and the ADSs at a disadvantage. Corporate disclosures also may be less complete than for public companies in the United States and certain other jurisdictions.

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São Paulo Stock Exchange Corporate Governance Standards

On December 11, 2000, the São Paulo Stock Exchange launched three new listing segments:

- Corporate Governance Level 1;
- Corporate Governance Level 2; and
- The New Market (*Novo Mercado*) of the São Paulo Stock Exchange.

These new listing segments have been designed for the trading of shares issued by companies that voluntarily undertake to abide by corporate governance practices and disclosure requirements in addition to those already required under the Brazilian Corporation Law. The inclusion of a company in any of the new segments requires adherence to a series of corporate governance rules. These rules are designed to increase shareholders rights and enhance the quality of information provided by Brazilian corporations.

On February 13, 2003, we agreed to comply with Level 1. At that time, we announced our intention to adhere to Level 2 by December 31, 2004.

In becoming a Level 1 company, we agreed to:

- ensure that shares representing 25% of our total share capital are available for trading;
- adopt offering procedures that favor widespread ownership of shares whenever making a public offering;
- comply with minimum quarterly disclosure standards;
- follow stricter disclosure policies with respect to transactions involving our securities made by our controlling shareholder and our directors and executive officers;
- disclose any existing shareholders agreements and stock option plans; and
- make a schedule of corporate events available to our shareholders.

To become a Level 2 company, a company must agree to the following additional provisions:

- confer upon preferred shares the right to vote on at least the following issues: (1) transformation, merger, consolidation or spin-off of the company; (2) approval of transactions between the company and its controlling shareholder and/or related parties, whenever such matter is subject to authorization at a general meeting of shareholders pursuant to law or under the company s by-laws; (3) appraisal of assets contributed to pay the company s capital increases; (4) selection of a specialized company in charge of determining the company s economic value for delisting purposes; and (5) amendment to or revocation of any provisions contained in the company s by-laws, whenever such acts alter or modify any requirements set forth in the São Paulo Stock Exchange regulations;
- offer tag-along rights to minority shareholders (meaning that upon the acquisition of a controlling interest, the purchaser must also agree to purchase the shares of the company s minority shareholders in an amount equivalent to 100% of the price paid for each share in the controlling stake, in the case of holders of common shares, and at least 70% of the price paid for each share in the controlling stake, in the case of holders of preferred shares);
- conduct a tender offer at fair market value in the event of a delisting of shares;
- present an annual balance sheet prepared in accordance with, or reconciled to, U.S. GAAP or international financial reporting standards;
- establish a one-year term for all members of the board of directors; and
- resolve corporate conflicts with or among the company s shareholders through arbitration.

To be a company listed on the New Market, a company must have its share capital composed exclusively of common shares in addition to meeting the Level 1 and the Level 2 requirements. We have no current plans to propose to amend our share capital structure to provide solely for the issuance of common shares.

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CAPITALIZATION

The following table sets forth our consolidated debt and capitalization at March 31, 2004, derived from our unaudited condensed consolidated quarterly information prepared in accordance with Brazilian GAAP:

on an actual historical basis; and

as adjusted for the sale of class A preferred shares in the global offering, including the ADSs offered hereby, at the initial public offering price, and after deduction of the underwriting discounts and commissions and estimated offering expenses payable by us in connection with the global offering, and the use of proceeds therefrom.

You should read this table in conjunction with our financial statements included in this prospectus.

	At March 31, 2004			
	Historical		As Adjusted	
	(in millions of *reais*)	(in millions of US$)(1)	(in millions of *reais*)	(in millions of US$)(1)
Short-term debt (including accrued interest and current portion of long-term debt)				
Real-denominated debt (including debentures):				
Secured(2)	R$ 489.4	US$ 168.2	R$	US$
Unsecured	409.4	140.8		
Foreign currency-denominated debt:				
Secured(2)(3)	59.7	20.5		
Unsecured	1,741.3	598.7		
Short-term debt of proportionally consolidated companies	190.9	65.6		
Total short-term debt	R$ 2,890.7	US$ 993.8	R$	US$
Long-term debt				
Real-denominated debt (including debentures):				
Secured(2)	R$ 1,107.1	US$ 380.6	R$ 1,107.1	US$ 380.6
Unsecured	1,106.8	380.5	1,106.8	380.5
Foreign currency-denominated debt:				
Secured(2)(3)	174.1	59.9	174.1	59.9
Unsecured	3,342.3	1,149.1	3,342.3	1,149.1
Long-term debt of proportionally consolidated companies	270.6	93.0	270.6	93.0
Total long-term debt	R$ 6,000.9	US$ 2,063.1	R$ 6,000.9	US$ 2,063.1
Related party debt (long-term)				
Real-denominated debt:				
Unsecured	R$ 19.0	US$ 6.5	R$ 19.0	US$ 6.5
Foreign currency-denominated debt:				
Unsecured	163.8	56.3	163.8	56.3
Total related party debt	R$ 182.8	US$ 62.8	R$ 182.8	US$ 62.8
Shareholders equity	R$ 2,428.5	US$ 834.9	R$	US$

Total capitalization (long-term debt, related party debt (long-term) plus shareholders equity)	R$ 8,612.2	US$ 2,960.8	R$	US$

(1) Translated for convenience only using the commercial selling rate as reported by the Central Bank at March 31, 2004 for *reais* into U.S. dollars of R$2.908=US$1.00.

(2) Our secured debt is secured by accounts receivable, property, plant and equipment and shares of our jointly controlled companies.

(3) At March 31, 2004, R$44.0 million of our foreign currency-denominated debt (R$11.3 million in short-term debt and R$32.7 million in long-term debt) was guaranteed by the Odebrecht Group. The Odebrecht Group granted this guaranty in connection with the financing of the construction of a PET plant by Proppet in January 1998. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Bank Credit Facilities.

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DILUTION

Dilution Relating to Global Offering

Purchasers of the ADSs will experience immediate and substantial dilution to the extent of any difference between the initial public offering price per share and the net book value per share upon the completion of the global offering.

Net book value represents the amount of our total assets, less our total liabilities. Net book value per share is determined by dividing our net book value by the number of our outstanding shares.

At March 31, 2004, our net book value was approximately US$10.90 per thousand shares, translated at the commercial selling rate as reported by the Central Bank at March 31, 2004 for *reais* into U.S. dollars of R$2.908 = US$1.00. Based upon an the initial public offering price of US$ per ADS, the immediate dilution to purchasers of the ADSs in the global offering will be US$ per share or %. The following table illustrates this per ADS dilution:

	Per ADS
Initial public offering price	US$
Net book value at March 31, 2004	
Dilution to new investors	US$

Future Dilution

Holders of ADSs may, in the future, experience further substantial dilution upon the exercise of the Petroquisa option to acquire new common shares and preferred shares from our company or upon conversion by ODBPAR Investments of R$642.6 million principal amount of convertible subordinated debentures. See Principal Shareholders and Related Party Transactions Principal Shareholders Shareholders Agreements and Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Indebtedness and Financing Strategy.

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EXCHANGE RATES

There are two principal legal foreign exchange markets in Brazil:

- the commercial rate exchange market; and

- the floating rate exchange market.

Each of these markets is separately regulated. Most trade and financial foreign-exchange transactions are carried out on the commercial rate exchange market. These transactions include the purchase and sale of ordinary and preferred shares and the payment of dividends or other distributions with respect to them.

Foreign currencies may be purchased only through a Brazilian bank authorized to operate in these markets. The Brazilian government unified the operating limits imposed on Brazilian banks with respect to both markets, which reduced the difference between their rates. In both markets, rates are still freely negotiated but may be strongly influenced by Central Bank intervention.

From March 1995 through January 1999, the Central Bank allowed the gradual devaluation of the *real* against the U.S. dollar. In January 1999, the Central Bank allowed the *real*/ U.S. dollar exchange rate to float freely. Since then, the *real*/ U.S. dollar exchange rate has been established mainly by the Brazilian interbank market and has fluctuated considerably. From December 31, 1998 through December 31, 2003, the *real* devalued by 58.2% against the U.S. dollar, and at June 2, 2004, the commercial selling rate for U.S. dollars was R$3.130 per US$1.00. The Central Bank has intervened occasionally to control unstable movements in the foreign exchange rate. However, the exchange market may continue to be volatile, and the *real* may depreciate or appreciate substantially in value in relation to the U.S. dollar in the future.

The following table shows the commercial selling rate for U.S. dollars for the periods and dates indicated. The information in the Average column represents the average of the exchange rates on the last day of each month during the periods presented.

	***Reais* per U.S. Dollar**			
Year	**High**	**Low**	**Average**	**Period End**
1999	R$2.165	R$1.210	R$1.851	R$1.789
2000	1.985	1.723	1.835	1.956
2001	2.801	1.936	2.353	2.320
2002	3.955	2.271	2.998	3.533
2003	3.662	2.822	3.071	2.889
2004 (through March 31, 2004)	2.987	2.802	2.895	2.908

	***Reais* per U.S. Dollar**	
Month	**High**	**Low**
December 2003	R$2.943	R$2.888
January 2004	2.941	2.802
February 2004	2.988	2.904
March 2004	2.941	2.872
April 2004	2.952	2.874
May 2004	3.205	2.957

Source: Central Bank

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SELECTED FINANCIAL AND OTHER INFORMATION

The following selected financial data has been derived from our financial statements.

The selected financial data at December 31, 2003 and 2002 and for the three years ended December 31, 2003 have been derived from our consolidated and combined financial statements included in this prospectus. The selected financial data at December 31, 2001 has been derived from our audited combined financial statements that are not included in this prospectus. The selected financial data at December 31, 2000 and 1999 and for the two years ended December 31, 2000 have been derived from audited financial statements of our company that are not included in this prospectus.

The selected financial data at March 31, 2004 and for the three months ended March 31, 2004 and 2003 have been derived from our unaudited condensed consolidated quarterly information included in this prospectus, which include, in the opinion of our management, all adjustments necessary to present fairly our results of operations and financial condition at the dates and for the periods presented. The results for the three months ended March 31, 2004 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2004.

Our financial statements are prepared in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. For a discussion of the significant differences relating to these financial statements and a reconciliation of net income (loss) and shareholders equity from Brazilian GAAP to U.S. GAAP, see note 29 to our audited consolidated and combined financial statements and note 21 to our unaudited condensed consolidated quarterly financial information included in this prospectus.

This financial information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements in this prospectus. All per thousand share data presented below for periods before October 21, 2003 have been adjusted to give effect to the 20-for-one share split that was effective on that date.

	At and for the Three Months Ended March 31,			At and for the Year Ended December 31,					
	2004(1)	**2004**	**2003**	**2003(1)**	**2003**	**2002**	**2001(2)**	**2000**	**1999**
	(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)	**(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)**		**(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)**	**(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)**				
Statement of Operations Data									
Brazilian GAAP:									
Net sales revenue	US$ 818.6	R$ 2,381.1	R$ 2,459.3	US$ 3,484.8	R$ 10,135.8	R$ 7,576.6	R$ 4,459.5	R$ 2,897.5	R$ 1,874.8
Cost of sales and services rendered	(605.8)	(1,762.2)	(1,947.4)	(2,781.2)	(8,089.3)	(6,175.5)	(3,637.6)	(2,357.1)	(1,344.1)
Gross profit	212.8	618.9	511.9	703.6	2,046.5	1,401.1	821.9	540.4	530.7
Selling and general and administrative expenses	(44.7)	(130.0)	(89.5)	(162.2)	(471.9)	(577.7)	(210.3)	(116.2)	(101.7)
Investment in associated companies, net(3)	(7.6)	(22.1)	7.7	(54.4)	(158.2)	(251.7)	(214.3)	(3.6)	4.2
Depreciation and amortization	(25.1)	(73.1)	(41.9)	(66.5)	(193.5)	(222.4)	(111.3)	(36.5)	(36.1)
Financial expenses	(161.4)	(469.3)	(90.9)	(245.0)	(712.6)	(3,481.5)	(801.2)	(250.0)	(346.6)
Financial income	34.7	100.9	(9.5)	3.1	9.0	619.6	294.7	178.6	173.2

Zero-rated IPI credit						1,030.1			
Other operating income (expenses)	7.0	20.5	(9.5)	17.1	49.7	102.6	103.3	(12.5)	5.5

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	At and for the Three Months Ended March 31,			At and for the Year Ended December 31,					
	2004(1)	2004	2003	2003(1)	2003	2002	2001(2)	2000	1999
	(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)	(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)		(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)	(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)				
Operating income (loss)	15.7	45.8	278.3	195.7	569.0	(1,379.9)	(117.2)	300.2	229.2
Non-operating expenses, net	0.7	2.0	(1.8)	(1.7)	(4.8)	(98.0)	(120.8)	(0.6)	(9.1)
Income (loss) before income tax and social contribution (current and deferred) and minority interest	16.4	47.8	276.5	194.0	564.2	(1,477.9)	(238.0)	299.6	220.1
Income tax and social contribution (current and deferred)	(11.3)	(32.9)	(59.2)	(42.2)	(122.9)	(89.8)	(77.6)	(73.3)	(54.4)
Income (loss) before minority interest	5.1	14.9	217.3	151.8	441.3	(1,567.7)	(315.6)	226.3	165.7
Minority interest	(1.8)	(5.3)	(86.7)	(77.8)	(226.2)	189.0	(108.9)	1.3	0.2
Net income (loss) for the year	US$ 3.3	R$ 9.6	R$ 130.6	US$ 74.0	R$ 215.1	R$ (1,378.7)	R$ (424.5)	R$ 227.6	R$ 165.9
Number of shares outstanding at year end, excluding treasury shares (in thousands):									
Common shares		25,730,062	24,521,820		25,608,114	24,521,820	12,933,860	12,933,860	12,933,860
Class A preferred shares		50,608,971	42,156,480		42,594,754	42,122,880	21,592,900	21,592,900	21,574,900

Class B preferred shares		229,155	229,160		229,154	229,160	229,160	229,160	229,160
Net income (loss) per thousand shares at year end	US$ 0.04	R$ 0.13	R$ 1.95	US$ 1.08	R$ 3.15	R$ (20.62)	R$ (12.21)	R$ 6.55	R$ 4.78
Net income (loss) per ADS(4) at year end	0.04	0.13	1.95	1.08	3.15	(20.62)	(12.21)	6.55	4.78
Dividends declared per thousand shares:									
Common shares							1.73	3.44	2.42
Class A preferred shares						0.52	2.08	3.44	2.42
Class B preferred shares						0.52	2.08	2.08	2.08
Dividends declared per ADS(4)						0.52	2.08	3.44	2.42
U.S. GAAP:									
Net income (loss) for the year				US$ 130.0	R$ 378.1	R$ (1,144.0)	R$ (471.0)		
Basic earnings (loss) per thousand shares (weighted average):									
Common shares				1.94	5.63	(47.71)	(26.71)		
Class A preferred shares				1.88	5.48				
Class B preferred shares				0.60	1.74				
Basic earnings (loss) per ADS (weighted average)(4)				1.88	5.48				

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	At and for the Three Months Ended March 31,			At and for the Year Ended December 31,					
	2004(1)	2004	2003	2003(1)	2003	2002	2001(2)	2000	1999
	(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)	(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)		(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)	(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)				
Diluted earnings (loss) per thousand shares (weighted average):									
Common shares				US$ 1.92	R$ 5.58	R$ (47.71)	R$ (26.71)		
Class A preferred shares				1.88	5.46				
Class B preferred shares				0.60	1.74				
Diluted earnings (loss) per ADS (weighted average)(4)				1.88	5.46				
Balance Sheet Data									
Brazilian GAAP:									
Cash, cash equivalents and other investments	US$ 641.4	R$ 1,865.7		US$ 407.2	R$ 1,184.3	R$ 821.0	R$ 513.2	R$ 708.9	R$ 561.4
Trade accounts receivable	422.3	1,228.2		418.1	1,216.2	959.0	484.1	231.6	188.6
Inventories	409.0	1,189.5		368.4	1,071.6	889.1	667.8	163.4	119.9
Property, plant and equipment, net	1,815.7	5,281.2		1,730.0	5,032.0	5,296.7	4,429.7	1,969.0	1,977.2
Total assets	5,209.5	15,152.4		4,773.1	13,883.0	13,898.2	9,555.3	3,748.7	3,544.3
Short-term loans and financing (including current portion of long-term debt)	834.7	2,427.8		937.4	2,726.5	2,746.1	1,966.4	331.5	257.4
Short-term debentures	159.1	462.9		120.0	349.0	32.1	26.2		
Short-term related company debt				0.1	0.2	8.2	88.7		
Long-term loans and financing	1,416.7	4,120.5		1,243.0	3,615.3	3,891.6	3,101.7	861.8	915.6
Long-term debentures	646.5	1,880.4		393.0	1,143.0	1,190.2	473.6		
Long-term related company debt	62.8	182.8		61.1	177.6	189.3	626.7	0.9	1.1
Minority interest	81.5	237.0		190.6	554.4	433.1	738.0	27.4	30.1
Share capital	753.6	2,192.0		648.9	1,887.4	1,845.4	1,201.6	1,203.9	1,203.9
Shareholders equity	834.9	2,428.5		726.3	2,112.6	1,821.8	1,729.0	2,267.8	2,085.3
U.S. GAAP:									
Total assets				US$ 3,801.9	R$ 11,058.2	R$ 10,531.7	R$ 7,803.0		
Shareholders equity				2.7	7.8	(415.2)	291.4		

(Footnotes on pages after tables)

	At and for the Three Months Ended March 31,			At and for the Year Ended December 31,					
	2004(1)	2004	2003	2003(1)	2003	2002	2001(2)	2000	1999
	(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)	(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)		(in millions of US$, except per thousand shares and per ADS amounts and financial ratios)	(in millions of *reais*, except per thousand shares and per ADS amounts and financial ratios)				
Other Financial Information									
Brazilian GAAP:									
Net cash provided by (used in):									
Operating activities	US$ 214.3	R$ 623.2	R$ 448.4	US$ 199.6	R$ 580.5	R$ 790.0	R$1,453.9	R$ 550.3	R$ 613.6
Investing activities	(100.2)	(291.3)	(57.2)	(158.3)	(460.4)	(646.7)	(862.2)	(115.6)	(34.6)
Financing activities	280.3	815.4	(327.3)	126.5	367.8	(237.2)	(404.9)	(287.2)	(210.7)
Capital expenditures:									
Property, plant and equipment	15.7	45.6	38.9	73.8	214.7	419.9	318.0	18.4	48.0
Interest in other companies	5.1	14.8	1.8	24.7	71.7	13.1	1,172.3	82.6	26.6
Other Information:									
Net debt(5)	US$2,213.5	R$6,438.1	R$6,615.2	US$2,161.3	R$6,286.5	R$6,878.4	R$4,742.3		
EBITDA(5)(6)	US$ 650.6	R$1,892.4	R$2,277.0	US$ 621.8	R$1,808.4	R$2,062.7	R$ 722.5		
Net debt to EBITDA ratio(5)	3.4x	3.4x	2.9x	3.5x	3.5x	3.3x	6.6x		

	At and for the Three Months Ended March 31,		At and for the Year Ended December 31,				
	2004	2003	2003	2002	2001(2)	2000	1999
Operating Data(7):							
Ethylene:							
Domestic sales volume (in thousands of tons)	108.3	127.8	1,047.3	994.8	1,064.8	1,103.8	1,121.1
Average domestic price per ton (in R$)	1,725	1,926	1,634	1,292	1,135	1,046	633
Propylene:							
Domestic sales volume (in thousands of tons)	97.9	84.7	403.4	415.2	421.1	487.7	494.3
Average domestic price per ton (in R$)	1,373	1,540	1,495	1,106	825	875	444
Polyethylene(8):							
Domestic sales volume (in thousands of tons)	118.5	110.7	445.4	491.8	199.0		
Average domestic price per ton (in R$)	2,671	2,773	2,567	2,007	2,108		
Polypropylene(8):							
Domestic sales volume (in thousands of tons)	96.5	104.5	374.9	395.1	140.4		

Average domestic price per ton (in R$)	2,723	2,751	2,689	1,931	1,969		
PVC(9):							
Domestic sales volume (in thousands of tons)	102.1	99.0	342.4	350.1	125.9		
Average domestic price per ton (in R$)	2,636	2,487	2,358	1,969	1,612		
Number of employees (at period end)	2,911	2,824	2,868	2,817	1,424	1,161	1,104

(1) Translated for convenience only using the commercial selling rate as reported by the Central Bank of Brazil *(Banco Central do Brasil)*, or the Central Bank, at March 31, 2004 for *reais* into U.S. dollars of R$2.908=US$1.00.

(2) The financial and other information for 2001 is not comparable with the financial and other information for 2000 and 1999 as a result of our merger with OPP Produtos Petroquímicos S.A.,

(Footnotes continued on next page)

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which we accounted for as if it had occurred on July 25, 2001 as a result of the common control exercised by the Odebrecht Group over our company and OPP Produtos Petroquímicos S.A.

(3) Investment in associated companies, net comprises equity in the results, amortization of goodwill, net, foreign exchange variation and tax incentives and other.

(4) Net income (loss) per 1,000 shares or ADS under Brazilian GAAP is based on shares outstanding at the end of each year. Earnings (loss) per 1,000 shares or ADS under U.S. GAAP is based on the weighted average number of class A preferred shares outstanding during each period.

(5) The terms and conditions of the notes issued under our medium-term note program include a covenant prohibiting us, and our subsidiaries, from issuing, directly or indirectly, any debt (subject to certain exceptions) unless our pro forma net debt to EBITDA ratio at the date of such issuance is less than 4.5 to 1.0. We have included a calculation of net debt, EBITDA and the net debt to EBITDA ratio in accordance with this covenant, as we believe that (1) our medium-term note program is our most significant outstanding indebtedness, (2) this covenant is a material term of our medium-term note program and (3) information about this covenant is important for investors to understand our liquidity. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Indebtedness and Financing Strategy for a discussion of our medium-term note program and this covenant. EBITDA is not a measure under Brazilian GAAP and should not be considered as a substitute for net income or loss, cash flow from operations or other measures of operating performance or liquidity determined in accordance with Brazilian GAAP. EBITDA is not intended to represent funds available for dividends or other discretionary uses by us because those funds are required for debt service, capital expenditures, working capital and other commitments and contingencies. The use of EBITDA has material limitations, including:

EBITDA does not include interest expense. Because we have borrowed money to finance some of our operations, interest is a necessary and ongoing part of our costs and assists us in generating revenue.

EBITDA does not include taxes. The payment of taxes is a necessary and ongoing part of our operations.

EBITDA does not include depreciation. Because we must utilize property, plant and equipment in order to generate revenues in our operations, depreciation is a necessary and ongoing part of our costs.

We have calculated EBITDA in accordance with a covenant in our medium-term note program, which calculation may not be comparable to similarly titled measures of other companies.

(6) Our medium-term note program requires that we calculate EBITDA at the end of each fiscal quarter on the basis of our financial results for the twelve-month period then ended. Accordingly, EBITDA as presented under the columns entitled At and for the Three Months Ended March 31, represents EBITDA for the twelve-month periods ended March 31.

(7) Excluding intra-company sales within Braskem.

(8) Represents the sum of the sales volumes of Polialden and OPP Química for 2001.

(9) Represents the sales volume of Trikem for 2001.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated and combined financial statements at December 31, 2003 and 2002 and for the three years ended December 31, 2003 and our unaudited condensed consolidated quarterly information at March 31, 2004 and for the three months ended March 31, 2004 and 2003 included in this prospectus, as well as with the information presented under Presentation of Financial and Other Information and Selected Financial and Other Information.

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in Forward-Looking Statements and Risk Factors.

The discussion and analysis of our financial condition and results of operations has been organized to present the following:

- a brief overview of our company and the principal factors that influence our results of operations, financial condition and liquidity;
- a review of our financial presentation and accounting policies, including our critical accounting policies;
- a discussion of the principal factors that influence our results of operations;
- a discussion of our results of operations for the three months ended March 31, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001;
- a discussion of our liquidity and capital resources, including our working capital at March 31, 2004 and December 31, 2003, our cash flows for the three months ended March 31, 2004 and the years ended December 31, 2003, 2002 and 2001, and our material short-term and long-term indebtedness at March 31, 2004;
- a discussion of our off-balance sheet arrangements;
- a discussion of our capital expenditures and our contractual commitments;
- a qualitative and quantitative discussion of market risks that we face; and
- a brief overview of the differences between Brazilian GAAP and U.S. GAAP as they relate to our financial statements.

Overview

We are the leading petrochemical company in Latin America and one of the five largest Brazilian-owned private sector industrial companies, based on net sales revenue. We recorded net income of R$215.1 million in 2003 on net sales revenue of R$10,135.8 million. We produce a diversified portfolio of petrochemical products and have a strategic focus on polyethylene, polypropylene and PVC. We are the only Brazilian company with integrated first and second generation petrochemical production facilities, with 13 plants in Brazil.

Our results of operations have been influenced and will continue to be influenced by a variety of factors, including:

- our substantial increase in production capacity and product offerings through our acquisition of Nova Camaçari Participações S.A., or Nova Camaçari, our mergers with OPP Produtos Petroquímicos S.A., or OPP Produtos, and 52114 Participações S.A., or 52114 Participações, and internal growth, and our ability to realize additional cost savings through the integration into our company of the companies that we have acquired during the past few years;

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the growth rate of Brazilian GDP, which affects the demand for our products and, consequently, our domestic sales volume;

the international market price of naphtha, our principal raw material, which significantly affects the cost of producing our products;

the expansion of global production capacity for the products that we sell and the growth rate of the global economy;

the exchange rate of the Brazilian *real* against the U.S. dollar;

the level of our outstanding indebtedness and the interest rates we pay on this indebtedness, which affects our net financial expenses;

the results of operations of those companies in which we have minority equity interests, such as Copesul and Politeno, a portion of which are consolidated into our results of operations as required by Brazilian GAAP; and

the tax policies adopted by, and resulting tax obligations to, the Brazilian government and the governments of the Brazilian states in which we operate.

Our financial condition and liquidity is influenced by a variety of factors, including:

our ability to generate cash flows from our operations;

prevailing Brazilian and international interest rates and movements in exchange rates, which affect our debt service requirements;

our ability to continue to be able to borrow funds from Brazilian and international financial institutions and to sell our debt securities in the Brazilian and international securities markets, which is influenced by a number of factors discussed below;

our ability to extend the average maturity of our loans and debt securities as we refinance our existing indebtedness; and

our capital expenditure requirements, which consist primarily of maintenance of our operating facilities, expansion of our production capacity and research and development activities.

Financial Presentation and Accounting Policies

Presentation of Financial Statements

We have prepared our unaudited condensed consolidated quarterly information at March 31, 2004 and for the three months ended March 31, 2004 and 2003 and our consolidated and combined financial statements at December 31, 2003 and 2002 and for the three years ended December 31, 2003 in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. See note 29 to our consolidated and combined financial statements and note 21 to our unaudited condensed consolidated quarterly information for an explanation of these differences. The financial information contained in this prospectus is in accordance with Brazilian GAAP, except as otherwise noted.

Since July 25, 2001, our company has grown substantially through acquisitions and mergers, principally the acquisition of Nova Camaçari and our mergers with OPP Produtos and 52114 Participações. See History and Corporate Reorganization. Prior to our mergers with OPP Produtos and 52114 Participações, Odebrecht, a member of the Odebrecht Group, owned all of the voting share capital of OPP Produtos, and Pronor, a member of the Mariani Group, owned all of the voting share capital of 52114 Participações.

We accounted for the acquisition of Nova Camaçari and our merger with 52114 Participações at the respective date of the acquisition or merger. However, as a result of the common control exercised by the Odebrecht Group over our company and OPP Produtos prior to the merger of OPP Produtos, we accounted for the merger of OPP Produtos as if this acquisition had occurred on July 25, 2001, the date we acquired Nova Camaçari and the date on which such common control had commenced. As a result:

- our consolidated balance sheet at December 31, 2001 reflects the inclusion of the assets acquired and liabilities assumed in the acquisition of Nova Camaçari and our merger with OPP Produtos;
- our consolidated balance sheet at December 31, 2002 reflects the inclusion of the assets acquired and liabilities assumed in our acquisition of Nova Camaçari and our mergers with OPP Produtos and 52114 Participações;
- our consolidated statement of operations and cash flow accounts for the year ended December 31, 2001 reflect the operations and cash flows of Nova Camaçari and OPP Produtos and their subsidiaries for the period beginning on July 25, 2001; and
- our consolidated statement of operations and cash flow accounts for the year ended December 31, 2002 reflect the operations and cash flows of Nova Camaçari and OPP Produtos and their subsidiaries for that year and the operations and cash flows of 52114 Participações and its subsidiaries for the period beginning on August 16, 2002.

Our financial statements have been prepared in accordance with Brazilian Securities Commission Instruction No. 247/96, as amended by Brazilian Securities Commission Instruction Nos. 269/97, 285/98 and 319/99, which we refer to collectively as Instruction 247. Instruction 247 requires our company to proportionally consolidate jointly controlled companies that are not our subsidiaries, principally Copesul and Politeno.

Our results of operations for 2001 and 2002 are not fully comparable because our results of operations for 2001 include the results of OPP Química, Trikem, Polialden and Proppet and proportional consolidation of the results of Copesul and Politeno only for the period after July 25, 2001. Our results of operations for 2002 include the results of these companies for the full year.

Our results of operations for 2002 and 2003 are not fully comparable because our results of operations for 2002 include the results of Nitrocarbono only for the period after August 16, 2002, and our results of operations for 2003 include the results of Nitrocarbono for the full year. However, because of the size of our Business Development Unit relative to our company, we do not believe that this lack of full comparability is material.

Our results of operations for the three months ended March 31, 2004 and 2003 are fully comparable.

Business Segments and Presentation of Segment Financial Data

In 2002, we implemented an organizational structure that we believe reflects our business activities and corresponds to our principal products and production processes. We report our results by four market segments to reflect this organizational structure:

- *Basic Petrochemicals* This segment includes our production and sale of basic petrochemicals and our supply of utilities to second generation producers, including some producers owned or controlled by our company. These activities consist of operations historically conducted by our company;
- *Polyolefins* This segment includes our production and sale of polyethylene and polypropylene and consists of the operations historically conducted by OPP Química and Polialden;
- *Vinyls* This segment includes our production and sale of PVC, caustic soda and chlorine and consists of the operations historically conducted by Trikem; and
- *Business Development* This segment includes our production and sale of other second generation petrochemical products, and consists of the operations historically conducted by Nitrocarbono and Proppet and our management of some minority equity investments, principally our investments in Petroflex Indústria e Comércio S.A., or Petroflex, and Cetrel.

In 2003, sales by our Basic Petrochemicals Unit, our Polyolefins Unit, our Vinyls Unit and our Business Development Unit represented 47.8%, 33.9%, 13.7% and 4.6%, respectively, of our net sales revenue of all segments before reflecting the proportional consolidation of our jointly controlled companies.

We report business segment data in note 29 to our combined and consolidated financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information. SFAS No. 131 requires that segment data be presented on the basis of the internal information that is used by management to assess performance and make operating decisions, including decisions regarding the allocation of resources among segments. Because we evaluate and manage segment performance based on information generated from our statutory accounting records, which are maintained in accordance with Brazilian GAAP, the segment data included in our financial statements is presented under Brazilian GAAP.

Critical Accounting Policies

The presentation of our financial condition and results of operations in conformity with Brazilian GAAP requires us to make certain judgments and estimates regarding the effects of matters that are inherently uncertain and that impact the carrying value of our assets and liabilities. Actual results could differ from those estimates. In order to provide an understanding about how we form our judgments and estimates about certain future events, including the variables and assumptions underlying the estimates, and the sensitivity of those judgments to different variables and conditions, we have included comments related to the following critical accounting policies under Brazilian GAAP:

Revenue Recognition and Provision for Doubtful Accounts. We recognize net sales revenue for our product sales when risk and title to the product are transferred to our customer. Transfer generally occurs at the time when the product is delivered to our customers or their freight carriers. For the years ended December 31, 2002 and 2001, the Company recognized revenue for product sales when the products were shipped. We record a provision for doubtful accounts in selling expenses for an amount that we consider sufficient to cover any probable losses on realization of our accounts receivable. In order to determine the overall adequacy of the allowance for doubtful accounts, we evaluate the amount and characteristics of our accounts receivable on a quarterly basis. When significant payment delays occur and the likelihood of receiving payment in full of our accounts receivable decreases, we record a provision. We do not record a provision when the accounts receivable are guaranteed by a creditworthy entity or where there are other reasonable grounds to believe that they will be paid.

Impairment and Depreciation and Amortization of Permanent Assets. We perform annual cash flow studies to determine if the accounting value of our assets, primarily our property, plant and equipment, goodwill and other intangible assets, is compatible with the profitability resulting from the respective business units. If the expected cash flows are lower than the accounting value, we record a provision for impairment of the asset s value. In order to estimate future cash flows, we must make various assumptions about matters that are highly uncertain, including future production and sales, product prices (which we estimate based on current and historical prices, price trends and related factors), future taxes payable and operating costs. We regularly recognize expenses related to the depreciation of our property, plant and equipment and to the amortization of our deferred charges, goodwill and other intangible assets. The rates of depreciation or amortization are based on our or third-party estimates of the useful lives of the fixed assets or otherwise over the periods during which these assets can be expected to provide benefits to us.

Valuation of Long-Term Investments. We record long-term investments at cost or under the equity accounting method, depending on our participation in voting capital and the degree of influence that we exercise over the operations of the companies involved. We evaluate the fair value of investments for impairment whenever the performance of the underlying entity indicates that impairment may exist. In such cases, the fair value of the investments is estimated principally based on discounted estimated cash flows using assumptions. Arriving at assumptions and estimates concerning these cash flows is a complex and often subjective process involving estimation of future revenues, costs and taxes.

Valuation of Derivative Instruments. We use swaps, forwards, options and other derivative instruments to manage risks from changes in foreign exchange and interest rates. We record these instruments at their estimated fair market value based on market quotations for similar instruments and assumptions as to future foreign exchange and interest rates. During the periods presented, we did not designate any derivative financial instruments as hedges and the fair value adjustments to our derivatives were thus recorded in current net income.

Pension Plans. For defined benefit plans sponsored by us, we calculate our funding obligations based on calculations performed by independent actuaries using assumptions that we provide about interest rates, investment returns, levels of inflation, mortality rates and future employment levels. These assumptions directly impact our liability for accrued pension costs and the amounts we record as pension costs.

Deferred Taxes. We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities using prevailing rates. We regularly review any deferred tax assets for recoverability and reduce their carrying value, as required, based on our historical taxable income, projected future taxable income and the expected timing of any reversals of existing temporary differences. If one of our subsidiaries operates at a loss or is unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or the time period within which the underlying temporary differences become taxable or deductible, we evaluate the need to reduce partially or completely the carrying value of our deferred tax assets.

Contingencies. We are currently involved in numerous judicial and administrative proceedings, as described under Business Legal Proceedings and in notes 11, 17, 18 and 21 to our consolidated and combined financial statements. We record accrued liabilities for contingencies that we deem probable of creating an adverse effect on the result of operations or financial condition. We believe that these contingencies are properly recognized in our financial statements. We are also involved in judicial and administrative proceedings that are aimed at obtaining or defending our legal rights with respect to taxes that we believe to be unconstitutional or otherwise not required to be paid by our company. We believe that these proceedings will ultimately result in tax credits or benefits, which we do not recognize in our financial statements until the contingency has been resolved. When, based on favorable but appealable court decisions, we use tax credits or benefits in dispute to offset current tax obligations, we establish a provision equal to the amount used and maintain the provision until a final decision on those credits or benefits. Our provisions include interest on the tax obligations we have offset with disputed credits or benefits at the interest rate defined in the relevant tax law.

Principal Factors Affecting Our Results of Operations

Nova Camaçari Acquisition and Mergers with OPP Produtos and 52114 Participações

Before July 25, 2001, the date of our acquisition of Nova Camaçari, our operations consisted principally of the operations of our Basic Petrochemicals Unit.

As a result of our acquisition of Nova Camaçari on July 25, 2001:

- we acquired Proppet, whose operations are accounted for in our Business Development segment;
- we acquired control of Polialden, whose operations are accounted for in our Polyolefins segment; and
- we acquired a substantial minority interest in Politeno.

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On August 16, 2002, we merged with OPP Produtos and 52114 Participações. As a result of these mergers:

- we acquired OPP Química, whose operations are accounted for in our Polyolefins segment;
- we acquired control of Trikem, whose operations are accounted for in our Vinyls segment;
- we acquired control of Nitrocarbono, whose operations are accounted for in our Business Development segment; and
- we acquired a substantial minority interest in Copesul.

As a result of these acquisitions and mergers, our net sales revenue, gross profit and operating income have increased significantly. Because we and OPP Produtos have been under common control since July 25, 2001 (the date of our acquisition of Nova Camaçari), the results of OPP Química and Trikem have been included in our results of operations and the results of Copesul and Politeno have been proportionally consolidated in our results since that date.

At March 31, 2004, we estimated that the implementation of our integration program will result in our achieving more than R$300 million in annual recurring cost reductions as compared to costs that would have been incurred by our company and the companies that we have acquired, as estimated by our management. These cost reductions have been achieved primarily in the areas of tax, logistics, operations and information technology, and personnel. We believe that we will be able to achieve additional annual recurring cost reductions over the next three years through other actions that are expected to complete our integration program. We cannot assure holders of ADSs that we will realize the full benefit of the existing or future identified annual cost savings in upcoming years. To the extent that we fail to do so, for any reason, in any year, our results of operations for that year will be adversely affected.

Growth of Brazil s Gross Domestic Product and Domestic Demand for Our Products

Sales in Brazil represented 74.2% of our net sales revenue in 2003 and 81.1% of our net sales revenue during the three months ended March 31, 2004. As a Brazilian company with substantially all of our operations in Brazil, we are significantly affected by economic conditions in Brazil. Our results of operations and financial condition have been, and will continue to be, affected by the growth rate of GDP in Brazil because our products are used in the manufacture of a wide range of consumer and industrial products.

Because of our significant market share in many of the Brazilian markets in which our petrochemical products are sold, fluctuations in Brazilian demand for polyethylene, polypropylene and PVC affect our production levels and net sales revenue. GDP in Brazil grew at a compound average annual rate of 2.4% from 1994 through 2003, although Brazilian GDP declined by 0.2% in 2003. From 1994 through 2003, the consumption volumes in Brazil of polyethylene, polypropylene and PVC increased at compound average annual rates of 5.9%, 10.1% and 4.9%, respectively.

In 2001, GDP in Brazil increased by 1.4%. In 2001, Brazilian consumption volumes of polyethylene decreased by 2.5%, polypropylene increased by 5.1% and PVC decreased by 15.1% compared to consumption volumes in 2000. The decreased consumption volumes of polyethylene and PVC were primarily due to reductions in the operations of many of our customers as a result of the Brazilian government s electric power rationing program that was initiated in June 2001.

In 2002, GDP in Brazil increased by 1.5%. In 2002, Brazilian consumption volumes of polyethylene, polypropylene and PVC increased by 0.2%, 11.3% and 11.0%, respectively, compared to depressed 2001 levels, principally as a result of increased production of third generation products following the termination of the Brazilian government s electric power rationing program in February 2002.

In 2003, GDP in Brazil declined by 0.2%. In 2003, Brazilian consumption volumes of polyethylene decreased by 2.1%, polypropylene increased by 2.9% and PVC decreased by 12.4%, respectively, compared

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to 2002. The decreased consumption volumes of polyethylene and PVC were primarily a result of reduced economic activity.

Brazilian GDP growth has fluctuated significantly, and we anticipate that it will likely continue to do so. Our management believes that economic growth in Brazil would positively affect our future net sales revenue and results of operations. However, continued low growth or a recession in Brazil would likely reduce our future net sales revenue and have negative impacts on our results of operations.

Our management believes that there has been a trend in Brazil during the last several years toward the substitution of plastics for more traditional packaging materials, such as glass and paper. Our management anticipates that this trend will continue to stimulate the domestic demand for petrochemical products suitable for use as packaging materials. However, trends in the substitution of packaging materials depend on many factors beyond our control, and the current beliefs of our management may prove to be incorrect.

Effects of Fluctuations in Naphtha Prices

Fluctuations in the international market price of naphtha have significant effects on our costs of goods sold and the prices that we are able to charge our customers for our first and second generation products.

Effects on Cost of Sales

Naphtha is the principal raw material used by our Basic Petrochemicals Unit. Purchases of naphtha represented 81.8% of the total cost of sales and services rendered of our Basic Petrochemicals Unit in 2003 and 89.0% during the three months ended March 31, 2004. Directly and indirectly through the cost of basic petrochemicals that we bought from Copesul, naphtha represented 65.2% of our consolidated cost of sales and services rendered both in 2003 and during the three months ended March 31, 2004.

The cost of naphtha varies in accordance with international market prices, which fluctuate depending upon the supply and demand for oil and other refined petroleum products. We purchase naphtha under a long-term supply contract with Petrobras and we import naphtha through our terminal at Aratú. The prices that we pay for naphtha under all of these arrangements are based on the Amsterdam-Rotterdam-Antwerp market price. As a result, fluctuations in the Amsterdam-Rotterdam-Antwerp market price for naphtha have a direct impact on the cost of our first generation products.

Because the primary raw materials of our Polyolefins and Vinyls Units, principally ethylene and propylene, are first generation products produced by our Basic Petrochemicals Unit and Copesul, fluctuations in the Amsterdam-Rotterdam-Antwerp market price for naphtha result in similar fluctuations in the cost of the primary raw materials of these Units.

The international price of naphtha has fluctuated significantly in the past, and we expect that it will continue to do so in the future. Significant increases in the price of naphtha and, consequently, the cost of producing our products, would likely reduce our gross margins and our results of operations to the extent that we are unable to pass all of these increased costs on to our customers and could result in reduced sales volumes of our products. Conversely, significant decreases in the price of naphtha and, consequently, the cost of producing our products, would likely increase our gross margins and our results of operations and could result in increased sales volumes if this lower cost leads us to lower our prices.

We do not currently hedge our exposure to changes in the prices of naphtha because a portion of our sales are exports payable in foreign currencies and linked to the international market prices of naphtha and also because the prices of our polyethylene, polypropylene and PVC products sold in Brazil generally reflect changes in the international market prices of these products.

Effects on Prices of Our Products

The prices that we charge for ethylene reflect both the international market prices for naphtha and the international and domestic prices for second generation products. The price of ethylene is calculated

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based on a margin sharing system described in Business Basic Petrochemicals Unit Sales and Marketing of Our Basic Petrochemicals Unit.

The prices that we charge for propylene are based on our ethylene prices and the ratio of the European contract price for propylene to the European contract price for ethylene. Over the past several years, this ratio has increased. The prices that we charge for butadiene are based on the European contract price for butadiene. Because European producers of these products primarily use naphtha as a raw material, changes in the European contract prices are strongly influenced by fluctuations in international market prices for naphtha. As our cost structures are similar to theirs, the prices that we charge for propylene and butadiene are also significantly influenced by international market prices for naphtha.

We negotiate the *real* prices for certain of our products, principally polyethylene, polypropylene and PVC, on a monthly basis with our domestic customers. We attempt to revise our prices to reflect changes in the international market prices of these products and the appreciation or depreciation of the *real* against the U.S. dollar. However, during periods of high volatility in international market prices or exchange rates, we are sometimes unable to reflect these changes fully in our prices quickly.

The international market prices of our petrochemical products have fluctuated significantly, and we believe that they will continue to do so. Significant increases in the international market prices of our petrochemical products and, consequently, the prices that we are able to charge, would likely increase our net sales revenue and our results of operations to the extent that we are able to maintain our operating margins and increased prices do not reduce sales volumes of our products. Conversely, significant decreases in the international prices of our petrochemical products, and, consequently, the prices that we are able to charge, would likely reduce our net sales revenue and our results of operations if we are unable to increase our operating margins or these reduced prices do not result in increased sales volumes of our products.

Cyclicality Affecting the Petrochemical Industry and Capacity Utilization

Capacity Expansions

Global consumption of petrochemical products has increased significantly over the past 30 years. Due to this growth in consumption, producers have experienced periods of insufficient capacity for these products. Periods of insufficient capacity, including some due to raw material shortages, have usually resulted in increased capacity utilization rates and international market prices for our products, leading to increased operating margins. These periods have often been followed by periods of capacity additions, which have resulted in declining capacity utilization rates and international selling prices, leading to declining operating margins.

We expect that these cyclical trends in international selling prices and operating margins relating to global capacity shortfalls and additions will likely persist in the future, principally due to the continuing impact of four general factors:

- cyclical trends in general business and economic activity produce swings in demand for petrochemicals;
- during periods of reduced demand, the high fixed cost structure of the capital intensive petrochemicals industry generally leads producers to compete aggressively on price in order to maximize capacity utilization;
- significant capacity additions, whether through plant expansion or construction, can take two to three years to implement and are therefore necessarily based upon estimates of future demand; and
- as competition in petrochemical products is generally focused on price, being a low-cost producer is critical to improved profitability. This favors producers with larger plants that maximize economies of scale, but construction of plants with high capacity may result in significant increases in capacity that can outstrip demand growth.

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Rio Polímeros, a Brazilian petrochemical company, is currently constructing a petrochemical plant in Brazil that has announced plans to commence operations in December 2004. The announced annual capacity of this plant is 520,000 tons of ethylene, 75,000 tons of propylene and 540,000 tons of polyethylene, representing an increase of approximately 35% of the current total Brazilian production capacity of polyethylene. In 2003, Polibrasil Resinas S.A., or Polibrasil, commenced operation of polypropylene facility in Mauá, São Paulo with an annual capacity of 300,000 tons in 2003. In 2001, Dow Chemical commenced operation of a polyethylene facility in Argentina with an annual capacity of 700,000 tons. We plan to increase our annual production capacity of polypropylene by 100,000 tons by the end of 2004 and to increase our annual production capacity of PVC by 50,000 tons by the end of 2005.

Based on historical growth of Brazilian domestic demand for polyethylene, polypropylene and PVC, we believe that this additional capacity will be absorbed by the domestic market over the next several years. Although there may be a short period of overcapacity in the domestic market for several of our petrochemical products following Rio Polímeros commencement of operations, we believe that export opportunities will be available for the sale of these products not sold domestically. We cannot assure holders of ADSs, however, that the additional capacity will be so absorbed by the domestic market or that satisfactory export opportunities will be available for products not sold domestically. In the latter event, the additional capacity may result in pressure on prices for the affected products, which could adversely affect our net sales revenues, gross margins and overall results of operations.

Capacity Utilization

Our operations are capital intensive. Accordingly, to obtain lower unit production costs and maintain adequate operating margins, we seek to maintain a high capacity utilization rate at all of our production facilities.

The table below sets forth capacity utilization rates with respect to the production facilities for some of our principal products for the years ended December 31, 2003, 2002 and 2001.

	Year Ended December 31,		
	2003	**2002(1)**	**2001(2)**
Ethylene(3)	84%	83%	89%
Polyethylene	83	80	73
Polypropylene	95	90	84
PVC	85	86	76

(1) Gives effect to our mergers with OPP Produtos and 52114 Participações as if they had occurred on January 1, 2002.

(2) Gives effect to our acquisition of Nova Camaçari and our mergers with OPP Produtos and 52114 Participações as if they had occurred on January 1, 2001.

(3) Based on production capacity of 1,280,000 tons in 2003 and 1,200,000 tons in 2002 and 2001.

The utilization rate of our ethylene production capacity was adversely affected during 2003 as a result of an unscheduled shutdown of one of our olefins units for 11 days due to a maintenance problem. The utilization rate of our ethylene production capacity was adversely affected during the three months ended March 31, 2004 as a result of the shutdown of the Olefins 2 and Aromatics 2 units of our Basic Petrochemicals Unit for 35 days for scheduled maintenance and inspection.

Effect of Export Levels on our Financial Performance

We generally obtain higher prices in Brazil for our products than the prevailing international prices. The difference in prices between the Brazilian and export markets results from:

high costs of transporting products to and within Brazil;

warehousing, and other logistics costs; and tariffs and duties.

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In addition, we are generally able to charge higher prices for our products than the *real* price of imports because we are able to provide better product customization services to our customers than sellers of imported products.

During periods in which the domestic demand for our products is reduced, we actively pursue export opportunities for our products. In 2003, 25.8% of our net sales revenue were derived from export sales of our products. Exports to other countries in the Americas accounted for 54.0% of our export sales, with the remainder of our exports sold in Europe (20.0%), Far East (22.0%) and other regions (4.0%).

Our ability to export to other South American countries is a function of the level of economic growth in these countries and other economic conditions, including prevailing inflation rates. We believe that significant growth in the global economy would likely lead to increased global demand and international market prices for our products, and consequently increased domestic prices for our products. In addition, increased global demand for our products would enhance our ability to export our products in the event that the Brazilian economy does not similarly expand. Conversely, slow or negative growth of the global economy would have the opposite effects on our company.

Effects of Fluctuations in Exchange Rates between *Real* and U.S. Dollar

Our results of operations and financial condition have been, and will continue to be, affected by the rate of depreciation or appreciation of the *real* against the U.S. dollar because:

- a substantial portion of our net sales revenue is linked to U.S. dollars;

- our costs for some of our raw materials, principally naphtha and certain catalysts required in our production processes, are incurred in U.S. dollars or are U.S. dollar-linked;

- we have operating expenses, and make other expenditures, that are denominated in or linked to U.S. dollars; and

- we have significant amounts of U.S. dollar-denominated liabilities that require us to make principal and interest payments in U.S. dollars.

Virtually all of our sales are of petrochemical products, which generally trade freely in the international markets at prices expressed in U.S. dollars. We generally attempt to set prices that take into account the international market prices for our petrochemical products and variations in the U.S. dollar/*real* exchange rate. As a result, although a significant portion of our net sales revenue is in *reais,* substantially all of our products are sold at prices that are based on international market prices that are quoted in the U.S. dollars.

The price of naphtha, our principal raw material, is linked to the U.S. dollar. Our naphtha purchase contract with Petrobras provides that the prices that we pay to Petrobras for naphtha in any month are established based on the average Amsterdam-Rotterdam-Antwerp market price for naphtha in U.S. dollars during the previous month, converted into *reais* at the U.S. dollar/*real* exchange rate in effect on the last day of the previous month. Fluctuations in the *real* affect the cost of naphtha and other U.S. dollar-linked or imported raw materials.

When the *real* depreciates against the U.S. dollar, assuming naphtha costs and international market prices of our products remain constant in U.S. dollars, the production cost for our products increases and we generally attempt to increase the prices for our products in *reais* (to the extent possible in light of then-prevailing market conditions in Brazil), which may result in reduced sales volumes of our products. To the extent that our price increases are not sufficient to cover the increased costs for raw materials, our operating income decreases. Conversely, when the *real* appreciates against the U.S. dollar, assuming naphtha costs and international market prices of our products remain constant in U.S. dollars, the production cost for our products decreases and we generally decrease the prices for our products in *reais*, which may result in increased sales volumes of our products. In periods of high volatility in the U.S. dollar/*real* exchange rate, there is usually a lag between the time that the U.S. dollar appreciates or depreciates and the time that we are able to pass on increased or reduced costs in *reais* to our customers in Brazil. These pricing mismatches decrease when fluctuations in the U.S. dollar/*real* exchange rate are less volatile.

Our consolidated U.S. dollar-denominated indebtedness represented 66.0% of our outstanding indebtedness at December 31, 2003 and 64.8% of our outstanding indebtedness at March 31, 2004, excluding related party debt. As a result, when the *real* depreciates against the U.S. dollar:

- the interest costs on our U.S. dollar-denominated indebtedness increases in *reais*, which negatively affects our results of operations in *reais*;
- the amount of our U.S. dollar-denominated indebtedness increase in *reais*, and our total liabilities and debt service obligations in *reais* increase; and
- our financial expenses tend to increase as a result of foreign exchange losses that we must record.

For example, the 34.3% devaluation of the *real* in 2002 substantially increased our financial expenses and was a significant factor in our net loss for that year.

Conversely, when the *real* appreciates against the U.S. dollar:

- the interest costs on our U.S. dollar-denominated indebtedness decrease in *reais*, which positively affects our results of operations in *reais*;
- the amount of our U.S. dollar-denominated indebtedness decreases in *reais*, and our total liabilities and debt service obligations in *reais* decrease; and
- our financial expenses tend to decrease as a result of foreign exchange gains that we must record.

Any major devaluation of the *real* against the U.S. dollar would significantly increase our financial expenses and our short-term and long-term indebtedness, as expressed in *reais*. Conversely, any major appreciation of the *real* against the U.S. dollar would significantly decrease our financial expenses and our short-term and long-term indebtedness, as expressed in *reais*.

Export sales, which enable us to generate receivables payable in foreign currencies, tend to provide a hedge against a portion of our U.S. dollar-denominated debt service obligations, but they do not fully match them. Accordingly, we often enter into hedges to mitigate exchange rate fluctuations in our U.S. dollar-denominated indebtedness. To further mitigate our exposure to exchange rate risk, we try, where possible, to enter into trade finance loans for our working capital needs, which funding is generally available at a lower cost because it is linked to U.S. dollar exports. However, future U.S. dollars generated by us from exports may not be in an amount sufficient to cover all of our U.S. dollar trade finance liabilities.

Inflation affects our financial performance by increasing some of our operating expenses denominated in *reais* (and not linked to the U.S. dollar). A significant portion of our costs of sales and services rendered, however, are linked to the U.S. dollar and are not substantially affected by the Brazilian inflation rate. In addition, some of our *real*-denominated debt is indexed to take into account the effects of inflation. Under this debt, the principal amount generally is adjusted with reference to the General Price Index Market (*Índice Geral de Preços Mercado*), or IGP-M, an inflation index, so that inflation results in increases in our financial expenses and debt service obligations. In addition, a significant portion of our *real*-denominated debt bears interest at the Long-Term Interest Rate or the CDI rate, which are partially adjusted for inflation.

Effect of Level of Indebtedness and Interest Rates

At March 31, 2004, our total outstanding indebtedness on a consolidated basis, excluding related party debt, was R$8,891.6 million. At December 31, 2003, our total outstanding consolidated indebtedness on a consolidated basis, excluding related party debt, was R$7,833.8 million. The level of our indebtedness results in significant financial expenses that are reflected in our statement of operations. Financial expenses consist of interest expense, exchange variations of U.S. dollar- and other foreign-currency denominated debt, foreign exchange losses or gains, and other items as set forth in note 23 to our consolidated and combined financial statements. During the three months ended March 31, 2004, we recorded total financial expenses, net of R$469.3 million, of which R$177.3 million consisted of foreign exchange losses. By contrast, during the three months ended March 31, 2003, we recorded total financial expenses, net of R$90.9 million, of which R$128.5 million consisted of interest expense and R$276.7 million consisted of foreign exchange gains. In 2003, we recorded total financial expenses, net of R$712.6 million, of which R$543.6 million consisted of interest expense and R$969.4 million consisted of foreign exchange gains. By contrast, in 2002, we recorded total financial expenses, net of R$3,481.5 million, of which R$735.4 million consisted of interest expense and R$2,076.1 million consisted of foreign exchange losses. The interest rates that we pay depend on a variety of factors, including prevailing Brazilian and international interest rates and risk assessments of our company, our industry and the Brazilian economy made by potential lenders to our company, potential purchasers of our debt securities and the rating agencies that assess our company and its debt securities.

Standard & Poor s and Fitch maintain ratings of our company and our debt securities. As of the date of this prospectus, Standard and Poor s maintains a local rating for our company of Br A, a local currency rating for our company of BB- stable, and a foreign currency rating for our company of B+ positive, and Fitch maintains a local currency rating for our company of Br A with outlook stable. We have not been informed of any proposed actions by either of these ratings agencies to modify their ratings on our company or its indebtedness. Any rating downgradings in the future would likely result in increased interest and other financial expenses relating to borrowings and debt securities and could adversely affect our ability to obtain such financing on satisfactory terms or in amounts required by us.

Our debt obligations with variable interest rates expose our company to market risks from changes in the Long-Term Interest Rate, the CDI rate, IGP-M and LIBOR. To mitigate our exposure to interest rate risk, we often have sought to enter into hedges to mitigate fluctuations in LIBOR.

Results of Operations of Jointly Controlled Companies

We own 29.5% of the voting and total share capital of Copesul. We also own 33.9% of Politeno s total share capital, including 35.0% of its voting share capital. The operations of Copesul are similar to the operations of our Basic Petrochemicals Unit and the operations of Politeno are similar to the operations of our Polyolefins Unit. Accordingly, the results of operations of these companies are influenced by factors similar to the factors that influence our results of operations. However, these companies have management that is independent from ours and capital structures, including levels of indebtedness and corresponding levels of financing costs, that are different from ours. As a result of the application of Instruction 247 to our financial statements, we are required to proportionally consolidate the results of jointly controlled companies that are not our subsidiaries, such as Copesul and Politeno. Consequently, our results of operations are subject to fluctuations that depend on the results of these jointly controlled companies.

However, in evaluating our results of operations, cash flows and liquidity, our management relies on financial information that does not include the effects of proportional consolidation, principally because we have limited, if any, control over the operations and policies of the companies whose results we are required to proportionally consolidate with our own. In our discussion of our results of operations and our discussion of our liquidity and capital resources, we have provided supplemental information drawn from our accounting records with respect to our results of operations, working capital, cash flows and indebtedness without giving effect to this proportional consolidation to provide holders of ADSs with information that our management believes more accurately reflects the results of operations and financial position of our company.

Effect of Taxes on Our Income

We are subject to a variety of generally applicable Brazilian federal and state taxes on our operations and results.

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Tax Exemptions

We are generally subject to Brazilian federal income tax at an effective rate of 25%, which is the standard corporate tax rate in Brazil. We have available certain federal tax exemptions based upon federal law that offers tax incentives to companies that locate their manufacturing operations in the northeastern region of Brazil. These exemptions entitle us to pay only 25% of the statutory income tax rate on the profit arising from the sale of basic petrochemical products and utilities until December 31, 2011. We are also exempt from corporate income tax until December 31, 2004 on the results of our industrial operations at our PVC plant in the Northeastern Complex and until December 31, 2008 on the results of our industrial operations at our PVC plant in Alagoas. We are entitled to pay only 25.0% of the statutory income tax rate on the results of our industrial operations at our polyethylene plant in the Northeastern Complex (until December 31, 2011) and at Polialden s plant in the Northeastern Complex (until December 31, 2012). We are also entitled to pay only 25.0% of the statutory income tax rate until December 31, 2011 on the results of our industrial operations at our caprolactam plant in the Northeastern Complex.

Our production of caustic soda and EDC in the States of Bahia and Alagoas, and our production of dimethyl teraphthalate, or DMT, are not covered by these exemptions, but in accordance with Law No. 9,532/97, we are entitled to reductions in the statutory income tax rate with respect to the profits arising from sales by these plants and must pay only:

62.5% of the statutory income tax rate from January 1, 1998 to December 31, 2003;

75.0% of the statutory income tax rate from January 1, 2004 to December 31, 2008; and

87.5% of the statutory income tax rate from January 1, 2009 to December 31, 2013.

At the end of each year, if we or any of our affected subsidiaries has taxable profit resulting from the operations described above, the amount of the income tax exemption or reduction is credited to a capital reserve, which can only be used to increase capital, absorb losses or redeem or repurchase capital stock.

Due to operating losses sustained by us in the past, we had R$322.8 million of deferred tax assets made up of tax loss carryforwards available at December 31, 2003 and R$260.7 million available at March 31, 2004. Income tax loss carryforwards available for offset in Brazil do not expire. However, the annual offset is limited to 30% of our adjusted net income. This limit also affects the Social Contribution on Net Income.

Our export sales are currently exempt from PIS (a value-added tax on industrial products), COFINS (a value-added tax on industrial products), IPI (a value-added tax on industrial products) and ICMS (a tax on sales and services) under generally available exemptions, subject to our compliance with the requirements of these exemptions.

The eventual expiration of the income tax exemptions will not affect our net income because we record the full amount of the income tax in our income statement and credit the amount of the income tax exemptions to a reserve account in shareholders equity to increase our capital or absorb our losses.

Tax Disputes

We pay IPI tax on industrial products that we manufacture. The regulations governing the IPI tax assess this tax on a non-cumulative basis, which means that companies may offset their IPI tax obligations with the amount of IPI taxes paid by suppliers earlier in the production chain. The Brazilian federal tax authorities have asserted that purchases of raw materials that are tax-exempt, non-taxable or taxed at a zero percent rate do not generate IPI tax credits, because they maintain that there is no legal provision that expressly authorizes these credits. We believe that this interpretation is contrary to Article 153, paragraph 3 of the Brazilian Constitution, which sets forth the principle of non-cumulative taxation in a broad manner and does not exclude purchases of raw materials that are tax-exempt, non-taxable or taxed at a zero percent rate. OPP Química brought a suit against the Brazilian government claiming that it had the right to IPI tax credits on its purchases of raw materials that are in a zero percent tax bracket. In December 2002, the Brazilian Federal Supreme Court ruled in favor of OPP Química in this suit. The

Brazilian government has appealed this decision, requesting clarification of the calculation of these tax credits but not challenging their validity. Accordingly, we recognized a tax credit of R$1,030.1 million in our statement of operations included in our consolidated and combined financial statements for the year ended December 31, 2002. Of this total tax credit, we used R$265.6 million during the year ended December 31, 2002 and R$364.9 million during the year ended December 31, 2003 to offset IPI tax obligations, and we will use the remainder of this tax credit to offset other IPI tax obligations in the future based on our earnings and future results. Although the ruling of the Brazilian Federal Supreme Court only applies to our operations in the State of Rio Grande do Sul, we have also brought litigation against the Brazilian government in respect of our purchases of raw materials in the States of São Paulo, Bahia and Alagoas seeking to obtain a similar tax credit. We have not recognized any assets or gains in relation to our claims in these states.

We are currently involved in numerous tax proceedings. We have established reserves based on our obligations under current legislation, utilization of the contingent IPI tax credits, and our estimated costs of resolving other claims in which we believe we have a probable tax loss. The tax contingencies relate primarily to the Social Contribution on Net Income (a tax similar to the corporate income tax), PIS, COFINS and IPI. If any of these legal proceedings is decided adversely to us, our results of operations or financial condition could be materially adversely affected. For more information on our tax proceedings, the amounts claimed by governmental authorities and the amounts we have reserved against some of these claims, see Business Legal Proceedings Tax Proceedings.

Tax Reform

In April 2003, the Brazilian Government presented a tax reform proposal, mainly designed to simplify tax assessments, to avoid internal disputes within and between the Brazilian states and municipalities, and to redistribute tax revenues. The tax reform proposal provided for changes in the rules governing PIS, COFINS, ICMS, CPMF and other taxes. The implementation of such changes depended on the approval of an amendment to the Brazilian Constitution.

In December 2003, the Brazilian Federal Senate approved part of this tax reform proposal following its approval by the Brazilian Federal House of Representatives. These tax reforms were consolidated in Constitutional Amendment No. 42, which became effective on December 31, 2003.

Constitutional Amendment No. 42 provides for the assessment of PIS and COFINS on import transactions. Law No. 10,865/04, which implemented this provision, requires PIS and COFINS to be assessed on the import of goods, as well as on the remuneration paid to non-residents for the rendering of services. These changes became effective on May 1, 2004. Constitutional Amendment No. 42 also provides for an extension of the CPMF assessment until December 31, 2007. Prior to the adoption of Amendment No. 42, CPMF was scheduled to expire on December 31, 2004.

Other parts of the tax reform proposal were amended by the Senate and returned to the House of Representatives for further examination. These parts of the tax reform proposal relate to:

- harmonization of ICMS tax rules, which would be governed by a single federal legislation applicable to all Brazilian states;
- equalization of ICMS rates, that would be applied uniformly by all states in Brazil; and
- limitations on the grant of regional tax incentives.

If approved, these tax reform measures will be gradually adopted in 2005 and 2007.

We are unable to predict the effect of these proposed tax reform measures, if approved, on our results of operations. Although some of these measures may result in increases in our tax payments, others are likely to reduce our tax obligations. We currently believe that the effects of the changes to COFINS will be neutral to our results of operation. In addition, as discussed above, we have significant income tax loss carryforwards, tax exemptions and tax credits that should, to a degree, mitigate the effects of the tax reform measures on us. We currently do not anticipate that the tax reform measures will have a material adverse effect on our results of operations in future periods, although we cannot provide holders of ADSs with any assurances in this regard.

Recent Developments

On June 7, 2004, our wholly-owned Cayman Islands subsidiary, Overseas III Export Ltd., entered into a US$200.0 million syndicated credit agreement. This loan has been guaranteed by our company and is secured by certain of our exports. The first tranche of this loan in the principal amount of US$145.0 million bears interest at the rate of six-month LIBOR plus 3.5% per annum, payable semi-annually in arrears. Principal on the first tranche is payable in five semi-annual installments beginning in December 2005 with a final maturity date in December 2007. The second tranche of this loan in the principal amount of US$55.0 million bears interest at the rate of six-month LIBOR plus 4.5% per annum, payable semi-annually in arrears. Principal on the second tranche is payable in eight semi-annual installments beginning in December 2005 with a final maturity date in June 2009.

Results of Operations

The following discussion of our results of operations is based on our financial statements prepared in accordance with Brazilian GAAP.

The discussion of the results of our business segments is based upon financial information reported for each of the four segments of our business, as detailed in note 29 to our consolidated and combined financial statements. There are certain differences between the concepts used by our company in preparing information about segments and the requirements of Brazilian GAAP as applied in the statutory financial statements. The principal differences are:

- investments in certain jointly controlled companies which are required to be proportionally consolidated under Brazilian GAAP are not considered as part of any segment for segment reporting purposes; and

- the concept of operating income for segment reporting purposes does not consider the results of investments in associated companies and financial income and expenses whereas such results and income and expenses are classified as operating items for statutory reporting purposes.

As discussed above, the acquisitions of Nova Camaçari and OPP Produtos significantly affected our results due to the significant size of their operations in relation to the operations historically conducted by our company. As a result:

- The results of operations of our Basic Petrochemicals segment are comparable for 2003, 2002 and 2001.

- The results of operations of our Polyolefins segment, which consists of the operations historically conducted by OPP Química and Polialden, only include the results of these operations for the period after July 25, 2001. Therefore, the results of operations of our Polyolefins segment for 2002 and 2001 are not comparable.

- The results of operations of our Vinyls segment, which consists of the operations historically conducted by Trikem, only include the results of these operations for the period after July 25, 2001. Therefore, the results of operations of our Vinyls segment for 2002 and 2001 are not comparable.

- The results of operations of our Business Development segment, which consists of the operations historically conducted by Proppet and Nitrocarbono, only include the results of the operations of Proppet for the period after July 25, 2001, the date on which we acquired Proppet, and the results of the operations of Nitrocarbono for the period after August 16, 2002, the date of our merger with 52114 Participações. Therefore, the results of operations of our Business Development segment for 2003, 2002 and 2001 are not comparable.

Our results of operations for the three months ended March 31, 2004 and 2003 are fully comparable.

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In evaluating the results of operations of our business segments, our management relies on financial information that includes the aggregate results of operations of the companies that have historically conducted the operations of our Polyolefins, Vinyls and Business Development segments, principally to be able to make comparisons of the results of these segments with the historical results of the companies that were acquired to conduct the operations of these segments. In order to enhance comparability and make an analysis of the results of operations of our Polyolefins segment and our Vinyls segment during 2002 and 2001 more meaningful, our management has provided supplemental information drawn from the audited financial statements of OPP Química, Polialden and Trikem for the year ended December 31, 2001 prepared in accordance with Brazilian GAAP as the basis of comparisons between:

- the results of operations of our Polyolefins segment during 2002 and the aggregate results of operations of the OPP Química and Polialden during 2001; and

- the results of operations of our Vinyls segment during 2002 and the results of operations of Trikem for 2001.

The supplemental financial information for 2001 is not necessarily indicative of the results of operations of our Polyolefins and Vinyls segments that would have occurred had we acquired Nova Camaçari and merged with OPP Produtos on January 1, 2001. In addition, the supplemental financial information is not necessarily indicative of our future results of operations. We have not provided supplemental information with respect to our Business Development Unit because of its small size relative to our company.

In the following discussion, references to increases or decreases in any year or period are made by comparison with the corresponding prior year or period, except as the context otherwise indicates.

Three Months Ended March 31, 2004 Compared with Three Months Ended March 31, 2003

Consolidated Results

The following table sets forth consolidated financial information for the three months ended March 31, 2004 and 2003.

	Three Months Ended March 31,	
	2004	**2003**
	Consolidated	**Consolidated**
	(In millions of *reais*)	
Net sales revenue	R$ 2,381.1	R$ 2,459.3
Cost of sales and services rendered	(1,762.2)	(1,947.4)
Gross profit	618.9	511.9
Selling, general and administrative expenses	(130.0)	(89.5)
Investment in associated companies, net(1)	(22.1)	7.7
Depreciation and amortization	(73.1)	(41.9)
Financial expenses, net	(368.4)	(100.4)
Other operating income (expenses)	20.5	(9.5)
Operating income	45.8	278.3
Non-operating income (expenses), net	2.0	(1.8)
Income before income tax and social contribution and minority interest	47.8	276.5
Income tax and social contribution	(32.9)	(59.2)
Income before minority interest	14.9	217.3
Minority interest	(5.3)	(86.7)

Net income for the period	R$ 9.6	R$ 130.6

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(1) Investment in associated companies, net, comprises equity in the results, amortization of goodwill, net, foreign exchange variation and tax incentives and other.

Net Sales Revenue

Net sales revenue decreased by 3.2% in the three months ended March 31, 2004, compared to the same period in 2003 primarily as a result of the 4.3% decline in net sales revenue of our Basic Petrochemicals segment and the 5.2% decline in net sales revenue of our Polyolefins segment (as discussed below). The declines in net sales revenue experienced by these segments were partially offset by the 43.7% increase in net sales revenue of our jointly controlled companies. Without giving effect to the proportional consolidation of our jointly controlled companies, our net sales revenue decreased by 6.6% in the three months ended March 31, 2004.

Cost of Sales and Services Rendered and Gross Profit

Cost of sales and services rendered decreased by 9.5% in the three months ended March 31, 2004 compared to the same period in 2003, primarily as a result of the 19.6% decline in the cost of sales and services of our Basic Petrochemicals segment and the 6.2% decline in the cost of sales of our Polyolefins segment. These declines were partially offset by the 43.0% increase in the cost of sales of our jointly controlled companies. Without giving effect to the proportional consolidation of our jointly controlled companies, our cost of sales and services rendered decreased by 13.1% in the three months ended March 31, 2004.

As a result, gross profit increased by 20.9% in the three months ended March 31, 2004 compared to the same period in 2003. Without giving effect to the proportional consolidation of our jointly controlled companies, gross profit increased by 18.7% in the three months ended March 31, 2004.

Gross profit as a percentage of net sales revenue, or gross margin was 26.0%, in the three months ended March 31, 2004 compared to 20.8% in the same period in 2003. Without giving effect to the proportional consolidation of our jointly controlled companies, gross margin increased to 26.1% in the three months ended March 31, 2004 compared to 20.5% in the same period in 2003.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 45.3% in the three months ended March 31, 2004, primarily as a result of:

a R$19 million increase in expenses related to our provision for doubtful accounts as a result of a provision of R$6.4 million recorded during the three months ended March 31, 2004 and a reversal of doubtful accounts in the amount of R$13 million in respect of the settlement of certain overdue accounts by some of our clients in Argentina, which we recorded in the three months ended March 31, 2003;

increased costs under service contracts with third parties as a result of inflation effects;

higher payroll expenses associated with wage increases implemented in September 2003; and

increased personnel expenses associated with the scheduled maintenance and inspection shutdowns of the Aromatics 2 and Olefins 2 units of our Basic Petrochemicals Unit, the Northeastern Complex plants of our Polyolefins Unit, Vinyls Unit and Business Development Unit, and our PVC plant in Alagoas.

Selling, general and administrative expenses represented 5.5% of net sales revenue for the three months ended March 31, 2004 compared to 3.6% of net sales revenue for the same period in 2003. Without giving effect to the proportional consolidation of our jointly controlled companies, selling, general and administrative expenses increased by 50.9% in the three months ended March 31, 2004 compared to the same period in 2003, and selling, general and administrative expenses represented 5.4% of net sales revenue in the three months ended March 31, 2004 compared to 3.3% of net sales revenue in the same period in 2003.

Investment in Associated Companies, Net

Investment in associated companies, net, was an expense of R$22.1 million in the three months ended March 31, 2004 compared to revenue of R$7.7 million in the same period in 2003. The expense in the three months ended March 31, 2004 was primarily a result of foreign exchange losses of certain of our overseas affiliates due to the 0.7% devaluation of the *real* against the U.S. dollar during this period. The revenue in the three months ended March 31, 2003 was primarily a result of tax benefits and the reversal of provision for losses on affiliated companies. Without giving effect to the proportional consolidation of our jointly controlled companies, investment in associated companies, net, decreased by 31.2% in the three months ended March 31, 2004 compared to the same period in 2003.

Depreciation and Amortization

Depreciation and amortization increased by 74.5% in the three months ended March 31, 2004 compared to the same period in 2003, primarily as a result of the amortization of the premium related to the merger of Trikem into our company in January 2004. Without giving effect to the proportional consolidation of our jointly controlled companies, depreciation and amortization increased by 63.6% in the three months ended March 31, 2004 compared to the same period in 2003.

Financial Expenses, Net

Financial expenses, net, increased by 266.9% in the three months ended March 31, 2004 compared to the same period in 2003, primarily as a result of the effects of the *real*/U.S. dollar exchange rate on our U.S. dollar-denominated and U.S. dollar-indexed assets and liabilities. A 0.7% devaluation of the *real* against the U.S. dollar during the three months ended March 31, 2004 resulted in financial expense of R$77.0 million related to the exchange rate effect on our U.S. dollar-denominated and U.S. dollar-indexed liabilities and financial income of R$2.0 million related to the exchange rate effect on our U.S. dollar-denominated assets. By contrast, as a result of the 5.1% appreciation of the *real* against the U.S. dollar during the three months ended March 31, 2003, we recorded financial income of R$276.7 million related to the exchange rate effect on our monetary liabilities and financial expense of R$83.6 million related to the exchange rate effect on our monetary assets. Without giving effect to the proportional consolidation of our jointly controlled companies, financial expenses, net increased by 323.3% in the three months ended March 31, 2004 compared to the same period in 2003.

Other Operating Income (Expense), Net

Other operating income, net was R$20.5 million in the three months ended March 31, 2004, compared to other operating expense, net of R$9.5 million in the same period in 2003. This other operating income was primarily a result of the fact that we are no longer obligated to pay taxes on sales to OPP Química and Nitrocarbono as we did between January 1 and March 31, 2003, as the companies have since merged into our company. Without giving effect to the proportional consolidation of our jointly controlled companies, other operating income, net was R$8.7 million in the three months ended March 31, 2004 compared to other operating expense of R$11.2 million in the same period in 2003.

Operating Income (Loss)

Operating income decreased by 83.5% in the three months ended March 31, 2004 compared to the same period in 2003. Operating income represented 1.9% of net sales revenue in the three months ended March 31, 2004 compared to 11.3% of net sales revenue in the same period in 2003. Without giving effect to the proportional consolidation of our jointly controlled companies, operating income decreased by 90.7% in the three months ended March 31, 2004, and operating income was 1.2% of net sales revenue in the three months ended March 31, 2004 compared to 11.8% during the same period in 2003.

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Non-Operating Income (Expenses), Net

Non-operating income, net was R$2.0 million in the three months ended March 31, 2004 compared to non-operating expenses, net of R$1.8 million in the same period in 2003. Without giving effect to the proportional consolidation of our jointly controlled companies, non-operating income, net was R$2.1 million in the three months ended March 31, 2004 compared to non-operating expense, net of R$1.1 million in the same period in 2003.

Income Tax and Social Contribution

Income tax and social contribution decreased by 44.4% in the three months ended March 31, 2004 compared to the same period in 2003. This decrease was primarily a result of our lower income in the three months ended in March 31, 2004 and a R$12.0 million decrease in non-deductible amortization of goodwill.

Without giving effect to the proportional consolidation of our jointly controlled companies, income tax and social contribution decreased by 76.3% in the three months ended March 31, 2004.

Minority Interest

Minority interest expense decreased by 93.9% in the three months ended March 31, 2004 compared to the same period in 2003, primarily as a result of the our merger with Trikem on January 15, 2004. Without giving effect to the proportional consolidation of our jointly controlled companies, minority interest decreased by 93.9% in the three months ended March 31, 2004 compared to the same period in 2003.

Net Income

We recorded net income of R$9.6 million, or 0.4% of net sales revenue, in the three months ended March 31, 2004 compared to net income of R$130.6 million, or 5.3% of net sales revenue, in the same period in 2003.

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Business Segment Results

The following table sets forth consolidated financial information for our business segments for the three months ended March 31, 2004 and 2003.

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	Consolidated (in millions of *reais*, except percentages)	
Basic Petrochemicals		
Net sales revenue	R$ 1,130.3	R$ 1,180.7
Cost of sales	(904.0)	(1,124.2)
Gross profit	226.3	56.5
Operating income(1)	188.9	24.5
Gross margin (%)	20.0%	4.8%
Operating margin (%)	16.7%	2.1%
Polyolefins		
Net sales revenue	R$ 711.2	R$ 750.3
Cost of sales	(501.4)	(534.4)
Gross profit	209.9	215.9
Operating income(1)	174.0	180.9
Gross margin (%)	29.5%	28.8%
Operating margin (%)	24.5%	24.1%
Vinyls		
Net sales revenue	R$ 399.4	R$ 401.1
Cost of sales	(278.3)	(268.7)
Gross profit	121.1	132.4
Operating income(1)	108.0	123.6
Gross margin (%)	30.3%	33.0%
Operating margin (%)	27.0%	30.8%
Business Development		
Net sales revenue	R$ 126.4	R$ 125.0
Cost of sales	(108.1)	(111.6)
Gross profit	18.3	13.4
Operating income(1)	12.2	8.5
Gross margin (%)	14.5%	10.7%
Operating margin (%)	9.7%	6.8%

(1) Operating income does not include financial income and expenses.

Basic Petrochemicals

Net Sales Revenue. Net sales revenue of the Basic Petrochemicals segment decreased by 4.3% in the three months ended March 31, 2004. Significant factors contributing to this decrease were:

a R$59.3 million, or 24.1%, decrease in net sales revenue from domestic sales of ethylene to third parties;

a R$22.5 million, or 13.5%, decrease in net sales revenue from export sales of propylene to third parties;

a R$16.8 million, or 13.6%, decrease in net sales revenue from domestic sales of benzene to third parties;

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- a R$16.3 million, or 39.4%, decrease in net sales revenue from export sales of MBTE to third parties;
- a R$15.8 million, or 25.7%, decrease in net sales revenue from domestic sales of butadiene to third parties; and
- a R$11.6 million, or 15.9%, decrease in net sales revenue from sales of utilities to third parties.

These decreases were partially offset by:

- a R$25.3 million, or 63.4%, increase in net sales revenue from export sales of benzene to third parties; and
- a R$21.2 million, or 44.3%, increase in net sales revenue from total sales of automotive gasoline.

Sales of basic petrochemicals by our Basic Petrochemicals segment to our other segments increased by 15.1% in the three months ended March 31, 2004 to R$294.9 million from R$256.3 million in the same period in 2003 and sales of utilities by our Basic Petrochemicals segment to our other segments increased by 28.9% in the three months ended March 31, 2004 to R$29.3 million from R$22.7 million in the same period in 2003. Sales of utilities to third parties decreased by 15.9% in the three months ended March 31, 2004 to R$61.5 million from R$73.1 million in the same period in 2003. Net export sales of the Basic Petrochemicals segment increased by 0.2% in the three months ended March 31, 2004 to R$ 147.7 million from R$147.4 million in the same period in 2003.

Domestic sales volume of ethylene to third parties decreased by 15.3% to 108.3 thousand tons in the three months ended March 31, 2004 from 127.8 thousand tons in the same period in 2003, principally due to the scheduled maintenance and inspection shutdown of the Olefins 2 and Aromatics 2 units of our Basic Petrochemicals Unit for 35 days in the three months ended March 31, 2004. Average domestic prices for ethylene decreased by 10.4% to R$1,725 per ton in the three months ended March 31, 2004 from R$1,926 per ton in the same period in 2003.

Export sales volume of propylene decreased by 64.3% to 8.5 thousand tons in the three months ended March 31, 2004 from 23.7 thousand tons in the same period in 2003, principally due to increased domestic demand in part resulting from lower average domestic prices for propylene, which declined by 10.8% to R$1,373 per ton in the three months ended March 31, 2004 from R$1,540 per ton in the same period in 2003. Average export prices for propoylene decreased by 26.2% to R$1,127 per ton in the three months ended March 31, 2004 from R$1,527 per ton in the same period in 2003.

Domestic sales volume of benzene to third parties decreased by 31.1% to 28.9 thousand tons in the three months ended March 31, 2004 from 42.0 thousand tons in the same period in 2003, principally due to a scheduled maintenance stoppage at one of our principal benzene customers in the three months ended March 31, 2004. Average domestic prices for benzene decreased by 28.0% to R$1,430 per ton in the three months ended March 31, 2004 from R$1,986 per ton in the same period in 2003.

Export sales volume of MBTE decreased by 8.5% to 26.8 thousand tons in the three months ended March 31, 2004 from 29.3 thousand tons in the same period in 2003. Average export prices for MBTE decreased by 33.8% to R$933 per ton in the three months ended March 31, 2004 from R$1,408 per ton in the same period in 2003.

Domestic sales volume of butadiene to third parties decreased by 13.0% to 30.0 thousand tons in the three months ended March 31, 2004 from 34.5 thousand tons in the same period in 2003, principally due to the scheduled maintenance and inspection shutdown of the Olefins 2 and Aromatics 2 units of our Basic Petrochemicals Unit for 35 days in the three months ended March 31, 2004. Average domestic prices for butadiene decreased by 14.5% to R$1,522 per ton in the three months ended March 31, 2004 from R$1,780 per ton in the same period in 2003.

Export sales volume of benzene increased by 118.1% to 47.0 thousand tons in the three months ended March 31, 2004 from 21.5 thousand tons in the same period in 2003, principally due to a scheduled maintenance stoppage at one of our principal benzene customers in the three months ended March 31,

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2004. Average export prices for benzene decreased by 25.1% to R$1,390 per ton in the three months ended March 31, 2004 from R$1,855 per ton in the same period in 2003.

Sales volume of automotive gasoline increased by 37.6% to 93.8 thousand cubic meters in the three months ended March 31, 2004 from 68.2 thousand cubic meters in the same period in 2003, principally due to delays in making this product available in the three months ended March 31, 2003, whereas we were able to make the product available more quickly in the same period in 2004 in part through exports financed by export pre-payment contracts. Average domestic prices for automotive gasoline increased by 15.8% to R$796 per cubic meters in the three months ended March 31, 2004 from R$687 per cubic meters in the same period in 2003, while average export prices for automotive gasoline decreased by 5.3% to R$683 per cubic meters in the three months ended March 31, 2004 from R$721 per cubic meters in the same period in 2003.

Cost of Sales and Services and Gross Profit. Cost of sales and services of the Basic Petrochemicals segment decreased by 19.6% in the three months ended March 31, 2004 compared to the same period in 2003. This decrease was primarily attributable to the decrease in the average cost of naphtha to R$948 per ton for the three months ended March 31, 2004 from R$1,150 per ton for the same period in 2003 and the decrease in sales volume in the three months ended March 31, 2004 as a result of the scheduled maintenance and inspection shutdown of the Olefins 2 and Aromatics 2 units of our Basic Petrochemicals Unit. Naphtha accounted for 89.0% of the Basic Petrochemicals segment s cost of sales in the three months ended March 31, 2004 and 87.0% during the same period in 2003.

Gross profit of the Basic Petrochemicals segment increased by 300.5% in the three months ended March 31, 2004 compared to the same period in 2003, and gross margin increased to 20.0% in the three months ended March 31, 2004 compared to 4.8% in the same period in 2003.

Operating Income. Operating income of the Basic Petrochemicals segment (which excludes financial income and expense and results from investment in associated companies) increased by 671.0% in the three months ended March 31, 2004 compared to the same period in 2003, principally as a result of a R$169.8 million increase in gross profit. Operating margin of the Basic Petrochemicals segment in the three months ended March 31, 2004 was 16.7% compared with 2.1% in the same period in 2003.

Polyolefins

Net Sales Revenue. Net sales revenue of the Polyolefins segment decreased by 5.2% in the three months ended March 31, 2004 compared to the same period in 2003. This decrease was primarily attributable to an 8.6% decline in domestic polypropylene sales and a 11.8% decline in export sales of polyethylene from period to period. The effects of these declines were partially offset by a 3.1% increase in domestic sales of polyethylene and a 47.1% increase in export sales of polypropylene. Net export sales of the Polyolefins segment decreased by 15.2% to R$132.0 million in the three months ended March 31, 2004 from R$155.6 million in the same period in 2003.

Domestic sales volume of polyethylene increased by 7.0% to 118.1 thousand tons in the three months ended March 31, 2004 from 110.4 thousand tons in the same period in 2003, principally due to increased demand in part resulting from lower average domestic prices for polyethylene, which decreased by 3.8% to R$2,666 per ton in the three months ended March 31, 2004 from R$2,771 per ton in the same period in 2003.

Domestic sales volume of polypropylene decreased by 7.7% to 96.5 thousand tons in the three months ended March 31, 2004 from 104.5 thousand tons in the same period in 2003, principally due to the effects of increased competition in the domestic polypropylene market as a result of the commencement of operations of Polibrasil s polypropylene plant in Mauá, in the State of São Paulo, in the second half of 2003. Average domestic prices for polypropylene decreased by 1.0% to R$2,723 per ton in the three months ended March 31, 2004 from R$2,751 per ton in the same period in 2003.

Export sales volume of polyethylene decreased by 15.1% to 43.9 thousand tons in the three months ended March 31, 2004 from 51.7 thousand tons in the same period in 2003, principally due to our decision

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to sell a greater volume of polyethylene products domestically in light of increased demand in the domestic market. Average export prices for polyethylene increased by 4.6% to R$2,227 per ton in the three months ended March 31, 2004 from R$2,129 per ton in the same period in 2003.

Export sales volume of polypropylene increased by 50.0% to 10.8 thousand tons in the three months ended March 31, 2004 from 7.2 thousand tons in the same period in 2003, reflecting our decision to increase exports of polypropylene due to an oversupply of polypropylene in the domestic market, which caused polypropylene prices in the domestic market to decrease. Average export prices for polypropylene decreased by 1.9% to R$2,220 per ton in the three months ended March 31, 2004 from R$2,263 per ton in the same period in 2003.

Cost of Sales and Gross Profit. Cost of sales of the Polyolefins segment decreased by 6.2% in the three months ended March 31, 2004 compared to the same period in 2003. This decrease was primarily attributable to the decline in the cost of polyethylene and polypropylene as a result of the decline in the average cost of naphtha in *reais* and the 1.6% decline in total sales volume of this segment.

Gross profit of the Polyolefins segment decreased by 2.8% in the three months ended March 31, 2004; however, gross margin increased to 29.5% in the three months ended March 31, 2004 compared to 28.8% during the same period in 2003.

Operating Income. Operating income of the Polyolefins segment (which excludes financial income and expenses and results from investment in associated companies) decreased by 3.8% in the three months ended March 31, 2004 compared to the same period in 2003, primarily as a result of a R$6.0 million decrease in gross profit and a R$1.0 million increase in depreciation and amortization expenses. Operating margin of the Polyolefins segment increased slightly to 24.5% in the three months ended March 31, 2004 compared to 24.1% in the same period in 2003.

Vinyls

Net Sales Revenue. Net sales revenue of the Vinyls segment decreased by 0.4% in the three months ended March 31, 2004. This decrease was primarily attributable to a 13.5% decline in domestic sales of caustic soda, a 38.5% decline in export sales of PVC, and a 7.8% decline in export sales of EDC. The effects of these declines were partially offset by a 9.2% increase in domestic sales of PVC. Net export sales of this segment decreased by 19.2% to R$52.2 million in the three months ended March 31, 2004 from R$64.6 million in the same period in 2003.

Domestic sales volume of caustic soda increased by 3.8% to 105.8 thousand tons in the three months ended March 31, 2004 from 101.9 thousand tons in the same period in 2003, principally due to our strategic decision to reduce our caustic soda prices in order to recover our market share. Average domestic prices for caustic soda declined by 16.8% to R$615 per ton in the three months ended March 31, 2004 from R$739 per ton in the same period in 2003.

Export sales volume of PVC decreased by 42.3% to 6.7 thousand tons in the three months ended March 31, 2004 from 11.6 thousand tons in the same period in 2003, principally due to our decision to increase our domestic PVC sales on which we earned higher margins.

Export sales volume of EDC decreased by 0.9% to 43.4 thousand tons in the three months ended March 31, 2004 from 43.8 thousand tons in the same period in 2003. Average export prices for EDC declined by 6.9% to R$864 per ton in the three months ended March 31, 2004 from R$928 per ton in the same period in 2003.

Domestic sales volume of PVC increased by 3.1% to 102.1 thousand tons in the three months ended March 31, 2004 from 99.0 thousand tons in the same period in 2003. Average domestic prices for PVC increased by 6.0% to R$2,636 per ton in the three months ended March 31, 2004 from R$2,487 per ton in the same period in 2003.

Cost of Sales and Gross Profit. Cost of sales of the Vinyls segment increased by 3.6% in the three months ended March 31, 2004 compared to the same period in 2003. This increase was primarily attributable to the increase of 2.4% in the total sales volume of this segment.

Gross profit of the Vinyls segment decreased by 8.5% in the three months ended March 31, 2004, while gross margin declined to 30.3% in the three months ended March 31, 2004 from 33.0% in the same period in 2003.

Operating Income. Operating income of the Vinyls segment (which excludes financial income and expenses and results from investment in associated companies) decreased by 12.6% in the three months ended March 31, 2004, primarily as a result of an R$11.3 million decrease in gross profit and a R$6.6 million increase in selling, general and administrative expenses, primarily due to increased personnel expenses, associated with the scheduled maintenance and inspection shutdown of the Northeastern Complex plants of our Vinyls Unit and our PVC plant in Alagoas during the three months ended March 31, 2004. Operating margin of the Vinyls segment declined to 27.0% in the three months ended March 31, 2004 from 30.8% in the same period in 2003.

Business Development

Our Business Development Unit is responsible for managing certain of our minority investments, principally our investments in Petroflex and Cetrel. However, as the results of our investments managed by our Business Development Unit are reported as investments in associated companies, the results of these companies are not included in the following segment discussion.

Net Sales Revenue. Net sales revenue of our Business Development segment increased by 1.1% in the three months ended March 31, 2004 compared to the same period in 2003. This increase was primarily attributable to our exports of PET during the three months ended March 31, 2004. The effects of this increase were partially offset by a 9.9% decrease in domestic sales of caprolactam and a 84.3% decrease in domestic sales of DMT. Net export sales of this segment increased to R$17.6 million in the three months ended March 31, 2004 from R$7.7 million in the same period in 2003.

Export sales volume of PET was 3.3 thousand tons in the three months ended March 31, 2004. We did not export PET in the three months ended March 31, 2003. Average export sales prices of PET were R$3,220 per ton in the three months ended March 31, 2004.

Domestic sales volume of PET increased by 7.8% to 15.2 thousand tons in the three months ended March 31, 2004 from 14.1 thousand tons, primarily as a result of the increase in our PET plant s annual production capacity from 60,000 tons to 70,000 tons in 2003. Average domestic sales prices of PET declined by 7.7% to R$3,143 per ton in the three months ended March 31, 2004 from R$3,406 per ton in the same period in 2003.

Domestic sales volume of caprolactam remained stable at 10.9 thousand tons in the three months ended March 31, 2004 and 2003. Average domestic sales prices of caprolactam declined by 10.5% to R$4,183 per ton in the three months ended March 31, 2004 from R$4,676 per ton in the same period in 2003.

Domestic sales volume of DMT decreased by 84.0% to 0.4 thousand tons in the three months ended March 31, 2004 from 2.5 thousand tons during the same period in 2003, principally due to the reduced availability of paraxylene, a raw material used in the production of DMT. Average domestic sales prices of DMT declined by 4.5% to R$1,995 per ton in the three months ended March 31, 2004 from R$2,089 per ton in the same period in 2003.

Cost of Sales and Gross Profit. Cost of sales of the Business Development segment decreased by 3.1% in the three months ended March 31, 2004 compared to the same period in 2003, primarily reflecting the effects of a 2.5% decrease in sales volume of this segment. Gross profit of the Business Development segment increased by 36.6% in the three months ended March 31, 2004 compared to the same period in

2003, resulting in a gross margin for this period of 14.5% compared to 10.7% during the same period in 2003.

Operating Income. Operating income of the Business Development segment (which excludes financial income and expenses and results from investment in associated companies) increased by 43.5% in the three months ended March 31, 2004, principally as a result of a R$4.9 million increase in gross profit. The effect of this increase was partially offset by a R$1.1 million increase in selling, general and administrative expenses, primarily as a result of increased personnel expenses associated with the scheduled maintenance and inspection shutdowns of the plants of our Business Development Unit during the three months ended March 31, 2004. Operating margin of the Business Development segment increased to 9.7% in the three months ended March 31, 2004 from 6.8% in the same period in 2003.

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

Consolidated and Combined Results

The following table sets forth consolidated and combined financial information for each of the two years ended December 31, 2003 and 2002.

	Year Ended December 31,	
	2003	2002
	Consolidated	Combined
	(in millions of *reais*)	
Net sales revenue	R$ 10,135.8	R$ 7,576.6
Cost of sales and services rendered	(8,089.3)	(6,175.5)
Gross profit	2,046.5	1,401.1
Selling, general and administrative expenses	(471.9)	(577.7)
Investment in associated companies, net(1)	(158.2)	(251.7)
Depreciation and amortization	(193.5)	(222.4)
Financial expenses, net	(703.6)	(2,861.9)
Other operating income	49.7	1,132.7
Operating income (loss)	569.0	(1,379.9)
Non-operating expenses, net	(4.8)	(98.0)
Income (loss) before income tax and social contribution and minority interest	564.2	(1,477.9)
Income tax and social contribution	(122.9)	(89.8)
Income (loss) before minority interest	441.3	(1,567.7)
Minority interest	(226.2)	189.0
Net income (loss) for the year	R$ 215.1	R$ (1,378.7)

(1) Investment in associated companies, net, comprises equity in the results, amortization of goodwill, net, foreign exchange variation and tax incentives and other.

Net Sales Revenue

Net sales revenue increased by 33.8% in 2003, primarily as a result of the growth in net sales revenue in each of our segments (as discussed below), particularly the 36.2% growth in net sales revenue of our Basic Petrochemicals segment and the 36.4% growth in net sales revenue of our Polyolefins segment. Without giving effect to the proportional consolidation of our jointly controlled companies, our net sales revenue increased by 33.8% in 2003.

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Cost of Sales and Services Rendered and Gross Profit

Cost of sales and services rendered increased by 31.0% in 2003, primarily as a result of the growth in cost of sales in each of our segments, particularly the 31.2% growth in cost of sales and services rendered of our Basic Petrochemicals segment and the 31.9% growth in cost of sales of our Polyolefins segment, both related to the greater direct and indirect cost of naphtha. Without giving effect to the proportional consolidation of our jointly controlled companies, our cost of sales and services rendered increased by 30.4% in 2003.

As a result, gross profit increased by 46.1% in 2003. Without giving effect to the proportional consolidation of our jointly controlled companies, gross profit increased by 49.3% in 2003.

Gross profit as a percentage of net sales revenue, or gross margin, for 2003 was 20.2% compared to 18.5% in 2002. Without giving effect to the proportional consolidation of our jointly controlled companies, gross margin increased to 20.1% for 2003 compared to 18.0% in 2002.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by 18.3% in 2003, primarily as a result of the incurrence of non-recurring expenses in 2002 in an aggregate amount of R$136.0 million arising from our mergers with OPP Produtos and 52114 Participações and the integration into our company of the companies that we acquired and with whom we merged. Our ongoing integration process generated efficiencies that reduced our selling, general and administrative expenses in both periods, particularly in 2003. Selling, general and administrative expenses represented 4.7% of net sales revenue in 2003 compared to 7.6% of net sales revenue in 2002. Without giving effect to the proportional consolidation of our jointly controlled companies, selling, general and administrative expenses decreased by 23.3% in 2003, and selling, general and administrative expenses represented 4.4% of net sales revenue in 2003 compared to 7.6% of net sales revenue in 2002.

Investment in Associated Companies, Net

Investment in associated companies, net, decreased by 37.1% in 2003, primarily as a result of the effect of tax benefits from our associated companies and a decrease of the amortization of goodwill. Without giving effect to the proportional consolidation of our jointly controlled companies, investment in associated companies, net, decreased by 61.9% in 2003.

Depreciation and Amortization

Depreciation and amortization decreased by 13.0% in 2003, primarily as a result of decrease of depreciation and amortization from proportional consolidation of our jointly controlled companies. Without giving effect to the proportional consolidation of our jointly controlled companies depreciation and amortization increased by 9.1% in 2003.

Financial Expenses, Net

Financial expenses, net, decreased by 75.4% in 2003, primarily as a result of the effects of the *real*/ U.S. dollar exchange rate on our U.S. dollar-denominated and U.S. dollar-indexed assets and liabilities. The 34.3% devaluation of the *real* against the U.S. dollar in 2002 resulted in a financial expense of R$2,076.1 million related to the exchange rate effect on our U.S. dollar-denominated and U.S. dollar-indexed liabilities and financial income of R$137.5 million related to the exchange rate effect on our U.S. dollar-denominated assets. By contrast, as a result of the 22.3% appreciation of the *real* against the U.S. dollar in 2003, we recorded financial income of R$969.4 million related to the exchange rate effect on our monetary liabilities and financial expense of R$211.1 million related to the exchange rate effect on our monetary assets. Without giving effect to the proportional consolidation of our jointly controlled companies, financial expenses, net decreased by 76.5% in 2003.

Other Operating Income, Net

Other operating income, net decreased by 95.6% in 2003, primarily as a result of our recognition of the IPI tax credit of R$1,030.1 million that was recorded in the fourth quarter of 2002 as a result of a final judgment by the Brazilian Federal Supreme Court. See Principal Factors Affecting Our Results of Operations Effect of Taxes on Our Income Tax Disputes. Without giving effect to the proportional consolidation of our jointly controlled companies, other operating income, net decreased by 95.4% to R$51.2 million in 2003 from R$1,113.8 million in 2002.

Operating Income (Loss)

Operating income was R$569.0 million in 2003 as compared to an operating loss of R$1,379.9 million in 2002. Operating income represented 5.6% of net sales revenue in 2003, while operating loss represented 18.2% of net sales revenue in 2002. Without giving effect to the proportional consolidation of our jointly controlled companies, operating income was R$535.9 million in 2003 as compared to an operating loss of R$1,445.9 million in 2002, and operating income was 5.8% of net sales revenue in 2003, while operating loss represented 21.1% of net sales revenue in 2002.

Non-Operating Expenses, Net

Non-operating expenses decreased by 95.1% in 2003. This decrease was primarily as a result of the effects of a reversal in 2002 of the provision for losses in investments in Cetrel and Codeverde Companhia de Desenvolvimento Rio Verde in the amount of R$70.7 million because we no longer expect to incur losses on these investments. Without giving effect to the proportional consolidation of our jointly controlled companies, non-operating expenses decreased by 93.8% in 2003.

Income Tax and Social Contribution

Income tax and social contribution increased by 36.9% in 2003. This increase was primarily as a result of our recording taxable income in 2003 as compared to our loss in 2002, the effect of which was partially offset by the net changes in the valuation of our deferred tax assets. Without giving effect to the proportional consolidation of our jointly controlled companies, income tax and social contribution increased by 59.1% in 2003.

Minority Interest

Minority interest was an expense of R$226.2 million in 2003 compared to a gain of R$189.0 million in 2002. This change was primarily as a result of the improved net results recorded in 2003 by Trikem, compared to the losses recorded by Trikem in 2002. Without giving effect to the proportional consolidation of our jointly controlled companies, minority interest was an expense of R$224.4 million in 2003 compared to a gain of R$199.1 million in 2002.

Net Income (Loss)

We recorded net income of R$215.1 million, or 2.1% of net sales revenue, in 2003 compared to a net loss of R$1,378.7 million, or 18.2% of net sales revenue, in 2002.

Business Segment Results

The following table sets forth consolidated and combined financial information for our business segments for each of the two years ended December 31, 2003 and 2002.

	Year Ended December 31,	
	2003	2002
	Consolidated	Combined
	(In millions of *reais*, except percentages)	
Basic Petrochemicals		
Net sales revenue	R$ 4,765.3	R$ 3,499.1
Cost of sales	(4,111.5)	(3,006.3)
Gross profit	653.8	492.8
Operating income(1)	499.9	409.1
Gross margin (%)	13.7%	14.1%
Operating margin (%)	10.5%	11.7%
Polyolefins		
Net sales revenue	R$ 3,386.8	R$ 2,482.3
Cost of sales	(2,719.7)	(2,062.4)
Gross profit	667.1	419.9
Operating income(1)	529.5	284.7
Gross margin (%)	19.7%	16.9%
Operating margin (%)	15.6%	11.5%
Vinyls		
Net sales revenue	R$ 1,371.8	R$ 1,117.8
Cost of sales	(1,007.0)	(804.7)
Gross profit	364.8	313.1
Operating income(1)	313.7	265.8
Gross margin (%)	26.6%	28.0%
Operating margin (%)	22.9%	23.8%
Business Development		
Net sales revenue	R$ 455.3	R$ 290.8
Cost of sales	(416.8)	(246.1)
Gross profit	38.5	44.7
Operating income(1)	28.8	35.3
Gross margin (%)	8.5%	15.4%
Operating margin (%)	6.3%	12.1%

(1) Operating income does not include financial income and expenses.

Basic Petrochemicals

Net Sales Revenue. Net sales revenue of the Basic Petrochemicals segment increased by 36.2% in 2003. Significant factors contributing to this growth were:

a R$266.3 million, or 39.1%, increase in net sales revenue from domestic sales of ethylene to third parties;

a R$165.8 million, or 38.5%, increase in net sales revenue from domestic sales of propylene to third parties; and

a R$103.9 million, or 58.6%, increase in net sales revenue from domestic sales of butadiene to third parties.

For more information about the sales volumes and net sales revenue of our basic petrochemicals products by product lines and markets, see Business Basic Petrochemicals Unit Products of Our Basic Petrochemicals Unit.

Sales of basic petrochemicals by our Basic Petrochemicals segment to our other segments increased by 8.1% to R$910.7 million in 2003 from R$842.8 million in 2002 and sales of utilities by our Basic Petrochemicals segment to our other segments increased by 36.1% to R$103.8 million in 2003 from R$76.3 million in 2002. Sales of utilities to third parties increased by 15.1% to R$280.7 million in 2003 from R$244.0 million in 2002. Net export sales of the Basic Petrochemicals segment increased by 58.4% to R$490.7 million in 2003 from R$309.7 million in 2002, primarily as a result of the recovery of our production levels following the scheduled shutdown of one of our pyrolysis plants that is part of our Olefins 1 unit for 92 days in 2002.

Domestic sales volume of ethylene to third parties increased by 6.9% to 559.1 thousand tons in 2003 from 522.8 thousand tons in 2002, principally due to the recovery of our production of ethylene following the maintenance shutdown of one of our pyrolysis plants in 2002 and our increased production capacity for this product. Average domestic prices for ethylene increased by 30.1% to R$1,694 per ton in 2003 from R$1,302 per ton in 2002.

Domestic sales volume of propylene to third parties increased by 2.9% to 399.2 thousand tons in 2003 from 388.1 thousand tons in 2002, principally due to the recovery of our production of propylene following the maintenance shutdown of one of our pyrolysis plants in 2002. Average domestic prices for propylene increased by 34.7% to R$1,495 per ton in 2003 from R$1,110 per ton in 2002.

Domestic sales volume of butadiene to third parties increased by 2.0% to 150.3 thousand tons in 2003 from 147.3 thousand tons in 2002, principally due to the recovery of our production of butadiene following the maintenance shutdown of our Olefins 1 unit in 2002. Average domestic prices for butadiene increased by 55.4% to R$1,870 per ton in 2003 from R$1,203 per ton in 2002.

Cost of Sales and Services and Gross Profit. Cost of sales and services of the Basic Petrochemicals segment increased by 36.8% in 2003. This increase was primarily attributable to an increase of 34.1% in the average price of naphtha purchased in 2003, as well as the increased sales volume recorded in 2003. Naphtha accounted for 81.8% of the Basic Petrochemicals segment s cost of sales in 2003 and 83.0% in 2002.

Gross profit of the Basic Petrochemicals segment increased by 32.7% in 2003, and gross margin decreased to 13.7% for 2003 compared to 14.1% for 2002.

Operating Income. Operating income of the Basic Petrochemicals segment (which excludes financial income and expense and results from investment in associated companies) increased by 22.2% in 2003, principally as a result of a R$161.0 million increase in gross profit. The increase in gross profit was partially offset by a R$37.9 million increase in selling, general and administrative expenses, primarily as a result of the allocation of overhead expenses in 2003, and a R$33.1 million decrease in other income, net, primarily as a result of the decline in amounts of PIS recovered in 2003 as compared to 2002. Operating margin of the Basic Petrochemical segment for 2003 was 10.5% compared with 11.7% in 2002.

Polyolefins

Net Sales Revenue. Net sales revenue of the Polyolefins segment increased by 36.4% in 2003. This increase was primarily attributable to a 32.1% increase in domestic sales of polypropylene, a 60.1% increase in export sales of polyethylene, a 16.0% increase in domestic sales of polyethylene and a 359.8% increase in export sales of polypropylene. Net export sales of the Polyolefins segment increased by 68.5% to

R$1,233.7 million in 2003 from R$732.2 million in 2002. For more information about the sales volumes and net sales revenue of our polyolefins products by product line and markets, see Business Polyolefins Unit Products of Our Polyolefins Unit.

Domestic sales volume of polyethylene decreased by 9.4% to 444.8 thousand tons in 2003 from 490.7 thousand tons in 2002, principally due to our strategic decision to maintain our margins on polyethylene despite decreased demand for polyethylene as a result of the recession in Brazil. Average domestic prices for polyethylene increased by 27.9% to R$2,565 per ton in 2003 from R$2,004 per ton in 2002.

Domestic sales volume of polypropylene decreased by 5.1% to 374.9 thousand tons in 2003 from 395.1 thousand tons in 2002, primarily as a result of reduced demand for polypropylene in 2003 and increased competition in this market as a result of the commencement of operations of Polibrasil s polypropylene plant in 2003. Average domestic prices for polypropylene increased by 39.2% to R$2,689 per ton in 2003 from R$1,931 per ton in 2002.

Export sales volume of polyethylene increased by 32.8% to 204.4 thousand tons in 2003 from 153.9 thousand tons in 2002, principally due to our strategic decision to increase our exports of polyethylene despite the lower margins available in the international market rather than lower our capacity utilization rate in response to the reduced domestic demand for polyethylene. Average export prices for polyethylene increased by 20.6% to R$1,888 per ton in 2003 from R$1,565 per ton in 2002.

Export sales volume of polypropylene increased by 306.2% to 66.2 thousand tons in 2003 from 16.3 thousand tons in 2002, principally due to our strategic decision to increase our exports of polypropylene despite the lower margins available in the international market rather than lower our capacity utilization rate in response to the reduced domestic demand for, and increased domestic supply of, polypropylene. Average export prices for polypropylene increased by 13.2% to R$1,781 per ton in 2003 from R$1,573 per ton in 2002.

Cost of Sales and Gross Profit. Cost of sales of the Polyolefins segment increased by 31.9% in 2003. This increase was primarily attributable to increases in the prices of ethylene and propylene, the principal raw materials of this segment, as well as our increased sales volume in 2003.

Gross profit of the Polyolefins segment increased by 58.9% in 2003, and gross margin increased to 19.7% in 2003 compared to 16.9% in 2002.

Operating Income. Operating income of the Polyolefins segment (which excludes financial income and expenses and results from investment in associated companies) increased by 86.0% in 2003, primarily as a result of the R$247.2 million increase in the gross profit of this segment. Our Polyolefins segment reduced its selling, general and administrative expenses to 4.1% of net sales revenue in 2003 from 5.5% of net sales revenue in 2002, primarily as a result of cost cutting initiatives introduced and efficiencies achieved in this segment following our merger with OPP Produtos. Operating margin of the Polyolefins segment increased to 15.6% in 2003 compared to 11.5% in 2002.

Vinyls

Net Sales Revenue. Net sales revenue of the Vinyls segment increased by 22.7% in 2003. This increase was primarily attributable to an 18.4% increase in this segment s domestic sales, principally as a result of the increase in the average domestic prices of our vinyls products. Net export sales of this segment increased by 55.5% to R$203.7 million in 2003 from R$131.0 million in 2002. This increase in net export sales was primarily attributable to our increased export sales of PVC and EDC. For more information about the sales volumes and net sales revenue of our vinyls products by product line and markets, see Business Vinyls Unit Products of Our Vinyls Unit.

Domestic sales volume of PVC decreased by 2.2% to 342.4 thousand tons in 2003 from 350.1 thousand tons in 2002, principally due to reduced demand for applications in the infrastructure, sanitation and construction sectors. This reduced demand was partially offset by increased exports of PVC and increased demand for PVC for applications in footwear, plastic films and laminates. Average domestic prices for PVC increased by 17.4% to R$2,390 per ton in 2003 from R$2,035 per ton in 2002.

Export sales volume of PVC increased by 12.0% to 55.4 thousand tons in 2003 from 49.5 thousand tons in 2002, principally due to our strategic decision to increase our exports of PVC despite the lower margins available in the international market rather than lower our capacity utilization rate in response to the reduced domestic demand for PVC. Average export prices for PVC increased by 27.3% to R$1,710 per ton in 2003 from R$1,343 per ton in 2002.

Domestic sales of caustic soda increased by 6.4% to 426.6 thousand tons in 2003 from 400.9 thousand tons in 2002, principally due to increased demand by our customers in the domestic aluminum and pulp and paper industries. Average domestic prices for caustic soda increased by 20.1% to R$681 per ton in 2003 from R$567 per ton in 2002.

Export sales of EDC increased by 34.1% to 160.1 thousand tons in 2003 from 119.4 thousand tons in 2002, principally due to increased sales to our distributor in the Asian market as a result of increased demand by producers of PVC products in that market. Average export prices for EDC increased by 25.9% to R$680 per ton in 2003 from R$540 per ton in 2002, primarily due to the upward trend in international market prices for EDC in 2003 caused by, among other factors, the limited global production capacity for this product.

Cost of Sales and Gross Profit. Cost of sales of the Vinyls segment increased by 25.1% in 2003. This increase was primarily attributable to (1) the increased cost of ethylene, (2) the increased cost of electric power in 2003 resulting from the institution of a surcharge by the Brazilian federal energy regulator to compensate electric power distribution companies for losses attributable to the Brazilian government s electric power rationing program in 2001 and 2002, and (3) our increased sales volume for most of our vinyls products in 2003.

Gross profit of the Vinyls segment increased by 16.5% to R$364.8 million in 2003 from R$313.1 million in 2002, while gross margin declined to 26.6% in 2003 from 28.0% in 2002.

Operating Income. Operating income of the Vinyls segment (which excludes financial income and expenses and results from investment in associated companies) increased by 18.0% in 2003, primarily as a result of the increase in gross profits of this segment. Operating margin of the Vinyls segment declined to 22.9% in 2002 from 23.8% in 2002.

Business Development

Our Business Development Unit is responsible for managing certain of our minority investments, principally our investments in Petroflex and Cetrel. However, as the results of our investments managed by our Business Development Unit are reported as investments in associated companies, the results of these companies are not included in the following segment discussion.

Net Sales Revenue. Net sales revenue of our Business Development segment increased by 56.6% in 2003. This increase was primarily attributable to the effects of our merger with 52114 Participações, through which we acquired the caprolactam and other operations of Nitrocarbono in August 2002. Net export sales of this segment, consisting primarily of caprolactam, increased to R$34.3 million in 2003 from R$20.1 million in 2002 due to the effects of our merger with 52114 Participações. For more information about the sales volumes and net sales revenue of our business development products by product line and markets, see Business Business Development Unit Products of Our Business Development Unit.

Domestic sales volume of PET decreased by 7.9% to 55.1 thousand tons in 2003 from 59.8 thousand tons in 2002, principally due to reduced demand for PET for soft drink packaging applications. This reduced demand was partially offset by increased demand for PET for packaging applications in the cleaning products, cosmetics and pharmaceuticals industries. Average domestic prices for PET increased by 19.9% to R$3,056 per ton in 2003 from R$2,548 per ton in 2002.

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Domestic sales volume of caprolactam increased by 181.7% to 42.5 thousand tons in 2003 from 15.1 thousand tons in 2002, principally due to the effect of our merger with 52114 Participações. Average domestic prices for caprolactam declined by 5.8% to R$4,237 per ton in 2003 from R$4,500 per ton in 2002, primarily as a result of the effects of price competition stemming from excess global capacity for this product.

Cost of Sales and Gross Profit. Cost of sales of the Business Development segment increased by 69.4% in 2003, reflecting the effects of our merger with 52114 Participações and the increased cost for caprolactam on a unit basis due to the shutdown of our caprolactam plant in the first quarter of 2003 for maintenance, and in the third quarter of 2003 due to temporary problems with the quality of the ammonia delivered to this plant. Gross profit of the Business Development segment decreased by 13.9% in 2003, resulting in a gross margin for 2003 of 8.5% from 15.4% in 2002.

Operating Income. Operating income of the Business Development segment (which excludes financial income and expenses and results from investment in associated companies) declined by 18.4% in 2003, principally as a result of a R$9.6 million increase in the selling, general and administrative expenses of this segment due to the effects of our merger with 52114 Participações and the R$6.2 million decline in this segment s gross profit. These factors were partially offset by a R$9.6 million increase in other income, net, primarily as a result of our receipt of insurance proceeds related to the interruption of our caprolactam plant s operations. Operating margin of the Business Development segment declined to 6.3% in 2003 from 12.1% in 2002.

Year Ended December 31, 2002 Compared with Year Ended December 31, 2001

Combined Results

The following table sets forth combined financial information for our company for each of the two years ended December 31, 2002 and 2001.

	Year Ended December 31,	
	2002	2001
	Combined	Combined
	(in millions of *reais*)	
Net sales revenue	R$ 7,576.6	R$ 4,459.5
Cost of sales and services rendered	(6,175.5)	(3,637.6)
Gross profit	1,401.1	821.9
Selling, general and administrative expenses	(577.7)	(210.3)
Investment in associated companies, net	(251.7)	(214.3)
Depreciation and amortization	(222.4)	(111.3)
Financial expenses, net	(2,861.9)	(506.5)
Other operating income	1,132.7	103.3
Operating loss	(1,379.9)	(117.2)
Non-operating expenses, net	(98.0)	(120.8)
Income (loss) before income tax and social contribution and minority interest	(1,477.9)	(238.0)
Income tax and social contribution	(89.8)	(77.6)
Loss before minority interest	(1,567.7)	(315.6)
Minority interest	189.0	(108.9)
Net loss for the year	R$(1,378.7)	R$ (424.5)

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Net Sales Revenue

Net sales revenue increased by 69.9% in 2002, primarily as a result of the inclusion of the net sales revenue of the Polyolefins, Vinyls and Business Development Units in our net sales revenue following the date of our acquisition of Nova Camaçari and the OPP Produtos Merger. Without giving effect to the proportional consolidation of our jointly controlled companies, our net sales revenue increased by 66.0% in 2002, primarily as a result of the inclusion of the net sales revenue of the Polyolefins, Vinyls and Business Development Units following the date of our acquisition of Nova Camaçari and our merger with OPP Produtos.

Cost of Sales and Services Rendered and Gross Profit

Cost of sales and services rendered increased by 69.8% in 2002, primarily as a result of the inclusion of the cost of sales of the Polyolefins, Vinyls and Business Development Units following the date of our acquisition of Nova Camaçari and our merger with OPP Produtos. Without giving effect to the proportional consolidation of our jointly controlled companies, our cost of sales and services rendered increased by 66.4% in 2002, primarily as a result of the inclusion of the cost of sales of the Polyolefins, Vinyls and Business Development Units following the date of our acquisition of Nova Camaçari and our merger with OPP Produtos.

As a result, gross profit increased by 70.5% in 2002. Without giving effect to the proportional consolidation of our jointly controlled companies, gross profit increased by 64.5% in 2002.

Gross margin increased slightly to 18.5% in 2002 from 18.4% in 2001.

Without giving effect to the proportional consolidation of our jointly controlled companies, gross margin declined to 18.0% for 2002 from 18.2% in 2001.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 174.7% in 2002, primarily as a result of the inclusion of the selling expenses of the Polyolefins, Vinyls and Business Development Units following the date of our acquisition of Nova Camaçari and our merger with OPP Produtos. As a percentage of net, sales, selling, general and administrative expenses increased to 7.6% of net sales revenue in 2002 from 4.7% in 2001, principally as a result of the incurrence of expenses related to our mergers with OPP Produtos and 52114 Participações in 2002. Without giving effect to the proportional consolidation of our jointly controlled companies, selling, general and administrative expenses increased by 189.3% in 2002, and selling, general and administrative expenses increased to 7.6% of net sales revenue in 2002 from 4.4% in 2001.

Investment in Associated Companies, Net

Investment in associated companies, net, increased by 17.4% in 2002, primarily as a result of the amortization of goodwill on the associated companies from the acquisition of Nova Camaçari and our merger with OPP Produtos. Without giving effect to the proportional consolidation of our jointly controlled companies, investment in associated companies, net, increased by 34.7% in 2002.

Depreciation and Amortization

Depreciation and amortization increased by 99.8% in 2002, primarily as a result of the inclusion of a portion of the depreciation and amortization expenses of Copesul following the date of our merger with OPP Produtos.

Without giving effect to the proportional consolidation of our jointly controlled companies, depreciation and amortization increased by 51.3% in 2002.

Financial Expenses, Net

Financial expenses, net increased by 465.0% in 2002, primarily as a result of the inclusion of the indebtedness from the companies that we acquired in the acquisition of Nova Camaçari and our merger with OPP Produtos. In addition, our financial expenses, net increased as a result of the effects of the *real*/U.S. dollar exchange rate on our U.S. dollar-denominated and U.S. dollar-indexed assets and liabilities. The 34.3% devaluation of the *real* against the U.S. dollar in 2002 resulted in a financial expense of R$2,076.1 million related to the exchange rate effect on our U.S. dollar-denominated and U.S. dollar-indexed liabilities and financial income of R$137.5 million related to the exchange rate effect on our U.S. dollar-denominated assets. In contrast, as a result of the 15.7% depreciation of the *real* against the U.S. dollar in 2001, we recorded financial expense of R$290.7 million related to the exchange rate effect on our U.S. dollar-denominated and U.S. dollar-indexed liabilities and financial income of R$92.8 million related to the exchange rate effect on our U.S. dollar-denominated assets.

Without giving effect to the proportional consolidation of our jointly controlled companies, financial expenses, net increased by 495.7% in 2002.

Other Operating Income

Other operating income increased to R$1,132.7 million in 2002 from R$103.3 million in 2001, primarily as a result of our recognition of the IPI tax credit of R$1,030.1 million that was recorded in the fourth quarter of 2002 as a result of a final judgment by the Brazilian Federal Supreme Court. Without giving effect to the proportional consolidation of our jointly controlled companies, other operating income increased to R$1,113.8 million in 2002 from R$102.6 million in 2001.

Operating Loss

Operating loss increased to R$1,379.9 million in 2002 from R$117.2 million in 2001. Operating loss represented 18.2% of net sales revenue in 2002 compared to 2.6% of net sales revenue in 2001. Without giving effect to the proportional consolidation of our jointly controlled companies, operating loss increased to R$1,445.9 million in 2002 from R$140.2 million in 2001, and operating loss increased to 21.1% of net sales revenue in 2002 from 3.4% of net sales revenue in 2001.

Non-Operating Expenses, Net

Non-operating expenses decreased by 18.9% in 2002. This decrease was primarily as a result of higher expenses on disposal of permanent assets in 2001. Without giving effect to the proportional consolidation of our jointly controlled companies, non-operating expenses decreased by 36.1% in 2002.

Income Tax and Social Contribution

Income tax and social contribution increased by 15.7% in 2002, primarily as a result of a R$45.3 million increase of non-deductible amortization of goodwill, despite our larger losses in 2002 which was offset by a valuation allowance on our net operating loss carryforward. Without giving effect to the proportional consolidation of our jointly controlled companies, income tax and social contribution increased by 3.0% in 2002.

Minority Interest

Minority interest was R$189.0 million in 2002 compared to negative R$108.9 million in 2001. The gain recorded in 2002 primarily represented the proportion of the R$476.7 million loss sustained by Trikem in that year that was attributable to the interests in Trikem held by its minority shareholders. In addition, the gain in 2002 was partially offset by the proportion of income earned by Polialden in 2002 that was attributable to the interests in Polialden held by its minority shareholders. In 2001, both Trikem and Polialden recorded net income, a portion of which was recorded as minority interest by our company to reflect the proportional interests of the minority shareholders in these companies. Without giving effect to

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the proportional consolidation of our jointly controlled companies, minority interest was R$199.1 million in 2002 compared to negative R$112.2 million in 2001.

Net Loss

Net loss increased by 224.8% in 2002. Net loss represented 18.2% of net sales revenue in 2002, compared to 9.5% of net sales revenue in 2001.

Business Segment Results

The following table sets forth combined financial information for our business segments for each of the two years ended December 31, 2002 and 2001.

	Year Ended December 31,	
	Combined	
	2002	2001
	(In millions of *reais*, except percentages)	
Basic Petrochemicals		
Net sales revenue	R$ 3,499.1	R$ 3,297.4
Cost of sales	(3,006.3)	(2,900.0)
Gross profit	492.8	397.4
Operating income(1)	409.1	299.1
Gross margin (%)	14.1%	12.1%
Operating margin (%)	11.7%	9.1%
Polyolefins		
Net sales revenue	R$ 2,482.3	R$ 896.8
Cost of sales	(2,062.4)	(679.1)
Gross profit	419.9	217.7
Operating income(1)	284.7	139.2
Gross margin (%)	16.9%	24.3%
Operating margin (%)	11.5%	15.5%
Vinyls		
Net sales revenue	R$ 1,117.8	R$ 377.5
Cost of sales	(804.7)	(274.9)
Gross profit	313.1	102.6
Operating income(1)	265.8	141.7
Gross margin (%)	28.0%	27.2%
Operating margin (%)	23.8%	37.5%
Business Development		
Net sales revenue	R$ 290.8	R$ 72.7
Cost of sales	(246.1)	(61.4)
Gross profit	44.7	11.3
Operating income(1)	35.3	7.7
Gross margin (%)	15.4%	15.5%
Operating margin (%)	12.1%	10.6%

(1) Operating income does not include financial income and expenses.

Basic Petrochemicals

Net Sales Revenue. Net sales revenue of our Basic Petrochemicals segment increased by 6.1% in 2002. Significant factors contributing to this growth were:

- a R$111.9 million, or 35.1%, increase in net sales revenue from domestic sales of propylene to third parties;
- a R$99.1 million, or 167.4%, increase in net sales revenue from export sales of benzene to third parties;
- a R$72.1 million, or 83.4%, increase in net sales revenue from export sales of methyl tertiary butyl ether, or MTBE, to third parties;
- a R$68.8 million, or 61.4%, increase in net sales revenue from domestic sales of benzene to third parties; and
- a R$41.5 million, or 71.6%, increase in net sales revenue from export sales of propylene to third parties.

These factors were partially offset by:

- a R$302.2 million, or 30.8%, decline in net sales revenue from domestic sales of ethylene to third parties; and
- a R$49.2 million, or 40.8%, decline in net sales revenue from domestic sales of para-xylene to third parties.

Production and sales volumes of some of our basic petrochemical products were affected in 2002 by the scheduled shutdown of one of our pyrolysis plants for 92 days in 2002. Domestic sales volumes of certain of our basic petrochemical products decreased in 2002 primarily due to the effects of our acquisition of Nova Camaçari and our merger with OPP Produtos. Prior to the date of our acquisition of Nova Camaçari, sales of our basic petrochemicals products to the companies that currently form our other segments were classified as sales to third parties. Sales to Polialden, OPP Química, Trikem and Proppet following our acquisition of Nova Camaçari were classified as intercompany sales in our consolidated accounting records.

Sales of basic petrochemicals by our Basic Petrochemicals segment to our other segments increased by 84.4% to R$842.8 million in 2002 from R$457.0 million in 2001, and sales of utilities by our Basic Petrochemicals segment to our other segments increased by 34.3% to R$76.3 million in 2002 from R$56.8 million in 2001. Sales of utilities to third parties increased by 8.5% to R$244.0 million in 2002 from R$224.9 million in 2001. Net export sales of the Basic Petrochemicals segment increased by 55.6% to R$674.5 million in 2002 from R$433.6 million in 2001, primarily as a result of the commencement of exports of gasoline and of a 68.8% increase in the average export price of benzene.

Domestic sales volume of propylene to third parties decreased by 5.9% to 388.1 thousand tons in 2002 from 412.6 thousand tons in 2001, principally due to a scheduled shutdown of one of our pyrolysis plants and the effects of our acquisition of Nova Camaçari and our merger with OPP Produtos. Average domestic prices for propylene increased by 43.6% to R$1,110 per ton in 2002 from R$773 per ton in 2001.

Export sales volume of benzene increased by 2.8% in 2002 to 96.3 thousand tons from 93.7 thousand tons in 2001, principally due to attractive export opportunities. Average export prices for benzene increased by 68.8% to R$1,067 per ton in 2002 from R$632 per ton in 2001.

Export sales volume of MTBE decreased by 5.7% in 2002 to 104.6 thousand tons from 110.9 thousand tons in 2001, principally due to a scheduled shutdown of our pyrolysis plants. Average export prices for MTBE increased by 26.3% to R$985 per ton in 2002 from R$780 per ton in 2001.

Domestic sales volume of benzene to third parties increased by 13.9% to 198.5 thousand tons in 2002 from 174.2 thousand tons in 2001, principally due to the recovery and growth in 2002 of the domestic

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benzene market. Average domestic prices for benzene increased by 41.7% to R$911 per ton in 2002 from R$643 per ton in 2001.

Export sales volume of propylene decreased by 31.4% in 2002 to 48.4 thousand tons from 70.6 thousand tons in 2001, principally due to a scheduled shutdown of our pyrolysis plants. Average export prices for propylene increased by 62.8% to R$1,335 per ton in 2002 from R$820 per ton in 2001.

Domestic sales volume of ethylene to third parties decreased by 42.8% to 522.8 thousand tons in 2002 from 914.6 thousand tons in 2001, principally due to a scheduled shutdown of one of our pyrolysis plants and the effects of our acquisition of Nova Camaçari and our merger with OPP Produtos. Average domestic prices for ethylene increased by 21.2% to R$1,302 per ton in 2002 from R$1,074 per ton in 2001.

Domestic sales volume of para-xylene to third parties decreased by 52.8% to 54.2 thousand tons in 2002 from 114.8 thousand tons in 2001, principally due to a scheduled shutdown of one of our pyrolysis plants and the effects of our acquisition of Nova Camaçari. Average domestic prices for para-xylene increased by 25.3% to R$1,317 per ton in 2002 from R$1,051 per ton in 2001, primarily as a result of increases in international market prices for ethylene in 2002 coupled with the effect of the significant devaluation of the *real* in 2002.

Cost of Sales and Services and Gross Profit. Cost of sales and services of the Basic Petrochemicals segment increased by 3.7% in 2002. This increase was primarily attributable to a 22.7% increase in the average price of naphtha we purchased in 2002. Naphtha accounted for 83.0% of the Basic Petrochemicals segment s cost of sales in 2002 and 75.0% in 2001.

Gross profit of the Basic Petrochemicals segment increased by 24.0% in 2002, and gross margin increased to 14.1% in 2002 from 12.1% in 2001.

Operating Income. The operating income of the Basic Petrochemicals segment (which excludes financial income and expenses and results from investment in associated companies) increased by 36.8% in 2002, principally as a result of a R$95.4 million increase in the gross profit of this segment and a R$59.3 million increase in other income, net, primarily as a result of the increase in amounts of PIS recovered in 2002 as compared to 2001. These factors were partially offset by a R$41.7 million increase in selling, general and administrative expenses due to certain non-recurring expenses incurred in connection with our acquisitions and mergers and our integration with the companies that we acquired and with which we merged. The Basic Petrochemical segment s operating margin increased to 11.7% in 2002 from 9.1% in 2001.

Polyolefins

Net Sales Revenue. Net sales revenue of our Polyolefins segment increased by 176.8% in 2002. This increase was primarily attributable to the effects of our merger with OPP Produtos and the acquisition of Nova Camaçari, as we did not produce polyolefins products prior to the date of our acquisition of Nova Camaçari. Net export sales of the Polyolefins segment increased by 267.9% to R$732.2 million in 2002 from R$199.0 million in 2001. This increase in net export sales was primarily attributable to the effects of our merger with OPP Produtos.

Net sales revenue of our Polyolefins segment increased by 27.6% to R$2,482.3 million in 2002 as compared to aggregate net sales revenue of OPP Química and Polialden of R$1,945.5 million in 2001. This increase was primarily attributable to the 18.9% increase of net export sales of polyethylene by the Polyolefins segment to R$241.0 million in 2002 as compared to aggregate net export sales of polyethylene by OPP Química and Polialden of R$202.7 million in 2001 and the 24.6% increase of domestic sales of polypropylene by the Polyolefins segment to R$763.2 million in 2002 as compared to aggregate domestic sales of polypropylene by OPP Química and Polialden of R$612.7 million in 2001.

Domestic sales volume of polyethylene decreased by 0.2% to 490.7 thousand tons in 2002 as compared to an aggregate of 491.9 thousand tons for OPP Química and Polialden in 2001, principally as a result of the reduced supply of ethylene available from our Basic Petrochemicals Unit as a result of the maintenance shutdown of one of our pyrolysis plants in 2002. Average domestic prices for polyethylene increased by 5.1% to R$2,004 per ton in 2002 from R$1,906 per ton in 2001.

Domestic sales volume of polypropylene increased by 16.7% to 395.1 thousand tons in 2002 as compared to an aggregate of 338.5 thousand tons for OPP Química and Polialden in 2001, reflecting improved demand for polypropylene in 2002 as a result of the growth of the Brazilian economy and the termination in February 2002 of the Brazilian government s electric power rationing program initiated in June 2001. Average domestic prices for polypropylene increased by 6.7% to R$1,931 per ton in 2002 from R$1,810 per ton in 2001.

Export sales volume of polyethylene increased by 17.7% to 153.9 thousand tons in 2002 as compared to an aggregate of 130.7 thousand tons for OPP Química and Polialden in 2001, principally as a result of favorable export prices. Average export prices for polyethylene increased by 0.9% to R$1,565 per ton in 2002 from R$1,551 per ton in 2001.

Export sales volume of polypropylene decreased by 57.5% to 16.3 thousand tons in 2002 as compared to an aggregate of 38.4 thousand tons for OPP Química and Polialden in 2001, reflecting our decision to decrease exports of polypropylene to take advantage of the improved demand for polypropylene in the domestic market. Average export prices for polypropylene increased by 24.2% to R$1,573 per ton in 2002 from R$1,267 per ton in 2001.

Cost of Sales and Gross Profit. Cost of sales of the Polyolefins segment increased by 203.7% in 2002. This increase was primarily attributable to the effects of our merger with OPP Produtos and the acquisition of Nova Camaçari. Gross profit of the Polyolefins segment increased by 92.9% in 2002, primarily due to the effects of our merger with OPP Produtos and the acquisition of Nova Camaçari.

Cost of sales of the Polyolefins segment increased by 37.3% to R$2,062.4 million in 2002 as compared to aggregate cost of sales of OPP Química and Polialden of R$1,502.4 million in 2001. This increase was primarily due to (1) increases in the cost of ethylene and propylene in 2002, (2) the inclusion of freight costs in cost of sales in 2002, and (3) our increased sales volume in 2002. Freight costs were previously classified as selling, general and administrative expenses.

Gross margin for the Polyolefins segment decreased to 16.9% in 2002 from 24.3% in 2001. This decrease was primarily due to increases in the cost of ethylene and propylene in 2002 resulting from the significant devaluation of the *real*, which we were not able to pass through quickly to our customers through increases in the prices of our polyolefins products and to the inclusion of freight costs in cost of sales in 2002.

Gross profit of the Polyolefins segment decreased by 5.3% to R$419.9 million in 2002 as compared to aggregate gross profit of OPP Química and Polialden of R$443.2 million in 2001, and gross margin decreased to 16.9% in 2002 from 22.8% in 2001, primarily as a result of our inability to pass through the full increased cost of raw materials to our customers through increases in the prices of our polyolefins products.

Operating Income. Operating income of the Polyolefins segment (which excludes financial income and expenses and results from investment in associated companies) increased by 104.5% in 2002, primarily due to a R$202.2 million increase in this segment s gross profit and a R$49.6 million increase in selling, general and administrative expenses, primarily due to the effects of our merger with OPP Produtos and the acquisition of Nova Camaçari.

Operating income of the Polyolefins segment increased by 13.5% to R$284.7 million in 2002 as compared to aggregate operating income of OPP Química and Polialden of R$250.8 million in 2001, principally due to a R$54.3 million decline in selling, general and administrative expenses, primarily due to the effects of the reclassification of freight expenses as part of cost of sales in 2002. Operating margin for 2002 decreased to 11.5% from 15.5% in 2001.

Vinyls

Net Sales Revenue. Net sales revenue of the Vinyls segment increased by 196.1% in 2002. This increase was primarily attributable to the effects of our merger with OPP Produtos, as we did not produce vinyls products prior to July 25, 2001. Net export sales of the Vinyls segment increased by 249.3% to R$131.0 million in 2002 from R$37.5 million in 2001. This increase in net export sales was primarily attributable to the effects of our merger with OPP Produtos.

Net sales revenue of our Vinyls unit increased by 18.4% to R$1,117.8 million in 2002 as compared to net sales revenue of Trikem of R$944.2 million in 2001. This increase was primarily attributable to a 30.6% increase in domestic sales of PVC and a 284.7% increase in export sales of EDC. Net export sales of the Vinyls segment increased by 60.7% in 2002 to R$131.0 million as compared to net export sales by Trikem of R$81.5 million in 2001.

Domestic sales volume of PVC by the Vinyls segment increased by 6.9% to 350.1 thousand tons in 2002 as compared to Trikem s sales volume of 327.6 thousand tons in 2001, principally as a result of the return to normal production and consumption levels in 2002 following the termination of the Brazilian government s electric power rationing program, which had depressed domestic consumption in 2001. Average domestic prices for PVC increased by 22.3% to R$2,035 per ton in 2002 from R$1,664 per ton in 2001.

Domestic sales volume of caustic soda by the Vinyls segment increased by 11.8% to 400.9 thousand tons in 2002 as compared to Trikem s sales volume of 358.7 thousand tons in 2001, principally due to higher domestic demand for caustic soda stemming from the termination of the Brazilian government s electric power rationing program. Average domestic prices for caustic soda decreased by 31.8% to R$567 per ton in 2002 from R$832 per ton in 2001.

Export sales volume of EDC by the Vinyls segment increased by 16.0% to 119.4 thousand tons in 2002 as compared to Trikem s sales volume of 102.9 thousand tons in 2002, principally due increased sales to our distributor in the Asian market as a result of increased demand for EDC by producers of PVC products in this market. Average export prices for EDC increased by 231.3% to R$540 per ton in 2002 from R$163 per ton in 2001, primarily due to the upward trend in international market prices for EDC in 2002 caused by, among other factors, the limited global production capacity for this product, coupled with the effects of the significant devaluation of the *real* in 2002.

Cost of Sales and Gross Profit. Cost of sales of the Vinyls segment increased by 192.7% in 2002. This increase was primarily attributable to the effects of our merger with OPP Produtos.

Cost of sales of the Vinyls segment increased by 25.5% to R$804.7 million in 2002 as compared to Trikem s cost of sales of R$641.1 million in 2001. This increase was primarily a result of increases in the prices that this segment paid for ethylene and electric power, as well as our increased sales volume in 2002.

Gross profit of the Vinyls segment increased by 205.2% in 2002, and gross margin of the Vinyls segment declined to 28.0% for 2002 from 27.2% in 2001. This decline in gross margin was primarily due to the higher unit costs of the products of this segment in 2002 as a result of increases in the prices that this segment paid for ethylene and electric power.

Gross profit of the Vinyls segment increased by 3.3% to R$313.1 million in 2002 as compared to Trikem s gross profit of R$303.1 million in 2001, and gross margin decreased to 28.0% in 2002 from 32.1% in 2001.

Operating Income. The operating income of the Vinyls segment (which excludes financial income and expenses and results from investment in associated companies) increased by 87.6% in 2002, primarily as a result of an increase of R$210.5 million in this segment s gross profit. This increase was partially offset by a decrease of R$42.0 million in other income, net, primarily as a result of the effects of an insurance recovery recorded in 2001 in connection with an industrial accident at our PVC plant in Alagoas. This segment s selling, general and administrative expenses in 2002 decreased as a percentage of its net sales revenue from 1.4% in 2001 to 4.3% in 2002. Operating margin of the Vinyls segment declined to 23.8% in 2002 from 37.5% in 2001.

Operating income of our Vinyls segment declined by 13.9% to R$265.8 million in 2002 as compared to Trikem s operating income of R$308.8 million in 2001, principally as a result of a decrease of R$41.5 million in other income, net, primarily as a result of the effects of an insurance recovery recorded in 2001 in connection with an industrial accident at our PVC plant in Alagoas. Operating margin of the Vinyls segment for 2002 was 23.8% in 2002 as compared to Trikem s operating margin of 32.7% in 2001.

Business Development

Net Sales Revenue. Net sales revenue of the Business Development segment increased by 300.0% in 2002. This increase was primarily attributable to effects of our merger with 52114 Participações and the acquisition of Proppet on July 25, 2001. Domestic sales volumes of PET increased by 148.2% to 59.8 thousand tons in 2002 from 24.1 thousand tons in 2001. Domestic sales volume of caprolactam was 15.1 thousand tons in 2002. We did not sell caprolactam prior to our acquisition of Nitrocarbono in our merger with 52114 Participações. Net export sales of this segment, consisting primarily of caprolactam, was R$20.1 million in 2002. Exports of this segment were insignificant in 2001.

Cost of Sales and Gross Profit. Cost of sales of the Business Development segment increased by 300.8% in 2002, reflecting the effects of our merger with 52114 Participações and our acquisition of Proppet.

Gross profit of this segment increased by 295.6% in 2002. The gross margin of this segment remained relatively stable at 15.4% in 2002 compared to 15.5% in 2001.

Operating Income. Operating income of the Business Development segment (which excludes financial income and expenses and results from investment in associated companies) increased by 358.4% in 2002, primarily as a result of an increase of R$33.4 million in this segment s gross profit. This increase was partially offset by a R$7.6 million increase in selling, general and administrative expenses attributable to effects of our merger with 52114 Participações and the acquisition of Proppet on July 25, 2001. Operating margin of the Business Development segment increased to 12.1% in 2002 from 10.6% in 2001.

Liquidity and Capital Resources

Our principal cash requirements consist of the following:

- working capital requirements;
- the servicing of our indebtedness;
- capital expenditures related to investments in operations, maintenance and expansion of plant facilities; and
- in the future, dividends on our shares, including in the form of interest attributable to shareholders equity.

Our principal sources of liquidity have traditionally consisted of the following:

- cash flows from operating activities;
- short-term and long-term borrowings; and
- sales of debt securities in domestic and international capital markets.

During 2003 and the three months ended March 31, 2004, cash flow generated by operations was used primarily for investing activities, for working capital requirements and to service our outstanding debt obligations. At March 31, 2004, our consolidated cash and cash equivalents and other investments amounted to R$1,865.7 million, including R$274.0 million that has been included in our consolidated financial statements due to the effects of proportional consolidation and to which we do not generally have access because we jointly control our proportionally consolidated companies with third parties.

Working Capital

We had consolidated working capital of R$254.6 million at March 31, 2004 and consolidated negative working capital of R$726.8 million at December 31, 2003. Without giving effect to the proportional consolidation of our jointly controlled companies, we had consolidated working capital of R$30.6 million at March 31, 2004 and consolidated negative working capital of R$913.0 million at December 31, 2003. Our working capital deficit at December 31, 2003 principally reflected the level of our outstanding short-term indebtedness, including the current portion of our long-term debt. Part of our debt strategy over the next few years involves the use of a substantial portion of our consolidated cash flow, including from synergies resulting from our mergers with OPP Produtos and 52114 Participações, to pay principal and interest with respect to this indebtedness, including by repaying short-term debt through longer-term borrowings and issuing longer-term debt securities.

As a result of our debt strategy and the improvement of our results of operations, our consolidated negative working capital decreased by 56.6% to R$726.8 million at December 31, 2003 from R$1,672.9 million at December 31, 2002, and we eliminated our working capital deficit during the three months ended March 31, 2004. Without giving effect to the proportional consolidation of our jointly controlled companies, our consolidated negative working capital decreased by 45.0% to R$913.0 million in 2003 from R$1,658.9 million at December 31, 2002 and we eliminated our working capital deficit during the three months ended March 31, 2004.

Our consolidated current assets increased by R$1,081.3 million to R$5,158.8 million at March 31, 2004 from R$4,077.5 million at December 31, 2003. Our consolidated current assets were R$3,550.4 million at December 31, 2002. Without giving effect to the proportional consolidation of our jointly controlled companies, our consolidated current assets increased by R$981.5 million to R$4,636.0 million at March 31, 2004 from R$3,654.5 million at December 31, 2003. Without giving effect to the proportional consolidation of our jointly controlled companies, our consolidated current assets were R$3,073.8 million at December 31, 2002.

The increase in our consolidated current assets during the three months ended March 31, 2004 was largely due to:

- an increase of R$1,147.3 million in cash and cash equivalents, primarily as a result of a lengthening of payment terms with suppliers;
- an increase of R$284.2 million in taxes recoverable, primarily as a result of a reclassification of IPI tax credits from long-term assets because our ability to recover these taxes was accelerated due to our merger with Trikem, and an increase in ICMS tax credits due to purchase of raw materials; and
- an increase of R$117.9 million in inventories, primarily as a result of increased prices for certain of our principal raw materials and an increase in advances to suppliers.

The increases during the three months ended March 31, 2004 were partially offset by a R$465.9 million decrease in other investments, primarily as a result of the reclassification of some of these investments as long-term assets.

The increase in our consolidated current assets during 2003 was largely due to:

- an increase of R$363.3 million in cash and cash equivalents, primarily as a result of our strategy to increase the amount of our liquid assets;
- an increase of R$257.2 million in trade accounts receivable, primarily as a result of the higher overall sales volume and prices during the period in which the receivables recorded at December 31, 2003 were generated than during the corresponding period in 2002; and

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an increase of R$182.5 million in inventories, primarily as a result of our increased production in late 2003 of certain products for inventory in anticipation of the shutdown of our Olefins 2 and Aromatics 2 units in February 2004 for maintenance and inspection.

The increases in 2003 were partially offset by a R$296.9 million decrease in taxes recoverable, primarily as a result of our use of tax credits to offset federal taxes payable.

Our other short-term investments balance totaled R$28.8 million at March 31, 2004 compared with R$494.7 million at December 31, 2003 and R$619.3 million at December 31, 2002. Of the balance at December 31, 2003, R$434.6 million consisted of interests in an investment fund managed, on a discretionary basis, by a leading international bank. The substantial portion of the assets of this investment fund was comprised of U.S. dollar-denominated debt securities issued by our company. We believe that the fund manager plans to remarket these debt securities from time to time and realize funds from the resale of these debt securities. In the event that investor interest in debt securities of our company specifically or Brazilian issuers generally deteriorates, then the market value of the investment fund would decline and the fund manager s ability to resell our debt securities would be affected, which could adversely impact our working capital and liquidity position. In addition, the U.S. GAAP reconciliation of shareholders equity eliminates the investment balances consisting of our own debt securities in the fund on the asset side of our balance sheet against long-term indebtedness on the liability side of our balance sheet. See note 29(p) to our consolidated and combined financial statements.

Our consolidated current liabilities increased by R$99.9 million to R$4,904.2 million at March 31, 2004 compared to R$4,804.3 million at December 31, 2003. Without giving effect to the proportional consolidation of our jointly controlled companies, our consolidated current liabilities increased by R$367.7 million to R$4,605.4 million at March 31, 2004 compared to R$4,567.5 million at December 31, 2003. The increase in our consolidated current liabilities was primarily due to a R$516.7 million increase in short-term liabilities to suppliers and a R$113.9 million increase in debentures as a result of the issuance of our eleventh issue of debentures in the first quarter of 2004. The effects of these increases was partially offset by:

a decrease of R$298.7 million in loans and financing, primarily as a result of our exchange of some short-term debts for long-term debt;

a decrease of R$156.2 million in advances from customers, primarily as a result of the delivery of products to our customers for which they had prepaid; and

a decrease of R$72.2 million in insurance premiums payable, primarily as a result of cash payments of insurance premiums.

Our consolidated current liabilities decreased by R$419.0 million to R$4,804.3 million at December 31, 2003 compared to R$5,223.3 million at December 31, 2002. Without giving effect to the proportional consolidation of our jointly controlled companies, our consolidated current liabilities decreased by R$165.2 million to R$4,567.5 million at December 31, 2003 compared to R$4,732.7 million at December 31, 2002. The decrease in our consolidated current liabilities was largely due to a decrease of R$525.4 million in suppliers, primarily as a result of our reduction of our accounts payable to Petrobras and Copesul as part of our strategy to reduce our use of relatively expensive credit lines from suppliers.

Projected Sources and Uses of Cash

We anticipate that we will be required to spend approximately R$7,232.5 million to meet our short-term contractual obligations and commitments and budgeted capital expenditures in 2004, without giving effect to proportional consolidation. We expect that we will meet these cash requirements through a combination of cash generated from operating activities and cash generated by financing activities, including the proceeds of offerings that we concluded in January and February 2004, new debt financing and the refinancing of our existing short-term indebtedness as it becomes due.

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We anticipate that will be required to spend approximately R$9,531.2 million to meet our long-term contractual obligations and commitments and budgeted capital expenditures through 2006, without giving effect to proportional consolidation. We anticipate that we will meet these cash requirements through a combination of: (1) cash generated from operating activities; (2) the sale of certain non-core assets; (3) dividends received from our subsidiaries and associated companies; and (4) cash generated by financing activities, including new debt financing and the refinancing of our indebtedness as it becomes due.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities was R$623.2 million during the three months ended March 31, 2004, R$580.5 million in 2003, R$790.0 million in 2002 and R$1,453.9 million in 2001. Without giving effect to the proportional consolidation, net cash provided by operating activities was R$450.0 million during the three months ended March 31, 2004, R$431.9 million in 2003, R$708.6 million in 2002 and R$1,196.2 million in 2001.

The most significant factor in the generation of our consolidated cash flows from operating activities during the three months ended March 31, 2004 was the R$682.1 million increase in our liabilities to suppliers. This positive effect on our cash flows from operations was partially offset by the effects of, among other factors:

a R$225.8 decrease in other payables as a result of payments of advances related to credit rights;

a R$167.3 million increase in our trade accounts receivable resulting from increased prices for certain of our principal products due to our realignment of prices with international market prices during the three months ended March 31, 2004;

a R$132.1 million decrease in our advances from customers primarily as a result of the delivery of products to our customers for which they had prepaid; and

a R$122.7 million increase in inventories primarily as a result of increased prices for certain of our principal raw materials and an increase of advances to suppliers.

The significant factors that led to the generation of our consolidated cash flows from operating activities in 2003 included our net income of R$215.1 million, and a R$321.2 million decrease in our taxes recoverable primarily as a result of the use of our tax credits to offset R$364.9 million of our federal tax assessment in 2003.

These positive effects on our cash flows from operations were partially offset by the effects of, among other factors:

a R$609.7 million decrease in our accounts payable to suppliers as a result of our reduced reliance on this high-cost source of financing;

a R$238.9 million increase in our trade accounts receivable resulting from increased prices for certain of our principal products due to our realignment of the prices of certain of our principal products with international market prices in 2003; and

a R$197.3 million increase in inventories resulting from our production of certain products for inventory in late 2003 in anticipation of the shutdown of our Olefins 2 and Aromatics units for maintenance in early 2004.

The significant factors that led to the generation of our consolidated cash flows from operating activities in 2002 included a R$1,482.5 million increase in our balance due to suppliers as a result of our increased reliance on financing of purchases of our primary raw materials in 2002. This positive effect on our cash flows from operations was partially offset by the effects of (1) a R$809.6 million increase in our trade accounts receivable resulting from increased prices for our products primarily due to the significant devaluation of the *real* in 2002, and (2) a R$425.3 million increase in our other investments in 2002.

The significant factors that led to the generation of our consolidated cash flows from operating activities in 2001 included:

- a R$213.0 million decrease in our other investments as a result of our disposition of these investments; and

- a R$191.3 million decrease in our trade accounts receivable resulting from the reduced volume of our domestic sales as a result of the Brazilian government s electric power rationing program that was initiated in June 2001.

Cash Flows Used in Investing Activities

Investing activities used net cash of R$291.3 million during the three months ended March 31, 2004, R$460.4 million in 2003, R$646.7 million in 2002, and R$862.2 million in 2001. Without giving effect to the proportional consolidation of our jointly controlled companies, investing activities used net cash of R$281.0 million during the three months ended March 31, 2004, R$494.8 million in 2003, R$611.0 million in 2002, and R$1,086.4 million in 2001.

During the three months ended March 31, 2004, our cash investments on a consolidated basis primarily consisted of additions to equipment related to upgrading, maintaining and modernizing the Olefins 2 and Aromatics 2 units of our Basic Petrochemicals Unit and certain of our other plants during a scheduled maintenance and inspection shutdown.

In 2003, our cash investments on a consolidated basis primarily consisted of additions to equipment related to upgrading, maintaining and modernizing the Olefins 1 unit of our Basic Petrochemicals Unit during a scheduled shutdown. In 2002, our cash investments on a consolidated basis primarily consisted of additions to property, plant and equipment related to maintaining one of our pyrolysis plants and expanding the production capacity of the Olefins 1 unit of our Basic Petrochemicals Unit during a scheduled shutdown. In 2001, our cash investments on a consolidated basis primarily consisted of acquisitions made by Nova Camaçari prior to our acquisition of Nova Camaçari.

Cash Flows from Financing Activities

Financing activities provided net cash of R$815.4 million during the three months ended March 31, 2004 and R$367.8 million in 2003, used net cash of R$237.2 million in 2002, and used net cash of R$404.9 million in 2001. Without giving effect to the proportional consolidation of our jointly controlled companies, financing activities provided net cash of R$812.2 million during the three months ended March 31, 2004 and R$481.9 million in 2003, used net cash of R$185.0 million in 2002, and provided net cash of R$88.4 million in 2001.

During the three months ended March 31, 2004, our principal source of long-term borrowed funds consisted of issuances in an aggregate amount of US$250.0 million under our medium-term note program and R$1,200.0 million of our eleventh issue of debentures. We also borrowed R$31.4 million on market terms from related parties, principally from Copesul Trading International Inc., to finance our working capital requirements during the three months ended March 31, 2004 and repaid R$12.1 million to related parties.

In 2003, our principal source of long-term borrowed funds consisted of issuances in an aggregate amount of US$461.0 million under our medium-term note program and US$30.0 million of proceeds of a syndicated, secured pre-export finance facility. We used cash in 2003 to repay R$389.3 million of our outstanding long-term debt and to reduce our outstanding short-term debt by R$854.7 million as part of our strategy to increase the average maturity of our indebtedness. We borrowed R$833.6 million on market terms from related parties, principally from Copesul Trading International Inc. and Petroflex, to finance our working capital requirements during 2003 and repaid R$843.2 million to these related parties.

In 2002, our principal sources of long-term borrowed funds consisted of an issuance of unsecured convertible debentures in an aggregate amount of R$591.9 million, and an export prepayment financing in an aggregate amount of US$97.2 million. We used cash in 2002 to reduce our outstanding short-term debt by R$566.8 million as part of our strategy to increase the average maturity of our indebtedness. We borrowed R$1,140.6 million on market terms from related parties, including members of the Odebrecht Group, Copesul Trading International Inc. and Petroflex, to finance our working capital requirements during 2002 and repaid R$1,920.9 million to these related parties. All of these transactions to which members of the Odebrecht Group were parties were conducted by OPP Produtos prior to the legal date of its merger with our company.

In 2001, our principal sources of long-term borrowed funds were:

- our issuance of two series of secured, nonconvertible debentures, in an aggregate principal amount of R$625.0 million;
- a syndicated export prepayment credit agreement in an aggregate principal amount equal to US$250.0 million;
- an export pre-payment loan entered into by Trikem in an aggregate principal amount equal to US$50 million; and
- a loan from BNDES Participações S.A. BNDESPAR, or BNDESPAR, in an aggregate principal amount of R$163.9 million extended in connection with our purchase of BNDESPAR shares of Conepar-Companhia Nordeste de Participações, or Conepar.

We used cash in 2001 to repay R$228.8 million of our outstanding long-term debt and to reduce our outstanding short-term debt by R$2,862.3 million as part of our strategy to increase the average maturity of our indebtedness. We borrowed R$1,476.8 million on market terms from related parties, primarily members of the Odebrecht Group, to finance our working capital requirements during 2001 and repaid R$1,152.7 million to these related parties. All of these transactions to which members of the Odebrecht Group were parties were conducted by OPP Produtos prior to the legal date of its merger with our company.

We paid cash dividends and interest attributable to shareholders equity (including withholding taxes paid by our company on behalf of our shareholders in respect thereof) of R$19.1 million and R$60.0 million for 2002 and 2001, respectively. Since May 20, 2002, we have suspended payment of the mandatory dividend distribution because we did not have retained earnings (but rather had an accumulated deficit). As a result, we did not pay cash dividends or interest attributable to shareholders equity in 2003. We anticipate that we will, in the future, resume paying dividends on our shares, including in the form of interest attributable to shareholders equity, when our net income in future periods results in our having retained earnings (instead of our existing accumulated deficit at December 31, 2003). Payment of dividends is mandatory under our by-laws and also is required under agreements with two of our shareholders and, consequently, may give rise to a significant cash requirement in future periods. See Dividends and Dividend Policy Payment of Dividends. As a result of the effects of the proportional consolidation of our jointly controlled companies, we recorded dividend payments of R$72.3 million in 2003, R$32.4 million in 2002 and R$131.8 million in 2001 in our combined and consolidated financial statements.

Indebtedness and Financing Strategy

At March 31, 2004, our total outstanding indebtedness on a consolidated basis, excluding related party debt, was R$8,891.6 million, consisting of R$2,890.6 million of short-term indebtedness, including current portion of long-term indebtedness (or 32.5% of our total indebtedness), and R$6,000.9 million of long-term indebtedness (or 67.5% of our total indebtedness). Without giving effect to the proportional consolidation of our jointly controlled companies, at March 31, 2004, our total outstanding indebtedness was R$8,429.9 million, consisting of R$2,699.7 million of short-term indebtedness, including current portion of long-term indebtedness, and R$5,770.3 million of long-term indebtedness.

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On a consolidated basis, our *real*-denominated indebtedness at March 31, 2004 was R$3,199.9 million, and our foreign currency-denominated indebtedness was R$5,691.6 million. Without giving effect to the proportional consolidation of our jointly controlled companies, our *real*-denominated indebtedness at March 31, 2004 was R$3,112.6 million, and our foreign currency-denominated indebtedness was R$5,317.4 million. At March 31, 2004, our total outstanding indebtedness to related parties on a consolidated basis was R$182.8 million.

Our financing strategy has been to extend the average maturity of our outstanding indebtedness, including by repaying short-term debt through longer-term borrowings and issuing longer-term debt securities. In addition, we intend to use a portion of the proceeds of this offering to repay short-term debt. Part of our financing strategy over the next several years involves our use of a substantial portion of our consolidated cash flow, including from synergies resulting from our mergers with OPP Produtos and 52114 Participações, to pay principal and interest with respect to its outstanding indebtedness.

Short-Term Indebtedness

Our consolidated short-term debt, including debentures and current portion of long-term debt, increased to R$2,890.7 million at March 31, 2004 from R$3,075.5 million at December 31, 2003 primarily as a result of our issuance and sale of US$250.0 million aggregate principal amount of 11.75% notes due 2014 under our medium-term note program and R$1,200.0 million aggregate principal amount of our eleventh issue of debentures in January and February 2004. Some of these debentures were issued in exchange for a portion of our outstanding debt, and the remainder of the proceeds of this offering was used to repay a portion of our short-term debt. As a result, the average tenor of our indebtedness has been extended, and we have experienced an increase in our liquidity. Without giving effect to the proportional consolidation of our jointly controlled companies, our short-term debt decreased to R$2,699.7 million at March 31, 2004, compared to R$2.858.0 million at December 31, 2003.

Our consolidated short-term debt, including debentures and current portion of long-term debt, increased to R$3,075.5 million at December 31, 2003 from R$2,778.2 million at December 31, 2002 primarily as a result of the reclassification of debentures in the amount of R$329.8 million as current portion of long-term debt to reflect a put option which may be exercised by the holders of these debentures on October 1, 2004. The effects of this reclassification were partially offset by our completion of several financing transactions. Without giving effect to the proportional consolidation of our jointly controlled companies, our short-term debt decreased to R$2,858.0 million at December 31, 2003, compared to R$2,540.9 million at December 31, 2002.

We maintain short-term finance lines denominated in *reais* with a number of financial institutions in Brazil. Although we have no committed lines of credit with these financial institutions, we believe that we will continue to be able to obtain sufficient credit to finance our working capital needs based on current market conditions. At March 31, 2004, the consolidated outstanding balance under our working capital lines denominated in *reais* was R$330.0 million.

We also obtain advances on certain export contracts from a variety of Brazilian financial institutions. These advances generally have a maturity of less than one year and relatively low interest rates. These advances on export contracts are generally secured by receivables to be generated from future export sales under those contracts. At March 31, 2004, our consolidated outstanding advances on export contracts totaled R$450.7 million (US$154.9 million). See note 14 to our unaudited condensed consolidated quarterly financial information and note 15 to our consolidated and combined financial statements included in this prospectus.

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Long-Term Indebtedness

The following table sets forth selected information with respect to certain of our principal outstanding long-term debt instruments at March 31, 2004. See also Recent Developments.

Instrument	Outstanding Principal Amount at March 31, 2004	Final Maturity	Principal Covenants
Debentures:			
Eleventh Issue of Debentures	R$1,200.0 million	December 2007	Financial ratios, limitations on liens, dividends, indebtedness, asset sales and mergers
Tenth Issue of Debentures (1st series)	R$181.9 million	October 2006	Financial ratios, limitations on liens, dividends, indebtedness, asset sales and mergers
Tenth Issue of Debentures (2nd series)	R$171.6 million	October 2006	Financial ratios, limitations on liens, dividends, indebtedness, asset sales and mergers
Subordinated Convertible Debentures	R$642.6 million	July 2007	
Medium-Term Notes:			
10.50% Notes due 2004	US$121.0 million	July 2004 (repaid)	Limitations on liens, dividends, indebtedness, related party transactions, investments, and mergers
9.25% Notes due 2005	US$65.0 million	October 2005	Limitations on liens, dividends, indebtedness, related party transactions, investments, and mergers
12.50% Notes due 2008	US$275.0 million	November 2008	Limitations on liens, dividends, indebtedness, related party transactions, investments, and mergers
11.75% Notes due 2014	US$250.0 million	January 2014	Limitations on liens, dividends, indebtedness, related party transactions, investments and mergers
Other Fixed-Rate Notes:			
9.0% Notes due 2007	US$150.0 million	June 2007	Limitations on liens
11.0% Notes due 2004	US$100.0 million	October 2004	Limitations on liens, dividends, indebtedness, related party transactions and mergers
10.625% Notes due 2007	US$250.0 million	July 2007	Limitations on liens, dividends, indebtedness, related party transactions, asset sales, and mergers

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Instrument	Outstanding Principal Amount at March 31, 2004	Final Maturity	Principal Covenants
Bank Credit Facilities:			
Bank Loan (construction financing)	US$15.0 million	December 2007	Limitations on liens and mergers
Acquisition Financing:			
BNDESPAR Loan (acquisition financing)	R$167.7 million	August 2006	Limitation on share transfers
Export Finance Facilities:			
Export Prepayment Credit Facility (1st and 2nd tranches)	US$184.0 million	December 2004 (1st tranche) December 2006 (2nd tranche)	Financial ratios, limitations on liens, dividends, investments, indebtedness, asset sales and mergers
6.73% Investor Certificates	US$25.7 million	June 2004 (repaid)	
Export Prepayment Loan	US$14.2 million	June 2004 (repaid)	Financial ratios, limitations on liens, dividends, indebtedness, investments and mergers
Customer Export Prepayment	US$89.8 million	June 2006	Financial ratios, limitations on liens, dividends, indebtedness, investments, mergers and asset sales
Syndicated Secured Pre-Export Finance Facility	US$22.1 million	February 2005	Limitations on liens on receivables, indebtedness, dividends, investments, asset sales and mergers

We have entered into a medium-term note program pursuant to which we may issue notes in the aggregate principal amount of US$1.0 billion. The indebtedness outstanding under our medium-term note program is material, given the aggregate amount outstanding under this facility and its tenor. At March 31, 2004, the outstanding principal amount of the notes issued under our medium-term note program was US$711.0 million (R$ 2,068.0 million), including US$250.0 million (R$ 727.1 million) of our 11.75% notes due 2014, which notes have the longest tenor of any of our outstanding indebtedness.

We are bound by the covenants included in the terms and conditions of the notes issued under the issuing and paying agency agreement governing our medium-term note program. Among the covenants included in the terms and conditions is a material covenant prohibiting us, and our subsidiaries, from issuing, directly or indirectly, any debt (subject to certain exceptions) unless the pro forma Net Debt to EBITDA ratio at the date of such issuance is less than 4.5 to 1.0.

These terms and conditions define:

- the Net Debt to EBITDA ratio as the ratio of our Net Debt to our EBITDA for the then most recently concluded period of four consecutive fiscal quarters, subject to adjustments for asset dispositions and investments made during the period;

- Net Debt at any time as the aggregate amount of debt (subject to certain exceptions) of our company and its consolidated subsidiaries less the sum of consolidated cash and cash equivalents and consolidated marketable securities recorded as current assets (except for any capital stock in any person); and

- EBITDA for any period as

  - our consolidated net sales revenue *minus*

  - our consolidated cost of sales and services rendered *minus*

  - our consolidated selling expenses and general and administrative expenses *plus* any depreciation or amortization included in our consolidated cost of sales and services rendered or selling expenses or general and administrative expenses *plus*

all cash dividends and interest attributable to shareholders equity received from proportionally consolidated companies and from unconsolidated associated companies accounted for by the equity method *plus*

our other consolidated operating income *minus*

our other consolidated operating expenses;

as each such item is reported in our most recent consolidated financial statements prepared under Brazilian GAAP, except that for purposes of calculating EBITDA in accordance with this covenant, we eliminate the effect of proportional consolidation under Instruction 247.

As a result, subject to certain exceptions, we may not incur additional indebtedness (subject to certain exceptions), including under our medium-term note program, until these notes are repaid if our Net Debt to EBITDA ratio equals or exceeds 4.5 to 1.0 at the time we propose to incur additional indebtedness. Our compliance with this covenant could limit our flexibility in planning for, or reacting to changes in, our business by limiting the funds that we can seek to borrow or raise in the capital markets to pursue capital expenditures, acquisitions or other plans. If we were to incur indebtedness in breach of this covenant it may result in an event of default under the notes issued under our medium-term note program, enabling the holders of these notes to accelerate the principal amounts outstanding, making them due and payable immediately. In addition, an event of default under these notes would also be an event of default under the instruments governing a significant amount of our other indebtedness, enabling creditors of this indebtedness to accelerate the principal amount.

Although our Net Debt to EBITDA ratio was 3.4 to 1.0 for the four fiscal quarters ended March 31, 2004, we cannot assure holders of ADSs that we will not need to incur additional indebtedness at a time when our Net Debt to EBITDA ratio is equal to or greater than 4.5 to 1.0.

We have included a calculation of Net Debt, EBITDA and the Net Debt to EBITDA ratio in accordance with the covenant under our medium-term note program, as we believe that (1) our medium-term note program is our most significant outstanding indebtedness, (2) this covenant is a material term of our medium-term note program and (3) information about this covenant is important for investors to understand our liquidity.

The table below sets forth our Net Debt, EBITDA and Net Debt to EBITDA ratio for the periods presented, in each case calculated in accordance with the terms of the issuing and paying agency agreement governing our medium-term note program. We have presented the Net Debt to EBITDA ratio for periods prior to the date on which our medium-term note program was established for comparative purposes.

	For the Twelve Months Ended March 31,			**For the Year Ended December 31,**			
	2004(1)	**2004**	**2003**	**2003(1)**	**2003**	**2002**	**2001**
	(in millions of US$, except ratios)	**(in millions of *reais*, except ratios)**		**(in millions of US$, except ratios)**	**(in millions of *reais*, except ratios)**		
Net Debt:							
Consolidated debt	US$ 2,898.3	R$ 8,430.0	R$ 7,187.3	US$ 2,524.6	R$ 7,343.1	R$ 7,493.2	R$ 5,152.0
Consolidated cash and cash equivalents	(537.8)	(1,564.2)	(109.4)	(76.7)	(223.0)	(138.4)	(65.1)
Consolidated current marketable securities (excluding capital stock)	(147.0)	(427.7)	(462.7)	(286.6)	(833.6)	(476.4)	(344.6)
Net debt	US$ 2,213.5	R$ 6,438.1	R$ 6,615.2	US$ 2,161.3	R$ 6,286.5	R$ 6,878.4	R$ 4,742.3

	For the Twelve Months Ended March 31,			For the Year Ended December 31,			
	2004(1)	2004	2003	2003(1)	2003	2002	2001
	(in millions of US$, except ratios)	(in millions of *reais*, except ratios)		(in millions of US$, except ratios)	(in millions of *reais*, except ratios)		
EBITDA:							
Consolidated net sales revenue	US$ 3,108.0	R$ 9,039.8	R$ 7,930.1	US$ 3,159.9	R$ 9,190.9	R$ 6,867.6	R$ 4,192.4
Consolidated cost of sales and services rendered	(2,442.0)	(7,102.6)	(6,408.0)	(2,524.1)	(7,341.6)	(5,628.9)	(3,416.9)
Consolidated selling expenses and general and administrative expenses	(151.4)	(440.4)	(536.2)	(138.0)	(401.5)	(523.7)	(191.0)
Depreciation or amortization included in our consolidated cost of sales and services rendered and our selling expenses or general and administrative expenses	109.6	318.8	215.9	106.4	309.4	214.9	33.0
Cash dividends and interest on capital received	2.0	5.7	20.9	-	-	19.0	-
Other consolidated operating income and expenses, net	24.4	71.1	1,054.3	17.6	51.2	1,113.8	104.9
EBITDA	US$ 650.6	R$ 1,892.4	R$ 2,277.0	US$ 621.8	R$ 1,808.4	R$ 2,062.7	R$ 722.5
Net Debt to EBITDA ratio	3.4x	3.4x	2.9x	3.5x	3.5x	3.3x	6.6x

(1) Translated for convenience only using the commercial selling rate as reported by the Central Bank at March 31, 2004 for *reais* into U.S. dollars of R$ 2.908=US$1.00.

EBITDA is not a measure under Brazilian GAAP and should not be considered as a substitute for net income or loss, cash flow from operations or other measures of operating performance or liquidity determined in accordance with Brazilian GAAP. EBITDA is not intended to represent funds available for dividends or other discretionary uses by us because those funds are required for debt service, capital expenditures, working capital and other commitments and contingencies. The use of EBITDA has material limitations, including:

EBITDA does not include interest expense. Because we have borrowed money to finance some of our operations, interest is a necessary and ongoing part of our costs and assists us in generating revenue.

EBITDA does not include taxes. The payment of taxes is a necessary and ongoing part of our operations.

EBITDA does not include depreciation. Because we must utilize property, plant and equipment in order to generate revenues in our operations, depreciation is a necessary and ongoing part of our costs.

We have calculated EBITDA in accordance with a covenant in our medium-term note program, which calculation may not be comparable to similarly titled measures of other companies.

In addition, we have other indebtedness that includes covenants that require us to maintain specified net debt to EBITDA levels, EBITDA to net financial expenses levels and short-term net debt to EBITDA levels. Under these other debt instruments, the most restrictive financial covenant levels are as follows:

- net debt to EBITDA less than or equal to 3.5 to 1.0 at the end of and for each fiscal quarter until maturity; and
- EBITDA to net financial expenses greater than or equal to 3.5 to 1.0 at the end of and for each fiscal quarter until maturity.

We also are required to maintain a maximum ratio of short-term net debt to EBITDA for a particular fiscal quarter if our net debt to EBITDA ratio is greater than a specified level or our EBITDA to net financial expenses ratio is less than a specified level.

The definitions of EBITDA contained in these instruments vary. In the instruments containing the most restrictive financial ratios described above, EBITDA is calculated differently than under the medium-term note program and is generally defined, for purposes of the net debt to EBITDA ratio and the EBITDA to net financial expenses ratio, as operating income less financial expenses, taxes, depreciation and amortization, plus dividends and interest attributable to shareholders equity paid to us by our unconsolidated associated companies. In contrast to EBITDA as calculated under the medium-term note program covenant, the calculation of EBITDA under these instruments for purposes of these ratios does not eliminate the effect of proportional consolidation under Instruction 247. However, these instruments exclude the effect of proportional consolidation for purposes of calculating the short-term net debt to EBITDA ratio. For the fiscal quarter ended March 31, 2004, we reported the following financial ratios to our creditors under the instruments containing our most restrictive debt covenants:

- net debt to EBITDA of 2.9 to 1.0; and
- EBITDA to net financial expenses of 3.7 to 1.0.

Accordingly, we were in compliance with these financial covenants at March 31, 2004, and we believe that we will be able to comply with these financial covenants for the foreseeable future. In addition, we believe that our compliance with these financial covenants will not adversely affect our ability to implement our financing plans.

Many of these instruments also contain other covenants that restrict, among other things, the ability of our company and most of our subsidiaries to:

- incur additional indebtedness;
- incur liens;
- issue guarantees;
- issue or sell capital stock of subsidiaries;
- pay dividends or make certain other restricted payments;
- consummate certain asset sales;
- enter into certain transactions with affiliates; or
- merge or consolidate with any other person or sell or otherwise dispose of all or substantially all of our assets.

At March 31, 2004, R$1,596.5 million of our *real*-denominated debt and R$233.8 million of our foreign currency-denominated debt (in each case, excluding related party debt) was secured. In order to secure this debt, we have pledged (1) a substantial number of shares owned by our company in subsidiaries and affiliates, including Copesul, Polialden and Odebrecht Química S.A., (2) certain of our property and equipment and (3) certain of our accounts receivable. The security arrangements for our secured debt vary depending on the transaction.

The following discussion briefly describes certain of our significant financing transactions. We have assumed the obligations of predecessor companies, including, among others, OPP Química (and its predecessor OPP Petroquímica) and Trikem, under these financing transactions as a result of mergers referred to under Principal Factors Affecting Our Results of Operations Nova Camaçari Acquisition and Mergers with OPP Produtos and 52114 Participações.

Eleventh Issue of Debentures. On December 1, 2003, we issued our eleventh issue of secured non-convertible debentures. These debentures are secured by a pledge of some of our current and future customer receivables. As part of our effort to extend the maturity profile of our indebtedness, we issued R$243.0 million of these debentures to existing creditors in exchange for outstanding obligations with shorter maturities; and we issued R$380.0 million of these new debentures in exchange for 2,289 debentures in the first series and 945 debentures in the second series of our tenth issue of debentures that were scheduled to mature on October 1, 2006. We sold the remaining debentures for R$584.8 million in cash. These debentures were initially held in treasury and were sold on January 16, 2004 and February 24, 2004 following their registration with the Brazilian Securities Commission on January 14, 2004. These debentures will amortize in 36 equal monthly installments beginning on January 1, 2005, with a final maturity date of December 1, 2007, and bear interest at the CDI rate plus a margin of 4.5% per annum, payable monthly.

Tenth Issue of Debentures. On October 1, 2001, we issued our tenth issue of secured non-convertible debentures. The debentures were issued in two series and are secured by a floating lien *(garantia flutuante*) over the assets of our Basic Petrochemicals Unit. We used the proceeds from these debentures to refinance in part our obligations in connection with our acquisition of Nova Camaçari. The first series consisted of 4,108 debentures and the second series consisted of 2,142 debentures. At March 31, 2004, the aggregate outstanding principal amount of the first series was R$181.9 million and the aggregate outstanding principal amount of the second series was R$171.6 million. Between January 16, 2004 and February 4, 2004, we issued an aggregate of R$380.0 million principal amount of our eleventh issue of debentures in exchange for 2,289 debentures in the first series of the tenth issue and 945 debentures in the second series of the tenth issue.

Interest on the first series of the tenth issue accrues at the rate of 118.33% of the CDI rate per annum and is payable semi-annually. The first series of the tenth issue matures on October 1, 2006. Interest on the second series accrues at a rate of 13.25% per annum, payable annually, and the principal amount is adjusted for inflation on each payment date using the IGP-M. The second series matures on October 1, 2006. The initial interest rates described above in respect of both series of debentures will be in effect until October 1, 2004, when our board of directors will establish new interest rates for the period commencing on October 1, 2004 through the final maturity date thereof. We must redeem in full the debentures of any holders who do not accept the new interest rates established by our board of directors.

Subordinated Convertible Debentures. On May 31, 2002, OPP Produtos issued subordinated convertible debentures. As a result of our merger with OPP Produtos, these debentures became our obligations. At March 31, 2004, the outstanding amount of these debentures was R$780.4 million (including interest). Interest and monetary adjustment on these debentures accrues at the Long-Term Interest Rate plus 5.0% per annum and will be accreted until their maturity on July 31, 2007. ODBPAR Investments, as the holder of these debentures, has the option to convert the debentures into shares of our share capital at any time. The initial conversion price of these debentures was R$48.76 per 1,000 of our class A preferred shares, plus accrued interest. The conversion price increases at a rate equal to the Long-Term Interest Rate less 6.0% per annum from the date of the issuance of these debentures. At May 31, 2004, the conversion price of these debentures was R$53.25 per 1,000 shares of our class A preferred stock. Upon conversion, we will issue class A preferred shares up to the legal limit for preferred shares of two-thirds of our total share capital. After this two-thirds limit is reached, we will issue any remaining shares to be converted in the following proportions: one-third in common shares; and two-thirds in class A preferred shares. If ODBPAR Investments had exercised its option to convert these debentures in full on May 31, 2004, ODBPAR Investments would have received 5,001,059,022 of our common shares and 10,002,118,044 of our class A preferred shares in exchange for these debentures.

Medium-Term Note Program. On July 16, 2003, we established a medium-term note program permitting us to issue up to US$500.0 million aggregate principal amount of notes with maturities of up to five years from date of issuance. On December 16, 2003, we amended our medium-term note program to increase the maximum aggregate principal amount that we are permitted to issue to US$1,000.0 million and to extend the maximum maturity of the notes issued under the program to ten years from the date of issuance. We have issued four series of notes under the program.

Between July 16, 2003 and October 23, 2003, we issued and sold US$121.0 million aggregate principal amount of our 10.50% Notes due 2004. We paid the principal amount of these notes in full on July 16, 2004.

On October 28, 2003, we issued and sold US$65.0 million in aggregate principal amount of our 9.25% Notes due 2005 under the medium-term note program. Interest on these notes is payable in April and October of each year, commencing on April 28, 2004, and the notes mature on October 28, 2005.

Between November 5, 2003 and November 26, 2003, we issued and sold US$275.0 million aggregate principal amount of our 12.50% Notes due 2008. Interest on these notes is payable in May and November of each year, commencing on May 5, 2004, and the notes mature on November 5, 2008.

On January 22, 2004, we issued and sold US$250.0 million in aggregate principal amount of our 11.75% Notes due 2014 under the medium-term note program. These notes have the latest maturity date of any of our outstanding debt obligations. Interest on these notes is payable on January 22 and July 22 of each year, commencing on July 22, 2004, and the notes mature on January 22, 2014.

Fixed Rate Notes. On June 25, 1997, we issued and sold US$150.0 million aggregate principal amount of our 9.0% Notes due 2007. Interest on these notes is payable semi-annually in arrears in June and December in each year, and these notes mature on June 25, 2007.

On October 29, 1996, OPP Petroquímica issued and sold US$100.0 million aggregate principal amount of its 11.0% Notes due 2004. Interest on these notes is payable semi-annually in arrears in April and October in each year, and these notes mature on October 29, 2004.

On July 24, 1997, Trikem issued and sold US$250.0 million aggregate principal amount of its 10.625% Notes due 2007. Interest on these notes is payable semi-annually in arrears in January and July in each year, and these notes mature on July 24, 2007. We assumed the obligations of Trikem under these notes as a result of the merger of Trikem with and into our company on January 15, 2004. We have the right to repurchase these notes on July 24 of each year. In addition, the holders of these notes have the option (exercisable up to 60 days after a change of control of our company) to require us to purchase all or part of these notes if the Odebrecht Group ceases to own, directly or indirectly, at least 50.1% of our total voting share capital, unless the Odebrecht Group guarantees our obligations under these notes.

Bank Credit Facilities. In January 1998, several financial institutions granted a loan in the amount of US$30.0 million to Proppet to finance construction of its PET plant in Camaçari, Bahia. This loan has since been amended to, among other provisions, reflect the merger of Proppet with and into our company. ODBPAR Investments, Norquisa and Mitsubishi Chemical Corporation, or Mitsubishi, have guaranteed this loan. ODBPAR Investments and Norquisa have also agreed to reimburse Mitsubishi for any payments that it makes in respect of this guarantee if we default on our payment obligations under the loan. To guarantee their reimbursement obligations, Norquisa and ODBPAR Investments have caused our company to grant Mitsubishi a second mortgage on its DMT and PET plants and to pledge the equipment related to its DMT and PET production. The loan amortizes in equal semi-annual installments until its final maturity in December 2007. At March 31, 2004, the outstanding principal balance of this loan was US$15.0 million. The loan bears interest at the rate of LIBOR plus 3.875% per annum, payable semi-annually in arrears in June and December of each year. Ninety-five percent of the principal and interest of this loan is supported by insurance from Nippon Export and Investment Insurance, and we pay annual premiums in yen for this insurance.

Acquisition Financing. In September 2001, BNDESPAR sold 1,000,000,000 class B preferred shares of Conepar to Nova Camaçari for a purchase price of R$163.9 million and, as part of this transaction, BNDESPAR extended a loan to Nova Camaçari in a principal amount equal to the purchase price. This loan bears interest at the Long-Term Interest Rate plus 4.0% per annum, payable annually each August 15, and matures on August 15, 2006. At March 31, 2004, the outstanding principal balance of this loan was R$167.7 million.

Subject to the preemptive rights of existing shareholders, BNDESPAR has the option to convert the principal amount of and accrued interest on this loan into our class A preferred shares at any time prior to the maturity of this loan. If this loan is converted in connection with a public offering, the conversion price will be the offering price. If this loan is converted other than in connection with a public offering, the conversion price will be the greater of the offering price in our last public offering occurring within the nine months prior to the conversion, monetarily restated by the IGP-M, and the weighted average of the average daily prices for our class A preferred shares on the São Paulo Stock Exchange during the 60 days prior to the conversion. Upon conversion, we will issue class A preferred shares up to the legal limit for preferred shares of two-thirds of our total share capital. After this two-thirds limit is reached, we will issue any remaining shares to be converted in the following proportions: one-third in common shares; and two-thirds in class A preferred shares.

Export Prepayment Facilities. In December 2001, we entered into a US$250.0 million syndicated credit agreement. The loan is secured by certain of our exports. We used the proceeds from the loan to refinance in part our obligations in connection with our acquisition of Nova Camaçari. The first tranche of this loan in the principal amount of US$80.0 million bears interest at the rate of three-month LIBOR plus 3.75% per annum, payable quarterly in arrears. Principal on the first tranche is payable in seven installments beginning in June 2003 with a final maturity date in December 2004. The second tranche of this loan in the principal amount of US$170.0 million bears interest at the rate of three-month LIBOR plus 4.75% per annum, payable quarterly in arrears. Principal on the second tranche is payable in 15 installments beginning in June 2003 with a final maturity date in December 2006. At March 31, 2004, the aggregate outstanding principal balance of the two tranches of this loan was US$184.0 million.

On August 1, 1997, a trust formed by Trikem issued and sold US$100.0 million aggregate principal amount of 6.73% Investor Certificates due 2004, and we guaranteed payment on the investor certificates. The investor certificates were to be paid from the proceeds of accounts receivable generated from export sales of PVC and EDC to a Japanese company. The investor certificates represented fractional interests in the trust whose sole asset was receivables generated pursuant to a supply agreement with the Japanese company. At March 31, 2004, the aggregate outstanding principal amount of the investor certificates was US$25.7 million. We paid the remaining principal amount of these investor certificates on June 1, 2004.

In April 2001, Trikem received an export pre-payment loan of US$50.0 million from two financial institutions. This loan accrued interest at the rate of three-month LIBOR plus 2.375% per annum payable quarterly in arrears. We assumed the obligations of Trikem under this loan as a result of its merger with and into our company on January 15, 2004. This loan amortized in 13 equal quarterly installments structured to correspond to excess distributions to our company from the trust that issued the 6.73% Investor Certificates due 2004. At March 31, 2004, the outstanding principal balance of this loan was US$14.2 million. We paid the remaining principal amount of this loan on June 1, 2004.

In December 2002, OPP Química entered into a prepayment advance for products to be exported to a foreign customer in the amount of US$97.2 million. This prepayment advance bears interest at the rate of six-month LIBOR plus 3.75% per annum. This prepayment advance will be paid through partial semi-annual shipments from December 2003 to June 2006. At March 31, 2004, the outstanding principal amount of this prepayment advance was US$89.8 million. Our obligation to deliver export products is guaranteed by a surety bond.

On August 19, 2003, we entered into a syndicated, secured pre-export finance facility in an aggregate principal amount of US$30.0 million. The loans under this facility are secured by certain of our exports and bear interest at a rate of 60-day LIBOR plus 4.625% per annum, payable bi-monthly in arrears commencing on October 24, 2003. The principal amount of this facility is payable in seven equal bi-monthly installments beginning on February 23, 2004, with a final maturity date of February 15, 2005.

BNDES Development Loans. We maintain credit facilities that are granted directly or indirectly by the Brazilian National Bank for Economic and Social Development (*Banco Nacional de Desenvolvimento Económico e Social*), or BNDES, to fund general capital expenditures associated principally with the expansion of our production capacity, environmental projects and the development of operation control centers, laboratories and waste treatment station, of which R$252.0 million principal amount was outstanding at March 31, 2004. Amounts borrowed from BNDES are secured by a pledge of certain equipment and machinery owned by us. The interest rate on most of the amounts we borrowed from BNDES is based on the Long-Term Interest Rate plus a margin of 2% to 5% per annum. Other amounts borrowed from BNDES bear interest at a government reference rate (the *Taxa Referencial*), plus a margin of 6.5%, or at a rate based on the UM, a BNDES rate based on a basket of currencies (which rate reflects the daily exchange rate fluctuations in the currencies in which BNDES borrows), plus a margin. The principal and interest on these credit facilities is payable monthly through July 2007.

Related Party Debt. During the second and third quarters of 2003, we, through our subsidiary Lantana Trading Co. Inc., entered into several loan agreements with Copesul International Trading Inc., an affiliate of Copesul, which loans have an aggregate outstanding amount of R$163.8 million at March 31, 2004.

Assignment of Accounts Receivable

On October 24, 2003, we entered into a conditional receivables assignment agreement with a Brazilian financial institution under which we transferred a portion of the accounts receivable resulting from a specific polyethylene supply contract with a Brazilian company for the period from October 2003 through September 2004. In consideration of this assignment, this financial institution advanced to our company R$66.7 million, net of taxes and a monthly fee equal to 1.89% of each monthly installment under the supply contract. We will repay this advance through collections on the assigned receivables. If the amount of receivables collected is greater than the amount of this advance, then the financial institution will pay us the outstanding balance, net of a monthly fee in an amount to be agreed from time to time. However, if the outstanding balance is negative, we must pay the difference to the financial institution. We are responsible for collecting the receivables, and if a receivable is past due, we must pay the financial institution the value thereof within 10 days from its due date. In connection with the receivables assignment, our company executed a promissory note in favor of the financial institution in an aggregate principal amount of R$86.7 million and made the financial institution the beneficiary of an insurance policy in the amount of the advance. At March 31, 2004, the outstanding balance under this assignment of account receivables was R$36.8 million.

Off-Balance Sheet Arrangements

We have retained an interest in subordinated quotas (shares) of an investment fund in a securitization of receivables described below. The securitization of receivables is accounted for as a sale under Brazilian GAAP to the extent that the receivables are sold to a securitization fund without recourse. We have entered into this off-balance sheet arrangement in order to increase our liquidity, as it enables us to receive immediate payment for purchases of petrochemical products by clients to whom we provide short-term trade financing in the ordinary course of our business.

On November 6, 2003, our company, Trikem and Polialden entered into a receivables purchase and sale agreement with a special purpose receivables investment fund under which our company, Trikem and Polialden agreed to sell to the fund from time to time, without recourse, certain trade receivables represented by negotiable invoices *(duplicatas)*. Under this agreement, this fund may purchase these receivables using (1) the net proceeds that it obtains from the sale of interests, or senior quotas, in the fund to certain qualified investors in Brazil and (2) past due receivables that our company, Trikem or Polialden have previously sold to the fund and, although not obligated to do so, agree to repurchase. The fund also may invest a portion of such net proceeds in cash and certain cash equivalents. The aggregate amount of the quotas of all series outstanding at any time may not exceed R$500.0 million. Each series of quotas will have a maturity of not less than 12 months from the date of issuance and will amortize on June 15 and December 15 of each year. The amortization payments will include amounts in respect of interest calculated as a multiple of the CDI rate.

The fund may cause the early amortization of quotas to the extent necessary to meet specified coverage ratios or to ensure that receivables constitute at least a specified percentage of the fund s net worth. We, Trikem and Polialden also agreed to purchase subordinated quotas from the fund to the extent necessary to enable the fund to meet specified coverage ratios, whether measured on periodic calculation dates or measured on a pro forma basis before the issuance of quotas to investors. In addition, we, Trikem and Polialden are required to maintain an insurance policy covering an aggregate amount of 20% of the value of any series of quotas issued by the fund, and the fund may demand payment under the insurance policy in the amount of the receivables under any negotiable invoice for which documents necessary to pursue a collection action against the applicable obligor are unavailable. We assumed the retained interests of Trikem under the sale of receivables as a result of its merger into our company on January 15, 2004.

On November 13, 2003, the fund commenced the offering of an initial series of quotas to be issued by the fund. On December 15, 2003, the fund issued R$100.0 million in aggregate amount of quotas, and on January 9, 2004, the fund issued another R$100.0 million in aggregate amount of quotas. These quotas will mature on December 15, 2006. The first series of quotas consists of 8,000 quotas, each with a unit value of R$25,000. The quotas began amortizing on June 15, 2004, and the amortization payments include a targeted (but not guaranteed) amount of interest at a rate of 113.5% of the CDI rate based on market conditions. At March 31, 2004, we held R$31.7 million of subordinated quotas.

Under U.S. GAAP, the fund is consolidated on our balance sheet, because we are considered the primary beneficiary of the fund. See note 29(m) to our consolidated and combined financial statements.

Contractual Commitments and Capital Expenditures

Contractual Commitments

The following table summarizes significant contractual obligations and commitments at December 31, 2003 that have an impact on our liquidity:

	Payments Due by Period				
	Less than One Year	**One to Three Years**	**Three to Five Years**	**More than Five Years**	**Total**
	(In millions of *reais*)				
Loans and financings	R$2,726.5	R$1,546.1	R$2,069.2	R$	R$ 6,341.8
Debentures	349.0	390.1	752.9		1,492.0
Purchase obligations(1)	3,757.0	5,634.6	4,951.1	1,304.0	15,646.7
Other long-term liabilities		270.4	37.8		308.2
Total contractual obligations	6,832.5	7,841.2	7,811.0	1,304.0	23,788.7
Exclusion of proportional consolidation:					
Loans and financings	(217.5)	(219.5)	(53.5)		(490.5)
Other long-term liabilities		(19.6)			(19.6)
Total contractual obligations, excluding the effects of proportional consolidation	R$6,615.0	R$7,602.1	R$7,757.5	R$1,304.0	R$23,278.6

(1) Consists of purchase commitments for raw material and electric power pursuant to binding obligations which include all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Based upon the applicable purchase prices at December 31, 2003.

We are also subject to contingencies with respect to tax, labor, distributors, and other claims and have made provisions for accrued liability for legal proceedings related to certain tax claims of R$1,149.1 million at December 31, 2003. The tax contingencies relate primarily to the

COFINS, PIS, IPI,

federal income tax and the Social Contribution on Net Income. See Business Legal Proceedings and notes 17, 18 and 21 to our consolidated and combined financial statements.

Capital Expenditures

Our capital expenditures on property, plant and equipment were R$214.7 million in 2003, R$419.9 million in 2002 and R$318.0 million in 2001. Additionally, our investments in interests in other companies were R$71.7 million in 2003, R$13.1 million (excluding cash acquired of R$4.1 million) in 2002 and R$1,172.3 million (excluding cash acquired of R$595.2 million) in 2001. Our principal capital expenditures projects during 2001 through 2003 were:

- the acquisition of Nova Camaçari in 2001;
- the expansion of our ethylene production capacity at the Northeastern Complex;
- the upgrade in the facilities of the Aratú port terminal and the related pipeline system; and
- other operating improvements made in our Vinyls, Polyolefins and Business Development Units to improve the operating reliability of our manufacturing facilities and to expand our production capacity.

In response to the termination of Petrobras monopoly over naphtha supply in Brazil, in 2001, we invested in the adaptation of the maritime pier located at Aratú and the construction of pipelines, storage tanks and other facilities necessary to receive and transport imported naphtha to our basic petrochemicals plants. This project was undertaken between 2001 and 2003 at a total cost of R$83.5 million.

In 2003, we completed the expansion of the ethylene production capacity of one of our pyrolysis plants. As a result of this expansion, this plant s ethylene production capacity has reached 1,280,000 tons of annual nominal capacity. The total cost of this expansion was R$237.1 million. In connection with this expansion, we also (1) increased our steam production, which we intend to use to produce electric power, (2) installed new turbines, and (3) improved the technology and automation of our electric power production in the Northeastern Complex.

Our ability to compete in the Brazilian and foreign markets that we serve depends on our ability to integrate new production processes developed by our company and third parties in order to lower our costs and offer new thermoplastic products. In addition, our relationships with our customers are enhanced by our ability to develop new products and customize existing products to meet their needs. To meet these challenges, we maintain a research and development program that is primarily implemented at the Braskem Center for Innovation and Technology in the Southern Complex. We invested R$35.5 million, R$20.1 million and R$14.5 million in research and development during 2003, 2002 and 2001, respectively.

In 2003, we conducted studies to identify potential efficiency enhancements for our polyethylene plants and our polypropylene plants. We are investing approximately R$21 million in an efficiency enhancement project at one of our polypropylene plants in the Southern Complex that we believe will increase its annual production capacity by 100,000 tons. This project was commenced in 2003, and we anticipate completing this project in 2004. In addition, we plan to invest approximately R$84 million during 2004 and 2005 in an expansion project at our Alagoas PVC plant that we believe will increase its annual production capacity by 50,000 tons.

We currently are budgeting total capital expenditures of approximately R$400 million for 2004. Our principal capital expenditures for 2004 consist of, in addition to the projects referred to in the preceding paragraph, approximately R$100 million for health, environmental and quality improvement projects, approximately R$88 million for the replacement of depreciated equipment, approximately R$74 million for productivity improvements and approximately R$55 million for plant modernization and information systems.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks arising from our normal business activities. These market risks principally involve the possibility that changes in interest rates, exchange rates or commodity prices will adversely affect the value of our financial assets and liabilities or future cash flows and earnings. Market risk is the potential loss arising from adverse changes in market rates and prices. We enter into derivatives and other financial instruments for purposes other than trading, in order to manage and reduce the impact of fluctuations in foreign currency exchange rates and LIBOR. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial activities.

We developed a risk management policy as from December 31, 2001 to mitigate our exposure to exchange rate risks and risks of fluctuations of LIBOR with the objective of maintaining coverage of principal and interest settlements maturing within 12 months for, at a minimum:

- 60% of our total U.S. dollar-denominated indebtedness that is related to exports, or trade finance, excluding advances on currency contracts with a remaining maturity of up to six months and advances on export contracts; and

- 75% of our total in U.S. dollar-denominated indebtedness unrelated to exports, or non-trade finance.

Compliance with this policy varies based upon applicable market conditions, credit availability and our cash balances.

To further mitigate our exposure to exchange rate risk, we try, when possible, to borrow for our working capital needs using trade finance loans, which are generally available at a lower cost than other working capital financing because these loans are linked to our U.S. dollar-denominated exports. However, the U.S. dollar revenues that we generate from exports may not be in an amount sufficient to cover fully our U.S. dollar trade finance liabilities in the future.

On December 31, 2003, we had swap contracts for foreign currency and interest, with a total notional amount of US$157.5 million. These instruments are intended to reduce the impacts of any devaluation of the *real* against the U.S. dollar and any increase in international interest rates on U.S. dollar liabilities. In addition, we have U.S. dollar-denominated cash equivalents, marketable securities and time deposits, which may partially offset the effects of any devaluation of the *real* against the U.S. dollar on our ability to service our U.S. dollar-denominated debt to the extent of these U.S. dollar denominated cash equivalents, marketable securities and time deposits.

Our derivative instruments do not qualify for deferral, hedge, accrual or settlement accounting and are marked to market, with the resulting gains and losses reflected in the statement of operations as financial income and expenses, respectively. See note 22 to our consolidated and combined financial statements for a discussion of our accounting policies and information on derivative financial instruments.

Interest Rate Risk

Our variable interest rate exposure is primarily subject to the variations of (1) LIBOR for U.S. dollar-denominated borrowings, and (2) the Long-Term Interest Rate and the CDI rate for *real*-denominated borrowings. In addition, the principal amounts of certain of our *real*-denominated obligations are periodically restated by the IGP-M.

The improvement of economic conditions in Brazil during 2003 due to the positive perception of the new administration resulted in a substantial decrease of risk spreads both in public and private internationally traded securities. The second half of 2003 was marked by an increase of international capital availability to Brazil and the maintenance of inflation indicators under control. As a result, the Central Bank lowered short term interest rates, expressed by the SELIC rate from 26.5% per annum to 16.3% per annum at December 31, 2003. The SELIC rate averaged 23.6% per annum during 2003. In addition, there was a gradual decrease in other interest rates during 2003 with:

- the short-term domestic CDI rate ranging from 25.3% per annum at January 31, 2003 to 16.3% per annum at December 31, 2003, and averaging 23.2% per annum during 2003;

- the Long-Term Interest Rate at 11.0% per annum in January 2003, increasing in April through September 2003 to 12.0% per annum and then returning to 11.0% per annum through December 2003; and

- the IGP-M at 8.7% in 2003 compared to 25.3% in 2002.

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The table below provides information about our significant interest-rate sensitive instruments:

	Interest Rate Sensitivity Principal (Notional) Amount by Expected Maturity Average Interest Rate							
	At December 31, 2003 Expected Maturity Date							
	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
	(in millions of *reais*)							
LIABILITIES:								
Loans and financings (excluding debentures):								
Fixed rate, denominated in U.S dollars	1,440.0	213.2	25.4	1,167.3	794.6		3,640.5	4,140.2
Average interest rate	8.7%	8.8%	5.8%	10.0%	12.5%		9.9%	
Variable rate, denominated in U.S. dollars	523.6	434.0	197.9				1,155.5	1,881.9
Average interest rate (over LIBOR)	6.3%	5.6%	5.9%	0.0%	0.0%		5.5%	
Fixed rate, denominated in Japanese yen	2.6	1.3	1.3	1.3	0.6		7.1	6.0
Average interest rate	6.8%	6.9%	6.9%	6.9%	6.9%		6.9%	
Fixed rate, denominated in *reais*	85.5	0.1					85.6	67.9
Average interest rate	27.3%	21.4%					27.2%	
Variable rate, denominated in *reais*	356.1	7.1					363.2	199.6
Average interest rate (of CDI)	121.6%	130.0%					121.4%	
Variable rate, denominated in *reais*	86.2	130.7	200.4	8.9			426.2	407.8
Average interest rate (over Long-Term Interest Rate)	4.2%	4.5%	4.1%	3.5%	0.0%		4.2%	
Variable rate, denominated in *reais*		16.7					16.7	16.7
Average interest rate (over IGP-M)	0.0%	4.5%	0.0%	0.0%	0.0%		12.8%	
Other variable rate, denominated in *reais*	15.0	55.2	43.2	42.9			156.3	156.3
Loans and financings (excluding debentures) before proportional consolidation	2,509.0	858.3	468.2	1,220.4	795.2		5,851.1	6,876.4
Loans and financings, of proportionally consolidated companies	217.5	184.4	35.2	17.2	36.4		490.7	490.7
Total loans and financings (excluding debentures)	2,726.5	1,042.7	503.4	1,237.6	831.6		6,341.8	7,367.1
Debentures:								
Variable rate, denominated in *reais*	117.4		191.0				308.4	318.3
	13.3%	0.0%	13.3%	0.0%	0.0%		13.3%	

Average interest rate (over IGP-M)								
Variable rate, denominated in *reais*	231.6		188.9				420.5	258.2
Average interest rate (of CDI)	118.3%	0.0%	118.3%	0.0%	0.0%		118.3%	
Variable rate, denominated in *reais*				763.1			763.1	624.7
Average interest rate (over Long-Term Interest Rate)	0.0%	0.0%	0.0%	5.0%	0.0%		5.0%	
Total debentures	349.0		379.9	763.1			1,492.0	1,201.2

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Interest Rate Sensitivity Principal (Notional) Amount by Expected Maturity Average Interest Rate

	At December 31, 2003 Expected Maturity Date							
	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
	(in millions of *reais*)							
ASSETS:								
Cash and cash equivalents and other investments:								
Fixed rate, denominated in U.S. dollars	531.3						531.3	531.3
Average interest rate	7.1%						7.1%	
Cash and cash equivalents	202.6						202.6	202.6
Other investments	302.3						302.3	302.3
Average interest rate (of CDI)	100.3%	0.0%	0.0%	0.0%	0.0%		100.3%	
Cash and cash equivalents and other investments, before proportional consolidation	1,036.2						1,036.2	1,036.2
Cash and cash equivalents and other investments of proportionally consolidated companies	148.1						148.1	148.1
Total cash and cash equivalents and other investments	1,184.3						1,184.3	1,184.3

Foreign Currency Exchange Rate Risk

Our liabilities that are exposed to foreign currency exchange rate risk are primarily denominated in U.S. dollars. To partially offset our risk of any devaluation of the *real* against the U.S. dollar, we maintain several derivative contracts. Because we borrow in the international markets to support our operations and investments, we are exposed to market risks from changes in foreign exchange rates and interest rates. Export sales, which generate receivables payable in U.S. dollars, do not cover all of our U.S. dollar-denominated liabilities.

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The table below provides information about our significant foreign currency exposure:

	Foreign Currency Exchange Rate Sensitivity Principal (Notional) Amount by Expected Maturity							
	At December 31, 2003 Expected Maturity Date							
	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
	(In millions of *reais*)							
LIABILITIES:								
Loans and financings (excluding debentures):								
Denominated in U.S. dollars	1,963.6	647.2	223.3	1,167.3	794.6		4,796.0	6,022.1
Denominated in Japanese yen	2.6	1.3	1.3	1.3	0.6		7.1	6.0
Denominated in *reais*	542.8	209.8	243.6	51.8			1,048.0	843.3
Loans and financings (excluding debentures) before proportional consolidation	2,509.0	858.3	468.2	1,220.4	795.2		5,851.1	6,876.4
Loans and financings, of proportionally consolidated companies	217.5	184.4	35.2	17.2	36.4		490.7	490.7
Total loans and financings (excluding debentures)	2,726.5	1,042.7	503.4	1,237.6	831.6		6,341.8	7,367.1
Debentures:								
Denominated in *reais*	349.0		379.9	763.1			1,492.0	1,201.2
Total debentures, including current portion	349.0		379.9	763.1			1,492.0	1.201.2
ASSETS:								
Cash and cash equivalents and other investments:								
Denominated in U.S. dollars	531.3						531.3	531.3
Denominated in *reais*	504.9						504.9	504.9
Cash and cash equivalents and other investments, before proportional consolidation	1,036.2						1,036.2	1,036.2
Cash and cash equivalents and other investments of proportionally consolidated companies	148.1						148.1	148.1
Total cash and cash equivalents and other investments	1,184.3						1,184.3	1,184.3

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The table below provides information about our derivative instruments:

	At December 31, 2003 Expected Maturity Date							
	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
Cross currency and interest rate swaps contracts								
(notional amounts)								
U.S. dollars to *reais:*								
Variable to fixed (US$)	16.3						16.3	(0.6)
Average receiving rate (LIBOR 6M)	LIBOR + 0%						LIBOR + 0%	
Average paying rate (US$)	4.87%						4.87%	
Foreign currency Non-deliverable Forward (NDF)								
Purchased US$ NDF	10.0						10.0	(2.0)
Average strike prices (R$ to US$1.00)	3.17						3.17	
Foreign currency option:								
Purchased US$ put options	30.0						30.0	2.8
Average strike prices (R$ to US $1.00)	3.04						3.04	
Sold US$ put options	111.2						111.2	(4.3)
Average strike prices (R$ to US $1.00)	2.99						2.99	
Purchased US$ call options	131.2						131.2	0.0
Average strike prices (R$ to US $1.00)	3.63						3.63	
Sold US$ call options	121.2						121.2	(0.0)
Average strike prices (R$ to US $1.00)	3.73						3.73	

Our foreign currency exposure gives rise to market risks associated with exchange rate movements of the *real* against the U.S. dollar. Foreign currency-denominated liabilities at March 31, 2004 consisted primarily of U.S. dollar-denominated debt. Our foreign currency-denominated debt, including short-term debt and current portion of long-term debt, was R$5,765.1 million (US$1,982.1 million) at March 31, 2004, R$5,220.0 million (US$1,806.7 million) at December 31, 2003 and R$5,250.3 million (US$1,485.9 million) at December 31, 2002. Our foreign currency exposure includes indebtedness of proportionally consolidated companies of R$374.3 million (US$128.7 million) at March 31, 2004, R$416.8 million (US$144.3 million) at December 31, 2003 and R$441.9 million (US$125.1 million) at December 31, 2002. Our foreign currency exposure without the indebtedness of proportionally consolidated companies was R$5,390.0 million (US$1,853.4 million) at March 31, 2004, R$4,803.2 million (US$1,662.5 million) at December 31, 2003 and R$4,808.4 million (US$1,360.9 million) at December 31, 2002. This foreign currency exposure is represented by debt in the form of notes, pre-export finance facilities and working capital loans. Our derivative U.S. instruments partially protect us against exposure arising from the U.S. dollar-denominated debt.

Commodity Prices

Although the majority of our revenues are in *reais*, we do not currently hedge our exposure to changes in prices of naphtha, our principal raw material, which are linked to the Amsterdam-Rotterdam-Antwerp market price denominated in U.S. dollars. We do not hedge this exposure in part because a portion of our sales in 2003 were exports payable in foreign currencies and linked to the international market prices of these commodities, and in part because the prices of our polyethylene, polypropylene and PVC products sold in domestic markets generally reflect changes in the international market prices of these products. In periods of high volatility in the U.S. dollar/*real* exchange rate, there is usually a lag between the time that the U.S. dollar appreciates and the time that we can effectively pass on the resulting increased cost in *reais* to our customers in Brazil. Accordingly, if the *real* depreciates significantly against the U.S. dollar in the future, we may not immediately be able to pass on all of the corresponding increases in our naphtha costs to our customers in Brazil, which could materially adversely affect our results of operations and financial condition. See Risk Factors Risks Relating to Our Company and the Petrochemical Industry We may be adversely affected by high naphtha costs.

U.S. GAAP Reconciliation

Our net income (loss) in accordance with Brazilian GAAP was R$215.1 million in 2003, R$(1,378.7) million in 2002 and R$(424.5) million in 2001. Under U.S. GAAP, we would have reported net income (loss) of R$378.1 million in 2003, R$(1,144.0) million in 2002 and R$(471.0) million in 2001.

Our shareholders equity in accordance with Brazilian GAAP was R$2,112.6 million at December 31, 2003 and R$1,821.8 million at December 31, 2002. Under U.S. GAAP, we would have reported shareholders equity of R$7.8 million at December 31, 2003 and a shareholders equity deficit of R$415.2 million at December 31, 2002.

The principal differences between Brazilian GAAP and U.S. GAAP that affected our net income in 2003, 2002 and 2001, as well as shareholders equity at December 31, 2003 and 2002, are described in note 29 to our consolidated and combined financial statements. The major differences relate to the accounting treatment of the following items:

- supplementary inflation restatement of permanent assets and shareholders equity in 1996 and 1997;
- capitalized interest;
- deferred charges and other intangible assets;
- business combinations;
- transactions giving rise to distributions to shareholders;
- pension benefits;
- earnings per share;
- deferred taxes;
- tax incentives;
- sales shipped but not delivered;
- consolidation of securitization funds; and
- in the case of our unaudited condensed consolidated quarterly financial information, the purchase of the minority interests in Trikem.

For a discussion of the principal differences between Brazilian GAAP and U.S. GAAP as they relate to our financial statements and a reconciliation of net income and shareholders equity, see note 29 to our consolidated and combined financial statements and note 21 to our unaudited condensed consolidated quarterly information.

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THE BRAZILIAN PETROCHEMICAL INDUSTRY

Structure

The petrochemical industry transforms crude oil by-products, principally naphtha, or natural gas into widely used industrial and consumer goods. The Brazilian petrochemical industry is generally organized into first, second and third generation producers based on the stage of transformation of various petrochemical raw materials, or feedstocks.

First Generation Producers

Brazil s first generation producers, which are referred to as crackers, break down or crack naphtha, their principal feedstock, into basic petrochemicals. The crackers purchase their naphtha, which is a by-product of the oil refining process, primarily from Petrobras, as well as from other suppliers located outside of Brazil. The basic petrochemicals produced by the crackers include:

- olefins, primarily ethylene, propylene and butadiene; and
- aromatics, such as benzene, toluene and xylenes.

We, Copesul and Petroquímica União operate Brazil s three crackers and sell basic petrochemicals to second generation producers, including, in our case, second generation producers that are part of our company. The basic petrochemicals, which are in gaseous or liquid form, are primarily transported via pipelines to the second generation producers plants, generally located near the crackers, for further processing.

Second Generation Producers

Second generation producers process the basic petrochemicals obtained from the crackers to produce intermediate petrochemicals. These intermediate petrochemicals include:

- polyethylene, polystyrene and PVC (each produced from ethylene);
- polypropylene and acrylonitrile (each produced from propylene);
- caprolactam (produced from benzene); and
- polybutadiene (produced from butadiene).

There are approximately 50 second generation producers operating in Brazil. Intermediate petrochemicals are produced in solid form as plastic pellets or powders and are transported primarily by truck to third generation producers, which generally are located far from the second generation producers. We are currently the only integrated first and second generation petrochemical company in Brazil.

Third Generation Producers

Third generation producers, known as transformers, purchase the intermediate petrochemicals from second generation producers and transform them into final products including:

- plastics (produced from polyethylene, polypropylene and PVC);
- acrylic fibers (produced from acrylonitrile);
- nylon (produced from caprolactam);
- elastomers (produced from butadiene); and
- disposable containers (produced from polystyrene).

Third generation producers manufacture a variety of consumer and industrial goods, including containers and packaging materials, such as bags, film and bottles, textiles, detergents, paints, automobile parts, toys and consumer electronic goods. There are over 6,000 third generation producers operating in Brazil.

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Petrochemical Complexes

The production of first and second generation petrochemicals in Brazil centers around three major complexes. These complexes include:

- the Northeastern Complex located in Camaçari in the State of Bahia, where we operate the cracker;
- the São Paulo Complex located in Capuava in the State of São Paulo, or the São Paulo Complex, where Petroquímica União operates the cracker; and
- the Southern Complex located in Triunfo in the State of Rio Grande do Sul, where Copesul operates the cracker.

Each complex has a single first generation producer, also known as the raw materials center, and several second generation producers that purchase feedstock from the raw materials center.

The Northeastern Complex began operations in 1978. The Northeastern Complex consists of 28 second generation producers situated around the raw materials center operated by our company. At December 31, 2003, our raw materials center had an annual ethylene production capacity of 1,280,000 tons, which we estimate accounted for approximately 44% of Brazil s ethylene production capacity.

The São Paulo Complex, which is the oldest petrochemical complex in Brazil, began operations in 1968. Petroquímica União is the raw materials center at the São Paulo Complex and supplies first generation petrochemicals to 11 second generation producers, including our company. At December 31, 2003, Petroquímica União had an annual ethylene production capacity of 500,000 tons.

The Southern Complex began operations in 1982. Copesul, in which we have a 29.5% equity interest, is the raw materials center at the Southern Complex and supplies first generation petrochemicals to six second generation producers, including our company s polyolefins business unit. At December 31, 2003, Copesul had an annual ethylene production capacity of 1,135,000 tons.

A fourth petrochemical complex is currently being constructed at Duque de Caxias in the State of Rio de Janeiro. Rio Polímeros, a Brazilian petrochemical company, will serve as the cracker for the new complex and has announced that the new petrochemical complex will be an integrated first and second generation producer with an annual production capacity of 520,000 tons of ethylene, 75,000 tons of propylene and 540,000 tons of polyethylene (LLDPE and HDPE). This plant will use natural gas as a feedstock, and Rio Polímeros has announced that it is expected to commence operation in December 2004.

Role of the Brazilian Government

The current structure of the Brazilian petrochemical industry reflects the Brazilian government s plan, developed during the 1970 s, to establish a domestic petrochemical industry to serve Brazilian markets. First and second generation producers, including our company, are located within close proximity of each other to allow the common use of facilities, such as utilities, and to facilitate the delivery of feedstocks. Prior to their privatization by the Brazilian government, the expansion of production capacity at the crackers and the second generation producers was coordinated to ensure that the supply of petrochemicals met expected demand. The infrastructure developed around the complexes fostered the interdependence of first and second generation producers, as limited facilities were constructed for purposes of transportation and storage of feedstocks for import or export. Following their privatization, this interdependence has increased as second generation producers, which continue to rely upon the crackers for feedstocks and utilities, have increased their ownership of, and participation in the management of, the crackers.

The Brazilian government developed the Brazilian petrochemical industry generally by promoting the formation of three-way joint ventures among the Brazilian government, foreign petrochemical companies and private Brazilian investors. In these joint ventures, Petrobras subsidiary, Petroquisa, participated as the representative of the Brazilian government, with Petrobras as the supplier of naphtha; a foreign petrochemical company provided technology; and a Brazilian private sector company provided management.

In 1992, the Brazilian government began a privatization program to reduce significantly its ownership of the petrochemical industry. This program was designed to increase private investment in the petrochemical industry and to improve its efficiency. As a result of the privatization program, the Brazilian government s ownership of our common shares, and of the common shares of Copesul and Petroquímica União, was significantly reduced, replaced by private sector entities. As a result of a similar privatization process, private ownership of the second generation producers increased.

The following table sets forth the percentage of the indirect ownership interests held in the crackers voting shares by Petroquisa, private sector entities and other investors before the privatization of the crackers and at December 31, 2003.

	Before Privatization				At December 31, 2003		
	Date of Privatization	Petroquisa	Private Sector Groups	Other Investors(1)	Petroquisa	Private Sector Groups	Other Investors(1)
Copesul	May 15, 1992	67.2%	2.1%	30.7%	15.6%	58.9%	25.4%
Petroquímica União	Jan. 24, 1994	67.8	31.9	0.3	17.5	58.3	4.2
Braskem	Aug. 15, 1995	48.2	50.4	1.4	11.1	83.8	5.1

(1) Pension funds, banks and employees.

Role of Petrobras

Prior to 1995, Brazil s Constitution granted a monopoly to the Brazilian government, exercised through Petrobras, over the research, exploration, production, refining, importing and transporting of crude oil and refined petroleum products (excluding petrochemical products) in Brazil. The Brazilian Constitution also provided that by-products of the refining process, such as naphtha, could only be supplied in Brazil by or through Petrobras. Naphtha is the principal feedstock used in Brazil for the production of basic petrochemicals such as ethylene and propylene. In 1995, the Brazilian Constitution was amended to allow petroleum and petroleum related activities to be carried out by private companies, by concession or authorization from the Brazilian government. Since 1995, the Brazilian government has taken several measures to liberalize the petrochemical industry in Brazil.

In 1997, Law No. 9,478/97 implemented the 1995 constitutional amendment by creating the Brazilian Energy Policy Council (*Conselho Nacional de Política Energética)* and the National Petroleum Agency (*Agência Nacional de Petróleo*), which were charged with regulating and monitoring of the oil industry and the Brazilian energy sector. Following the creation of the National Petroleum Agency, new rules and regulations have been implemented, aimed at gradually ending Petrobras monopoly. Since 1997, first generation producers, including our company, have imported naphtha from trading companies and oil and gas producers located abroad.

During 2003, Petrobras produced and sold approximately 70% of the naphtha consumed in Brazil, and Copesul and our company collectively imported the remaining naphtha consumed in Brazil.

Tariffs

We set prices for ethylene, the principal first generation petrochemical product that we sell to second generation producers, using a margin sharing system. See Business Basic Petrochemicals Unit Sales and Marketing of Our Basic Petrochemicals Unit. Prices paid by second generation producers for imported first generation petrochemical products partly reflect transportation and tariff costs. We establish the prices of ethylene by-products, such as butadiene, by reference to several market factors, including the prices paid by second generation producers for imported products, which also take into account transportation and tariff costs.

Second generation producers, including our company, generally set prices for their petrochemical products by reference to several market factors, including the prices paid by third generation producers for imported products. Prices paid for such imports also reflect transportation and tariff costs.

The Brazilian government has frequently used import tariffs to implement economic policies. As a result, import tariffs generally vary significantly, especially those imposed on petrochemical products. In November 1997, for example, the import tariffs for polyethylene, polypropylene and PVC were increased from 14.0% to 17.0% but were subsequently reduced to 16.5% in 2001 and then to 15.5% on January 1, 2002. On January 1, 2002, the import tariff for caustic soda was reduced from 10.5% to 9.5%. At December 31, 2003, the import tariffs for basic petrochemical products ranged between 3.5% and 5.5% (except for caustic soda) and the import tariffs for second generation petrochemical products ranged between 13.5% and 15.5%. Imports and exports within the free trade area composed of Argentina, Brazil, Paraguay and Uruguay in South America, or Mercosul (*Mercado Comum do Sul*), have not been subject to tariffs since December 2001.

The following table shows the fluctuation of the tariffs on certain basic petrochemicals and second generation petrochemicals from 1994 through 2003. The tariff rates shown are those applicable at the end of the respective years.

	2003	2002(1)	2001(2)	2000	1999	1998	1997(3)	1996	1995	1994
					(%)					
First generation petrochemicals:										
Ethylene	3.5	3.5	4.5	5	5	5	5	2	2	
Propylene	3.5	3.5	4.5	5	5	5	5	2	2	
Caustic soda	9.5	9.5	10.5	11	11	11	11	8	1	(4)
Second generation petrochemicals:										
Polyethylene	15.5	15.5	16.5	17	17	17	17	14	2	2(5)
Polypropylene	15.5	15.5	16.5	17	17	17	17	14	2	2(5)
PVC	15.5	15.5	16.5	17	17	17	17	14	2	2(5)
Caprolactam	13.5	13.5	14.5	15	15	15	15	12	8(6)	2(7)

(1) In 2002, the official tariff was 1.5% less than the rate shown. An additional surcharge of 1.5% assessed on imported products is included in the rate shown.

(2) In 2001, the official tariff was 2.5% less than the rate shown. An additional surcharge of 2.5% assessed on imported products is included in the rate shown.

(3) An additional tariff of 3% was assessed commencing on November 13, 1997, which is included in the rate shown.

(4) A 5% rate applied until March 1, 1994; an 8% rate applied from March 1, 1994 through October 1, 1994; and a 0% rate applied from October 4, 1994.

(5) A 15% rate applied until September 25, 1994; a 14% rate applied from September 26, 1994 through November 23, 1994; and a 2% rate applied beginning on November 24, 1994.

(6) A 4% rate applied until April 27, 1995; and an 8% rate applied after that date.

(7) A 15% rate applied until September 22, 1994; a 14% rate applied from September 26, 1994 through November 23, 1994; and a 2% rate applied beginning on November 24, 1994.

Source: Brazilian Association of Chemical Industry and Derivative Products.

Operating Environment

The Brazilian markets in which we compete are cyclical and are sensitive to relative changes in supply and demand. Demand for petrochemical products is significantly affected by general economic conditions in Brazil and other countries in Mercosul, particularly Argentina. The Brazilian markets are also impacted by the cyclical nature of international markets as prices for petrochemical products in Brazil are

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determined in part with reference to international market prices for these products and by the prices, including tariff and transportation costs, paid by importers of petrochemical products into Brazil. Reductions in tariffs and other trade barriers have increasingly exposed the Brazilian petrochemical industry to price competition in the international markets.

Traditionally, the second and third calendar quarters have been the periods of the year with the highest sales for the petrochemical industry in the Brazilian market. The increase during this six-month period is tied in part to the production of consumer goods for sale during the year-end holiday season.

Brazilian GDP decreased by 0.2% in 2003 compared to an increase of 1.5% in 2002. This decrease in Brazilian GDP in 2003 contributed to a decrease in domestic demand for two principal petrochemical product categories elastomers and acrylic fibers because they are used in consumer goods for which demand is closely tied to the strength of the economy. As a result of this decrease in domestic demand, coupled with the increase in the production capacity of Brazilian producers, particularly Polibrasil, and increased rates of capacity utilization, Brazilian producers significantly increased their exports of polyolefins and vinyls products in 2003.

We anticipate that demand for our products in Brazil may grow due to increasing consumption of plastic-based products, as well as population growth and expected general economic growth in Brazil. In addition, Brazilian per capita consumption of second generation petrochemicals has been modest compared to per capita consumption in many other more developed countries, which we believe suggests a potential for future growth in demand in Brazil. However, that growth could be hindered by the factors described in Risk Factors Risks Relating to Brazil and Risks Relating to Our Company and the Petrochemical Industry.

The following table sets forth information relating to our production, the estimated production of other Brazilian companies and exports and imports of the products included therein for the years indicated.

	Total Brazilian Production	Our Total Production	Total Production of Other Brazilian Companies	Total Imports	Total Exports	Estimated Total Brazilian Domestic Consumption
			(thousands of tons)			
Olefins(1)						
2003	4,455.6	1,675.8	2,779.8	24.0	127.7	4,351.8
2002	3,847.8	1,591.8	2,256.0	11.8	95.6	3,764.0
2001	4,077.8	1,705.4	2,372.4	29.1	108.6	3,998.2
Aromatics(2)						
2003	1,323.7	668.9	654.8	102.7	335.9	1,090.4
2002	1,541.2	666.6	874.6	126.9	295.2	1,372.9
2001	1,282.9	698.1	584.8	110.5	283.3	1,110.1
Polyolefins(3)						
2003	2,854.4	1,115.4	1,741.5	324.4	718.8	2,460.0
2002	2,623.0	1,064.7	1,558.3	335.6	492.0	2,466.6
2001	2,557.1	1,031.0	1,526.1	302.3	487.8	2,371.6
PVC						
2003	604.1	396.9	207.1	86.4	86.9	603.6
2002	602.4	401.8	200.6	141.8	55.5	688.8
2001	538.1	363.4	174.7	129.2	46.7	620.5

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	Total Brazilian Production	Our Total Production	Total Production of Other Brazilian Companies	Total Imports	Total Exports	Estimated Total Brazilian Domestic Consumption
			(thousands of tons)			
PET						
2003	339.0	56.2	260.2	136.2	44.5	430.6
2002	334.1	59.0	274.0	147.2	55.8	425.6
2001	329.0	56.5	272.5	181.6	28.3	482.4
Caprolactam						
2003	49.6	49.6		4.9	7.8	46.7
2002	57.5	57.5		4.4	9.4	52.5
2001	48.2	48.2		3.3	4.2	47.3

(1) Includes ethylene, propylene and butadiene.

(2) Includes benzene, toluene, xylenes and C9 solvent.

(3) Includes polyethylene, HDPE, LDPE, LLDPE and polypropylene.
Sources: Brazilian Association of Chemical Industry and Derivative Products and Braskem.

The above estimates of total domestic consumption assume that all domestic production is immediately sold in the market and that there has been no change in total domestic inventory.

HISTORY AND CORPORATE REORGANIZATION

We were founded in 1972 as Petroquímica do Nordeste Copene Ltda. to plan, execute and coordinate the activities of the Northeastern Complex. The construction of the Northeastern Complex formed part of a development policy of the Brazilian government implemented in the early 1970 s to diversify the geographical distribution of industrial assets and to promote economic growth across different regions of Brazil. On June 18, 1974, we were incorporated as a corporation (*sociedade anônima*) under the laws of Brazil (with Brazilian company registry No. 29300006939) and were renamed Copene Petroquímica do Nordeste S.A.

Acquisition of Control by Norquisa

Prior to August 1995, Petroquisa, the petrochemical subsidiary of Petrobras, owned 36.2% of our total share capital, representing 48.2% of our voting share capital. Petrobras historically provided all of our requirements of naphtha, our principal raw material. At that time, Norquisa owned 17.3% of our total share capital, representing 47.6% of our voting share capital, and the remainder of our share capital was owned by various Brazilian private sector groups, pension funds, banks and our employees. Norquisa is a holding company that was formed in 1980 for the purpose of holding shares of the petrochemical companies in the Northeastern Complex.

In August 1995, as part of the Brazilian government s privatization program, Petroquisa sold 14.8% of our total share capital, representing 32.8% of our voting share capital, through an auction. Norquisa acquired 5.5% of our total share capital, representing 10.8% of our voting share capital, in this auction for R$79.2 million, and the remaining shares were acquired by various Brazilian pension funds.

At the time of this auction, Norquisa was controlled by several second generation producers in the Northeastern Complex. These companies, in turn, were controlled by several groups involved in the petrochemical business in Brazil. The owners of Norquisa s voting share capital immediately before and after this auction were as follows:

Shareholders of Norquisa	Controlling Group	% of Voting Share Capital of Norquisa
Petronor Participações Petroquímicas do Nordeste Ltda.(1)	Conepar(2)	21.2%
Pronor Petroquímica S.A.	Mariani Group	10.8
Trikem	Odebrecht Group(2)	14.4
Politeno(3)	Suzano Group/ Conepar(2)	11.2
EDN Estireno do Nordeste S.A.	The Dow Chemical Company	11.2
Oxiteno do Nordeste S.A.	Ultra Group	9.3
Polipropileno Participações S.A.	Suzano Group	8.0
Conepar Companhia Nordeste de Participações(2)		-(4)
Others		13.9
Total		100.0%

(1) Petronor Participações Petroquímicas do Nordeste Ltda. was a holding company owned by Polialden. Conepar owned 66.7% of the voting share capital of Polialden.

(2) Conepar was a holding company controlled by Banco Econômico S.A., which owned 63.8% of the voting share capital of Conepar. The remaining 36.2% of Conepar s voting share capital was owned by the Odebrecht Group and the Mariani Group through Intercapital Comércio e Participações Ltda.

Conepar was originally formed in 1980 as a holding company for the petrochemical assets of Banco Econômico S.A.

(3) Conepar owned 35.0% of the voting share capital of Politeno.

(4) Represents less than 0.1%.

Following this auction, our corporate structure was as set forth in the following chart. The percentages in bold italics represent the percentage of the voting share capital owned directly and indirectly by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned directly and indirectly by the parent company of each entity. All of these companies are or were organized under Brazilian law.

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(1) Pension funds include Petros and Previ.

(2) Odebrecht Química S.A. is a member of the Odebrecht Group.

(3) Includes various other Brazilian pension funds and private investors.

(4) At the time of this transaction, our company was named Copene-Petroquímica do Nordeste S.A.

(5) We acquired our equity interest in Petroflex in 1992 from Petroquisa, which sold the interest as part of the Brazilian government s efforts to privatize the Brazilian petrochemical industry. See Business Jointly Controlled Companies Petroflex.

Econômico S.A. Empreendimentos Auction and Related Transactions

Late in 1995, a Brazilian financial institution, Banco Econômico S.A., or Banco Econômico, collapsed, at which time the Central Bank intervened. Banco Econômico then held a 63.8% of the voting share capital of Conepar, which, in turn, held 66.7% of the voting share capital of Polialden and 35.0% of the voting share capital of Politeno.

The Brazilian government decided to liquidate the petrochemical assets of Banco Econômico as part of a broader initiative to restructure the Brazilian petrochemical sector. The Central Bank, as liquidator of Banco Econômico, formed Econômico S.A. Empreendimentos to hold the share capital of Conepar owned by Banco Econômico and then conducted an auction of Econômico S.A. Empreendimentos on July 25, 2001.

Immediately prior to this auction, the corporate structure of Econômico S.A. Empreendimentos and Conepar was as set forth in the following chart. The percentages in bold italics represent the percentage of the voting share capital owned directly and indirectly by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned directly and indirectly by the parent company of each entity. All of these companies are or were organized under Brazilian law.

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(1) Intercapital Comércio e Participações Ltda. was formed in 1987. The Odebrecht Group acquired Intercapital in 1995. Intercapital acquired its shares of Conepar in 1999.

(2) BNDESPAR is a wholly owned subsidiary of BNDES.

(3) Polialden was formed in 1974 and produces HDPE and ultra-high molecular weight polyethylene. Conepar acquired its shares of Polialden in 1974. The remaining voting share capital of Polialden was owned by Mitsubishi and Nissho Iwai. Polialden is a public company in Brazil, and its shares trade on the São Paulo Stock Exchange. For more information regarding Politeno, see Our Principal Subsidiary and Jointly Controlled Companies Polialden.

(4) Politeno was formed in 1974 and produces LDPE, LLDPE and HDPE. Conepar acquired its shares of Politeno in 1982. The remaining voting share capital of Polialden is owned by Companhia Suzano de Papel e Celulose, Sumitomo Chemical Company Limited and Itochu Corporation. Politeno is a public company in Brazil, and its shares trade on the São Paulo Stock Exchange. For more information regarding Politeno, see Our Principal Subsidiary and Jointly Controlled Companies Politeno and Business Jointly Controlled Companies Politeno.

In order to increase its investment in the Brazilian petrochemical industry, the Odebrecht Group formed Nova Camaçari for the purpose of participating in the auction. Nova Camaçari placed the winning bid in the auction and acquired Econômico S.A. Empreendimentos for R$785.0 million. On the same date, Nova Camaçari and the Odebrecht Group entered into the following transactions:

Nova Camaçari acquired the remainder of the share capital of Conepar through the acquisition of Intercapital Comércio e Participações Ltda., or Intercapital, from the Odebrecht Group and the Mariani Group for R$445.0 million and through a purchase from BNDESPAR for R$167.8 million;

OPP Química acquired 16.0% of the voting share capital of Norquisa from Trikem for R$1.7 million and Nova Odequi Ltda. acquired 23.7% of the voting share capital of Norquisa from Petronor Participações Petroquímicas do Nordeste Ltda., or Petronor, an indirect subsidiary of Conepar, for R$241.9 million;

Nova Camaçari acquired all the share capital of Proppet from the Odebrecht Group and the Mariani Group for R$51.1 million; and we acquired Nova Camaçari from the Odebrecht Group for R$100, net of indebtedness incurred by Nova Camaçari in connection with these acquisitions in an aggregate principal amount of R$1,439.2 million.

Nova Camaçari was obligated to purchase the shares of Intercapital and Proppet, and the shares of Conepar owned by BNDESPAR, under the terms of various shareholders agreements entered into by the direct and indirect shareholders of Conepar. The Odebrecht Group purchased the Norquisa shares held by Petronor in order to increase its percentage ownership of Norquisa. We acquired Nova Camaçari in order to expand the scope of our operations and become a vertically integrated producer of petrochemical products.

As a result of these transactions, we acquired ownership, directly and indirectly, of 100% of the share capital of Conepar and of Proppet, and, through Conepar, we acquired a controlling interest in Polialden and a minority interest in Politeno. We remained controlled by Norquisa. The Odebrecht Group owned 39.7% of the voting share capital of Norquisa and, together with the Mariani Group, held a combined 55.8% of the voting share capital of Norquisa.

On July 27, 2001, Odebrecht Química S.A., or Odebrecht Química, and Petroquímica da Bahia, a member of the Mariani Group, entered into a shareholders agreement covering their direct and indirect equity interests in Norquisa and our company. In addition, on July 3, 2001 and July 20, 2001, Odebrecht Química and Petroquímica da Bahia entered into memoranda of understanding with respect to the terms of shareholders agreements to be entered into with Petroquisa, Previ and Petros. These agreements are described in Principal Shareholders and Related Party Transactions Principal Shareholders Shareholders Agreements.

Immediately after these transactions, our corporate structure was as set forth in the following chart. The percentages in bold italics represent the percentage of the voting share capital owned directly and indirectly by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned directly and indirectly by the parent company of each entity. All of these companies are or were organized under Brazilian law.

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(1) At the time of this transaction, our company was named Copene-Petroquímica do Nordeste S.A.

(2) Proppet was formed in 1996 by the Mariani Group and produces PET. The Odebrecht Group acquired its shares of Proppet in 1996.

In order to streamline our corporate structure, in September 2001, we merged our wholly owned subsidiaries Nova Camaçari, Intercapital and Proppet into our company.

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The following chart presents the corporate structure of our principal subsidiaries and equity investments following this merger. The percentages in bold italics represent the percentage of the voting share capital owned directly and indirectly by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned directly and indirectly by the parent company of each entity. All of these companies are or were organized under Brazilian law.

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(1) At the time of these transactions, our company was named Copene-Petroquímica do Nordeste S.A.

Mergers with OPP Produtos and 52114 Participações

In order to continue to implement our strategy of vertically integrating our operations and to further expand the scope of our operations, we completed the following transactions on August 16, 2002:

- we merged with OPP Produtos, the holding company of the Odebrecht Group s chemical and petrochemical assets and a wholly owned subsidiary of the Odebrecht Group, and issued shares representing 43.7% of our voting and total share capital to the Odebrecht Group; and

- we also merged with 52114 Participações, the holding company of the Mariani Group s chemical and petrochemical assets and a wholly owned subsidiary of the Mariani Group, and issued shares representing 3.6% of our voting and total share capital to Pronor, a member of the Mariani Group.

Upon completing these mergers, we changed our corporate name to Braskem S.A.

The principal assets of OPP Produtos were:

- 81.3% of the total share capital of OPP Química, including 100% of its voting share capital. OPP Química, in turn, owned 41.6% of the total share capital of Trikem, representing 64.4% of its voting share capital; and

- 29.5% of the total share capital and voting share capital of Copesul.

The principal asset of 52114 Participações was 92.3% of the total share capital of Nitrocarbono, representing 95.5% of its voting share capital.

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The following chart presents the corporate structure of our principal subsidiaries and equity investments following the transactions described above. The percentages in bold italics represent the percentage of the voting share capital owned directly and indirectly by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned directly and indirectly by the parent company of each entity. All of these companies are or were organized under Brazilian law.

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(1) Copesul was formed in 1976 and began operations as the raw materials center for the Southern Complex in 1982. The Odebrecht Group acquired its shares of Copesul in 1992 in connection with the privatization of the Copesul, and these shares were transferred to OPP Produtos in 2001. OPP Produtos was formed in 2001 as a holding company for some petrochemical assets of the Odebrecht Group. Ipiranga Petroquímica S.A. owns 29.5% of the voting share capital of Copesul, and Petroquisa owns 15.6% of the voting share capital of Copesul. Copesul is a public company in Brazil, and its shares trade on the São Paulo Stock Exchange. For more information regarding Copesul, see Our Principal Subsidiary and Jointly Controlled Companies Copesul and Business Jointly Controlled Companies Copesul.

(2) Excludes 1.6% of Odebrecht Química s total share capital owned by Odequi Overseas Inc., our wholly-owned subsidiary. Odebrecht Química was formed in 1987 as a holding company for some petrochemical assets of the Odebrecht Group. OPP Produtos acquired its shares of Odebrecht Química in 2002.

(3) Nitrocarbono was formed in 1974 and produced caprolactam. 52114 Participações acquired its shares of Nitrocarbono in 2002. Nitrocarbono was a public company in Brazil and its shares traded on the São Paulo Stock Exchange.

(4) Conepar Companhia Nordeste de Participações changed its name to Copene Participações S.A. on April 30, 2002.

(5) Excludes 2.5% of OPP Química S.A. s total share capital owned by Odequi Investments Ltd., our wholly-owned subsidiary. OPP Química was formed in 1978 and produced various polyolefins products. Odebrecht Química acquired its shares of OPP Química in 1987. The share capital of OPP Química not owned by Odebrecht Química was owned by a financial institution in connection with a financing transaction. See Transactions in 2003 and 2004 Acquisition of Remaining Shares of OPP Química.

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(6) Includes 5.3% of Trikem s total share capital owned by our company. Trikem was formed in 1972 and produced various vinyls products. The Odebrecht Group acquired its shares of Trikem in 1978. Mitsubishi owned 13.4% of the voting share capital of Trikem, and Nissho Iwai owned 10.1% of the voting share capital of Trikem. Trikem was a public company in Brazil, and its shares traded on the São Paulo Stock Exchange.

Transactions in 2003 and 2004

Since August 2002, we have completed additional transactions to consolidate our ownership of some of our subsidiaries and further streamline our corporate structure.

Acquisition of Remaining Shares of OPP Química

In October 2002, Odebrecht Química acquired 2.5% of OPP Química s total share capital from Odequi Investments Ltd. for U.S.$16.3 million. In December 2002, in connection with the repayment of a financing transaction, a lender returned 16.2% of OPP Química s share capital to Odebrecht Química. Consequently, Odebrecht Química then owned all of OPP Química s total share capital.

Exchange Offer for Remaining Shares of Nitrocarbono and Subsidiary Mergers

In February 2003, as a result of our merger with 52114 Participações and as required by the Brazilian Corporation Law, we commenced a public exchange offer for the remaining voting share capital of Nitrocarbono not owned by our company. On February 13, 2003, immediately following our exchange of the shares tendered in this exchange offer for 32,243,380 of our class A preferred shares, we owned 93.8% of the total share capital of Nitrocarbono, including 99.99% of its voting share capital.

On March 31, 2003, we consummated the following transactions:

- in anticipation of our merger with OPP Química, Odebrecht Química spun off the shares of OPP Química that it owned to our company. As a result of this transaction, our direct interest in Odebrecht Química increased to 98.6% of Odebrecht Química s total share capital and the interest of our wholly owned subsidiary, Odequi Overseas Inc., decreased to 1.4% of Odebrecht Química s total share capital.

- we merged with OPP Química, Nitrocarbono and Econômico S.A. Empreendimentos. In connection with these mergers, we issued 1,353,960 of our class A preferred shares to the holders of shares of Nitrocarbono other than our company. As a consequence of our merger with OPP Química, we acquired direct ownership of the share capital of Trikem previously owned by OPP Química; and

- in order to enable Odebrecht Química to enter into financial transactions, we transferred all of the share capital of Trikem that we owned to Odebrecht Química.

Immediately after these transactions, our corporate structure was as set forth in the following chart. The percentages in bold italics represent the percentage of the voting share capital owned directly and indirectly by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned directly and indirectly by the parent company of each entity. All of these companies are or were organized under Brazilian law.

(1) Excludes 1.4% of Odebrecht Química s total share capital owned by Odequi Overseas Inc., our wholly owned subsidiary.

(2) The percentage of our total share capital in Politeno increased in December 2002 and April 2003 as the result of the suspension of an injunction blocking the implementation of the capitalization of reserves that had been approved in 1990.

Transfer of Polialden and Politeno Shares to Our Company

To further streamline our corporate structure, on June 30, 2003, we entered into an agreement under which we assumed debt of Copene Participações S.A. owed to Polialden in the amount of R$30.2 million as well as debt of Copene Participações S.A. owed to the BNDES in the amount of R$38.9 million. In return, we received the shares of Polialden and Politeno owned by Copene Participações S.A. As a result, all of our equity interests in Polialden and Politeno were, and continue to be, held directly by our company, and Copene Participações S.A. no longer owns material assets or conducts any material operations.

Acquisition of Common Shares of Trikem and Polialden Held by Mitsubishi and Nissho Iwai

In order to acquire the remaining outstanding common shares of Polialden and substantially all of the remaining outstanding common shares of Trikem, on July 14, 2003, we entered into (1) a share purchase and sale agreement with Odebrecht and Mitsubishi and (2) a memorandum of understanding with Odebrecht and Nissho Iwai. Under the share purchase and sale agreement, Mitsubishi agreed to sell to us all of the share capital of Trikem and Polialden it owned, consisting of 16.7% of Polialden s voting share capital and 13.4% of Trikem s voting share capital for R$44.2 million. We paid a portion of the purchase price in cash, and we are obligated to pay the remaining US$13.5 million to Mitsubishi on July 31, 2007, or earlier if before that date we meet certain financial tests, including specified net debt to EBITDA and short-term debt to EBITDA ratios. In addition, we are required to pay interest to Mitsubishi on the outstanding balance of the aggregate purchase price at an annual rate of LIBOR plus 3.0% in January and July of each year until the remaining balance is paid in full.

Under this agreement, we are required to make an additional payment to Mitsubishi in an amount that is contingent upon the outcome of pending litigation filed against Polialden by certain of its preferred shareholders.

See Business Legal Proceedings Shareholders Rights Proceedings. The amount of the additional payment that we are obligated to pay to Mitsubishi is (1) R$21.6 million if Polialden prevails in this litigation or if a definitive settlement is reached, or (2) R$5.4 million if Polialden loses this litigation. In either event, we will convert the amount of this additional payment (as adjusted for inflation at the IGP-M rate from July 31, 2003 until the date that this litigation is finally adjudicated or settled) into U.S. dollars on the final adjudication or settlement date. We are required to make this additional payment either together with the remaining balance under the share purchase and sale agreement or, if the remaining balance is due prior to the date on which this litigation is finally adjudicated or settled, within 60 days from the later date. We will pay interest on this payment on the same terms as we are required to pay interest on the remaining balance under the share purchase and sale agreement.

Odebrecht has agreed to guarantee our obligation to pay Mitsubishi the remaining balance of the aggregate purchase price, together with the additional payment in connection with the Polialden shareholders rights litigation.

Under the memorandum of understanding with Odebrecht and Nissho Iwai, we agreed to purchase all of the share capital of Trikem and Polialden that Nissho Iwai owned, consisting of 16.7% of Polialden s voting share capital and 10.1% of Trikem s voting share capital, in exchange for 1,086,290,620 of our common shares. As a result of this transaction, which closed on July 31, 2003, and after giving effect to the purchase from Mitsubishi described above, we increased our direct and indirect ownership of Trikem s voting share capital to 87.9% and increased our ownership of Polialden s voting share capital to 100%.

Immediately after these transactions, our corporate structure was as set forth in the following chart. The percentages in bold italics represent the percentage of the voting share capital owned directly and indirectly by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned directly and indirectly by the parent company of each entity. All of these companies are or were organized under Brazilian law.

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(1) The percentage of our total share capital in Politeno decreased in April 2003 as the result of a recalculation of the effects of the capitalization of reserves that had been approved in 1990 and implemented in December 2002 and April 2003.

(2) Excludes 1.4% of Odebrecht Química s total share capital owned by Odequi Overseas Inc.

(3) Odebrecht Química s percentage interest in Trikem s total share capital decreased by 0.6% as a result of the exchange on July 1, 2003 of shares of Trikem for 16% of the total share capital of our subsidiary Companhia Alagoas Industrial Cinal held by BNDESPAR.

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Merger of Trikem into Braskem

On November 3, 2003, as a result of the increase of our holdings of Trikem and as required by the Brazilian Corporation Law, we commenced a public exchange offer for the remaining voting share capital of Trikem not owned by our company. On December 4, 2003, immediately following our exchange of the shares tendered in this exchange offer for 438,270,001 of our class A preferred shares, we owned, directly and indirectly, 53.8% of Trikem s total share capital, including 99.9% of its voting share capital.

In order to facilitate the merger of Trikem into our company, on January 12, 2004, Odebrecht Química spun off the share capital of Trikem held by it to our company. Following this spin-off, Odebrecht Química no longer owns material assets or conducts any material operations.

On January 15, 2004, Trikem merged with and into our company. In connection with this merger, we issued 148,083 of our class A preferred shares in exchange for 514,366 of Trikem s common shares and 8,136,017,401 of our class A preferred shares in exchange for 28,260,456,441 of Trikem s preferred shares.

At an extraordinary shareholders meeting on January 15, 2004, our shareholders approved our merger with Trikem, an amendment to our by-laws to permit the conversion of our class A preferred shares into common shares upon the approval of the majority of our voting share capital, and the conversion of 121,948,261 of our class A preferred shares into 121,948,261 of our common shares in order to maintain the required minimum ratio of our common shares to preferred shares in accordance with the Brazilian Corporation Law after completion of the merger with Trikem.

Current Corporate Structure

The following chart presents the corporate structure of our principal subsidiaries and equity investments following the transactions described above. The percentages in bold italics represent the percentage of the voting share capital owned directly and indirectly by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned directly and indirectly by the parent company of each entity. All of these companies are organized under Brazilian law.

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(1) The percentage of our total share capital in Politeno increased in December 2003 as the result of the capitalization of reserves.

Our Principal Subsidiary and Jointly Controlled Companies

Our principal subsidiary is Polialden. In addition, our equity investments in Copesul and Politeno have a significant impact on our consolidated and combined financial statements. The following is a summary of our equity investments in these companies and the shareholders agreements we have signed with respect to Copesul and Politeno.

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Polialden

Polialden is a corporation (*sociedade anônima*) organized under the laws of Brazil. At March 31, 2004, we indirectly owned all of the voting share capital and 56.3% of the total share capital of Polialden. Polialden is engaged in the manufacturing, processing, selling, importing and exporting of high-density polyethylene, ultra high molecular weight polyethylene and other chemical and petrochemical products. Polialden operates its industrial unit in the Northeastern Complex. For information concerning these operations, see Business Polyolefins Unit.

Copesul

Copesul is a corporation (*sociedade anônima*) organized under the laws of Brazil. At March 31, 2004, we owned, directly and indirectly, 29.5% of the voting and total share capital of Copesul. Copesul is the second largest petrochemical cracker in Brazil based on production capacity, with approximately 39% of Brazilian production capacity of ethylene. We provide more information about Copesul s business in Business Jointly Controlled Companies Copesul.

We have entered into a shareholders agreement with Ipiranga Petroquímica S.A., or Ipiranga, relating to our shares of Copesul. Ipiranga owns 29.5% of the voting and total share capital of Copesul. Under the Copesul shareholders agreement, we and Ipiranga jointly control Copesul. We have agreed to consult with Ipiranga prior to any meeting of Copesul s board of directors or shareholders and to vote our shares together with Ipiranga on specified matters, including policies relating to the allocation of excess amounts of raw materials, policies relating to the distribution of profits, the election of members to Copesul s board of directors, amendments to Copesul s by-laws, approval of indebtedness of Copesul in excess of certain limits, sales of assets in excess of specified limits, investments in excess of certain limits and the merger of Copesul with another company. We have also agreed that neither we nor Ipiranga will vote to approve any of the above matters unless we and Ipiranga vote 75% of the shares collectively held by us in favor of that action at a meeting between Ipiranga and our company or, if no quorum is obtained at such a meeting, of 75% of the shares present at a second meeting called for this purpose.

The Copesul shareholders agreement also provides a right of first refusal for transfers or sales of the voting share capital of Copesul to third parties, except for transfers and sales of Copesul voting share capital to companies directly or indirectly controlled by the selling shareholder. Third-party purchasers of common shares of Copesul from our company or Ipiranga also must agree to comply with the Copesul shareholders agreement. The shareholders agreement also includes provisions designed to ensure that each of our company and Ipiranga will continue to own the same proportion of shares of Copesul if it so elects.

The Copesul shareholders agreement provides that we will vote with Ipiranga in a manner designed to ensure that both we and Ipiranga are able to elect the maximum possible number of members of Copesul s board of directors. The shareholders agreement is effective until August 2022. We have agreed with Ipiranga not to enter into another shareholders agreement regarding Copesul with any other shareholders of Copesul.

Politeno

Politeno is a corporation (*sociedade anônima*) organized under the laws of Brazil. At March 31, 2004, we owned 33.9% of Politeno s total share capital, including 35.0% of its voting share capital. Politeno produces polyethylenes, which are widely used in the flexible and rigid packaging industries. Politeno produces low, medium and HDPE, LLDPE, linear medium density polyethylene, ethyl vinyl acetate copolymer and other special resins. We provide more information about Politeno s business in Business Jointly Controlled Companies Politeno.

Through Conepar, we have entered into a shareholders agreement with Companhia Suzano de Papel e Celulose, Sumitomo Chemical Company Limited and Itochu Corporation with respect to our shares of Politeno. Companhia Suzano de Papel e Celulose owns 33.9% of Politeno s total share capital, including 35.0% of its voting share capital; Sumitomo Chemical Company Limited owns 18.8% of Politeno s total

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share capital, including 20.0% of its voting share capital; and Itochu Corporation owns 9.4% of Politeno s total share capital, including 10.0% of its voting share capital. The Politeno shareholders agreement contains provisions governing voting, transfer and preemptive rights. We have the right to elect two of the seven members of Politeno s board of directors and the right to elect an additional member of Politeno s board of directors in alternating years. We also have the right to elect one of the six executive officers.

We have agreed in the Politeno shareholders agreement to attempt to reach unanimous decisions with the other parties with respect to certain actions to be taken by Politeno s board of directors or shareholders, including: changes to Politeno s by-laws, subject to certain exceptions; Politeno s dissolution or liquidation; the merger of Politeno with another company; certain transactions with holders of Politeno s common shares; transactions involving the purchase, sale, assignment or encumbrance of fixed assets of Politeno in excess of specified amounts; and Politeno s incurrence of secured indebtedness in excess of certain specified levels. The parties to the shareholders agreement also granted each other certain rights of first refusal and agreed not to encumber their shares of Politeno without the consent of parties representing at least 50% of Politeno s issued and outstanding common shares, subject to certain exceptions. Third-party purchasers of common shares of Politeno from any of the parties to the shareholders agreement also must agree to comply with its terms.

We also have equity interests in other companies, including Petroflex and Borealis Brasil S.A., for which we have entered into shareholders agreements that include provisions governing voting, transfer and preemptive rights.

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BUSINESS

We are the leading petrochemical company in Latin America, based on average annual production capacity, and we are one of the five largest Brazilian-owned private sector industrial companies, based on net sales revenue. We recorded net income of R$215.1 million in 2003 on net sales revenue of R$10,135.8 million, in each case under Brazilian GAAP. We produce a diversified portfolio of petrochemical products and have a strategic focus on polyethylene, polypropylene and PVC. We are the only Brazilian company with integrated first and second generation petrochemical production facilities, with 13 plants in Brazil.

We have grown over the past three years primarily as the result of the integration of the operations of six Brazilian petrochemical companies: our company; OPP Química; Polialden; Trikem; Proppet; and Nitrocarbono. We have merged with these companies, other than Polialden. Our business operations are organized into four business units, which correspond to our principal production processes and products:

- Basic Petrochemicals, which accounted for R$4,765.3 million, or 47.8%, of the net sales revenue of all segments, including net sales to our other business units, and had an operating margin of 10.5% in 2003;
- Polyolefins, which accounted for R$3,386.8 million, or 33.9%, of the net sales revenue of all segments and had an operating margin of 15.6% in 2003;
- Vinyls, which accounted for R$1,371.8 million, or 13.7%, of the net sales revenue of all segments and had an operating margin of 22.9% in 2003; and
- Business Development, which accounted for R$455.3 million, or 4.6%, of the net sales revenue of all segments and had an operating margin of 6.3% in 2003.

We believe the integration of the operations of the companies that formed our company has produced, and will continue to provide, significant synergies and cost savings from reduced taxes, procurement and logistics expenses, general and administrative expenses and other operating expenses.

Strategy

Our vision is to strengthen our position as a world-class petrochemical company. We seek to reinforce our leading position in the Latin American petrochemical market, with a focus on polyethylene, polypropylene and PVC and integration with our production of ethylene and propylene. Our business model focuses on enhancing shareholder value, with strategic drivers consisting of market leadership, cost competitiveness and technological autonomy.

We are the first Brazilian company to integrate first and second generation petrochemical production facilities. Our competitive advantages are derived from our leadership position in the Latin American market and on our favorable cost structure, resulting from our production scale and synergies realized from integration of the companies that formed our company.

We are committed to providing technological support to our customers through the Braskem Technology and Innovation Center, which develops processes, products and applications for the sector.

The formation of our company marked a milestone in the restructuring of an industrial sector that is vital to Brazil s economic development. We supply petrochemical products with application in a wide variety of industries, such as food packaging, automotive parts, paints, construction, agriculture, fabrics and personal care products.

The key elements of our strategy include:

- ***Focus on Customer Relationships:*** We seek to establish close, long-term relationships with our customers. We serve as partners with our customers in developing new products and applications and, consequently, business opportunities for them. We recognize the cyclical nature of the markets for our petrochemical products and believe that, by focusing on relationships with our customers,

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we can foster customer loyalty even during periods of lower demand. Our growth strategy is centered on increasing customers consumption of our products, and enabling them to substitute non-plastic materials with thermoplastics.

Our Polyolefins Unit and our Vinyls Unit maintain technology and innovation centers that seek to:

- optimize customers processing of our products;
- identify new products and applications to meet our clients needs; and
- increase customers productivity.

Pursuit of Selected Business Opportunities: We are pursuing new business opportunities by, for example:

- manufacturing new products such as UTEC™, our ultra-high molecular weight polyethylene product that is used in technical applications, and new sealants for bi-oriented polypropylene film that are used for packaging snacks, pasta and confectionary goods. We are the world s second largest producer of ultra-high molecular weight polyethylene and sell UTEC™ mainly in the United States. We are also the first Brazilian company to produce a new line of sealants for bi-oriented polypropylene film;
- manufacturing LLDPE and low density polyethylene using a specialized production process that permits us to produce thermoplastics with distinctive characteristics for the flexible packaging industry, including greater resistance to impact and punctures, improved polish and greater transparency; and
- replacing traditional materials such as glass, wood, steel and paper, with our themoplastics products.

Expansion of Our Production Capacity: We plan to expand the production capacity of our business units during the next several years based on anticipated growth in demand for our products. We plan to expand primarily through efficiency enhancements at our plants and by modernizing our production technology. We believe that additional capacity will enable us to maintain and expand our leadership position in Latin America and support our expansion into strategic export markets.

Continued Reductions in Operating Costs and Increases in Operating Efficiencies: As a result of the integration of our facilities and large production scale, we believe that we are a low-cost producer of second generation petrochemicals. We have an ongoing program the Braskem Production System to increase operating efficiencies and to reduce operating costs. We also continue to realize synergies from our integration process.

Our cost reduction program is linked to initiatives to purchase feedstocks at competitive prices. We began to import lower-cost naphtha in 2000, and during 2003, we imported 31.2% of our feedstock requirements, primarily from North Africa. We also intend to continue to substitute lower-cost petroleum condensate for a portion of our naphtha needs.

Commitment to Our Employees and Our Communities: We are focused on our human resources, which are vital to our competitiveness and growth. We continue to train our employees to develop skills necessary to operate an internationally competitive, vertically integrated petrochemical company. We have adopted a policy that makes all of our directors, officers, and employees responsible for worker safety and for preserving the environment. We are also committed to sustainable development and to improving the quality of life in the communities in which our facilities are located.

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Basic Petrochemicals Unit

At December 31, 2003, our Basic Petrochemicals facilities had one of the largest average annual production capacities of all first generation producers in Latin America. Our Basic Petrochemicals Unit accounted for R$4,765.3 million, or 47.8%, of the net sales revenue of all segments in 2003, including net sales to our other business units. Our Basic Petrochemicals Unit produces:

- olefins, such as ethylene, polymer and chemical grade propylene, butadiene, isoprene and butene-1;
- aromatics, such as benzene, toluene, para-xylene and ortho-xylene;
- fuels, such as automotive gasoline and liquefied petroleum gas, or LPG; and
- methyl tertiary butyl ether, or MTBE, solvent C9 and pyrolysis C9.

We also supply utilities to other plants located in the Northeastern Complex and render services to the operators of those plants. In 2003, 86.7% of our Basic Petrochemicals Unit s sales (including intra-company sales) were derived from the sale of basic petrochemicals, 8.1% from the sale of utilities and 5.2% from the sale of fuels.

The products of our Basic Petrochemicals Unit are used primarily in the manufacture of intermediate petrochemical products, including those manufactured by our other business units. We believe that our Basic Petrochemicals Unit is well positioned to take advantage of increasing demand for basic petrochemicals products in Brazil, both by our other business units and by third parties. We anticipate that long-term growth for these products in Brazil will continue due to increasing consumption of plastic-based consumer products, the trend towards substitution of plastics for more traditional packaging materials, such as glass and paper, as well as general economic growth in Brazil.

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Products of Our Basic Petrochemicals Unit

The following chart shows the major products produced by our Basic Petrochemicals Unit, their derivative intermediate products and their most common end uses.

Our Basic Petrochemical Products	Intermediate Products Derived from Our Basic Petrochemical Products	Common End Uses
Olefins		
Ethylene	LDPE/LLDPE(1)	Garbage bags, packaging film, toys, housewares, electrical insulation, paper coatings
	HDPE(1)	Blow-molded plastic bottles (such as milk bottles)
	Ethylene oxide, used to produce ethylene glycol	Polyester fibers and PET resin
	EDC, used to produce PVC(2)	Pipes, home siding, upholstery, floor coverings
	Ethylbenzene, used to produce styrene monomer and then polystyrene	Disposable cups and containers, high-impact plastics
Propylene (polymer and chemical grade)	Polypropylene(1)	Carpet-backing, luggage, bottles, diapers, raffia bags
	Acrylonitrile	Clothing, plastics
	Propylene oxide	Polyurethane foams for furniture and insulation, cleaning compounds and coatings
Butadiene	Synthetic rubber, elastomers, resins	Tires, shoes, hoses, surgical gloves
Butene 1	LLDPE(1)	Garbage bags, packaging film, toys housewares, electrical insulation, paper coatings
Aromatics		
Benzene	Ethylbenzene (used to make styrene monomer/polysterene)	Disposable cups, containers, high- impact plastics
	Cumene	Epoxies
	Cyclohexane and cyclohexanone(3)	Nylon
	Linear alkyle benzene	Detergents
	Caprolactam(3)	Nylon
	Ammonium sulfate(3)	Fertilizers
Isoprene	Styrene-isoprene-styrene	Adhesive
Toluene		Urethane foams
	Toluenediisocianate	Solvents
Para-xylene	Purified terephthalic acid and DMT(3)	Polyester film and fibers, PET resin(3)
Ortho-xylene	Phthalic anhydride and plasticizers	Flexible products from PVC
Others		
MTBE		Octane booster for gasoline
Solvent C9		Solvents and thinners
Pyrolysis C9		Octane booster for gasoline
Fuels		
Automotive Gasoline		Fuel for internal combustion engines
LPG		Cooking gas

(1) Produced by our Polyolefins Unit.

(2) Produced by our Vinyls Unit.

(3) Produced by our Business Development Unit.

The following table sets forth a breakdown of the sales volume and net sales revenue of our Basic Petrochemicals Unit (including our intra-company sales) by product line and by market for the years indicated.

	Years Ended December 31,								
	2003			2002			2001		
	Quantities Sold(1)	Net Sales Revenue		Quantities Sold(1)	Net Sales Revenue		Quantities Sold(1)	Net Sales Revenue	
	(thousands of tons)	(millions of *reais*)	(%)	(thousands of tons)	(millions of *reais*)	(%)	(thousands of tons)	(millions of *reais*)	(%)
Domestic net sales:									
Ethylene	1,047.3	R$ 1,733.1	41.9%	994.8	R$ 1,285.3	42.5%	1,064.8	R$ 1,209.1	43.0%
Propylene	403.4	595.9	14.4	415.2	459.3	15.2	421.1	349.0	12.4
Para-xylene	117.3	195.5	4.7	99.4	121.9	4.0	114.8	129.6	4.6
Benzene	217.9	298.3	7.2	223.5	214.2	7.1	223.2	154.2	5.5
Butadiene	150.3	278.7	6.7	147.3	177.0	5.9	134.5	152.0	5.4
Mixed xylenes	53.7	83.4	2.0	52.9	52.9	1.7	50.6	44.5	1.6
Ortho-xylene	49.9	80.0	1.9	48.9	65.2	2.2	41.9	41.6	1.5
Toluene	38.9	51.4	1.2	78.7	74.6	2.5	108.0	83.9	3.0
Others	195.8	324.6	8.1	184.5	262.6	8.7	144.5	216.0	7.7
Total domestic net sales	2,274.5	3,640.9	88.1	2,245.2	2,713.0	89.8	2,303.4	2,379.9	84.6
Total export net sales	405.9	490.7	11.9	353.0	309.7	10.2	376.4	433.6	15.4
Total basic petrochemicals net sales	2,680.4	4,131.6	100%	2,598.2	3,022.7	100%	2,679.8	2,813.5	100%
Fuels and utilities(2)		633.7			476.4			483.9	
Total Basic Petrochemicals Unit net sales revenue(3)		R$ 4,765.3			R$ 3,499.1			R$ 3,297.4	
% of the total net sales revenue of all segments			47.8%			47.3%			52.7%

(1) Includes the following intra-company sales:

488.3 thousand tons of ethylene in 2003, 472.0 thousand tons in 2002 and 150.2 thousand tons in 2001;

4.3 thousand tons of propylene in 2003, 27.1 thousand tons in 2002 and 8.5 thousand tons in 2001;

39.7 thousand tons of para-xylene in 2003 and 45.2 thousand tons in 2002; and

60.0 thousand tons of benzene in 2003, 25.0 thousand tons in 2002 and 48.9 thousand tons in 2001.

(2) Fuels include automotive gasoline and LPG. Utilities include electric power, steam, treated water and compressed air.

(3) Includes basic petrochemicals, fuels and utilities.

Olefins

Olefins are relatively unstable hydrocarbons characterized by a structure that is chemically active and permits other chemically reactive elements, such as oxygen, to be added. Ethylene and propylene, which are types of olefins, are the chemical backbone for many consumer plastic products. Our primary olefins products include polymer grade ethylene and propylene, also known as monomers. Different combinations of monomers are polymerized, or linked together, to form polymers or plastic resins with different properties and characteristics.

Aromatics

Aromatics are hydrocarbons identified by one or more benzene rings or by chemical behavior similar to benzene. Aromatics readily react to add other active molecular groups, such as nitrates and sulfonates.

Fuels

Our company has been authorized by the National Petroleum Agency to produce and sell automotive gasoline since August 15, 2000 and LPG since October 2, 2001, both domestically and for export. We have been producing and selling both automotive gasoline and LPG since these dates. We have requested authorization from the National Petroleum Agency to produce and sell diesel fuel and expect this authorization to be granted during 2004.

Utilities

We also produce electric power, steam, compressed air and drinking and demineralized water as by-products of our production of basic petrochemicals. We use these utilities in our own production processes, including those of our Polyolefins Unit and our Vinyls Unit, and sell these utilities to approximately 40 companies in the Northeastern Complex. Our utilities facilities include units for thermoelectric power generation, water treatment and the production of steam and compressed air.

We self-generate approximately 70% of the Northeastern Complex s energy consumption requirements, and CHESF, a Brazilian government-owned electric power distribution company located in the State of Bahia, furnishes the remainder.

Production Facilities of Our Basic Petrochemicals Unit

We believe that the technological processes we use at our basic petrochemicals plants are among the most advanced in the world. We currently own and operate five major Basic Petrochemicals units (Olefins 1, Olefins 2, Aromatics 1, Aromatics 2 and energy and services), each of which is located at the Northeastern Complex. Our Basic Petrochemicals Unit defines the term unit to mean several plants that are linked together to produce olefins or aromatics. As a result, the production capacity of Aromatics units 1 and 2 is the sum of the production capacities of the various plants that form these units. At December 31, 2003, our basic petrochemicals plants had total annual production capacity of 1,280,000 tons of ethylene and 537,000 tons of propylene.

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The table below sets forth the name, primary products, annual production capacity at December 31, 2003 and annual production for the years presented for each of our principal Basic Petrochemicals units and plants.

Name	Main Products	Annual Production Capacity	Production Year Ended December 31, 2003	2002	2001
		(in tons, except automotive gasoline)	(in tons, except automotive gasoline)		
Olefins units 1 and 2	Ethylene	1,280,000	1,040,858	989,276	1,069,724
	Propylene	537,000	486,959	464,521	491,957
Plants of Aromatics units 1 and 2:					
Butadiene plants 1 and 2	Butadiene	180,000	150,719	137,976	143,700
MTBE plants 1 and 2	MTBE	140,000	113,996	106,449	108,251
Butene-1 plant	Butene-1	31,000	27,022	20,530	
Isoprene plant	Isoprene	19,000	16,396	16,380	
	Dicyclopentadiene(1)	24,000	20,459	19,799	18,897
Sulfolane plants 1, 2 and 3	Coperaf 1(2)	130,000	110,769	116,575	102,848
BTX fractionation plants 1 and 2	Benzene	432,000	364,762	318,373	317,223
	Toluene(1)	40,000	41,757	129,200	173,960
C8+ fractionation plant	Mixed xylenes(1)	60,000	65,932	62,679	50,137
	Ortho-xylene	60,000	54,475	48,135	46,001
	Solvent C9(2)	30,000	25,650	6,803	3,455
Parex plant	Para-xylene	150,000	116,203	101,426	107,321
Blending plant	Automotive gasoline(3)	570,000	365,256	326,493	351,806
	LPG(3)				