

PROJECT ABSTRACT

Project Name:	Braskem Structured Corporate Bond (BR-412)
Placement:	Local Capital Markets
Location	Brazil
Issuer:	Special Purpose Vehicle ("SPV")
Total Project Cost	A bond of US\$200,000,000 equivalent -- or approximately Reais ("R\$") 700,000,000 at the prevailing exchange rate
Department:	Private Sector Department ("PRI")
Partial Credit Guarantee ("PCG"):	A Guarantee Liquidity Facility ("GLF") equivalent to 25 percent of the project amount, or approximately US\$50,000,000 equivalent

Project Description

The operation involves IDB (the "Bank") providing Braskem S.A. ("Braskem" or the "Company") with an approximately US\$50 million Partial Credit Guarantee ("PCG") for an approximately US\$200 million domestic structured corporate bond denominated in Brazilian reais ("R\$"). Proceeds of the issue will be used to support Braskem's 2003-2005 investment program to expand its facilities at the Camaçari Petrochemical Complex.

The bond is expected to use securitized assets as collateral. Payments under contracts by off-taker satellite companies at Braskem's *Camaçari* cracker complex will be used as the primary source of repayment for the bonds. In the event of debt payment shortfalls by the issuer and after the structural features of the transaction have been exhausted (*i.e.* internal credit enhancements), IDB's PCG will cover payments to bondholders. Payments under IDB's PCG would become obligations of Braskem corporate.

The Company

Braskem, the largest Latin America's integrated petrochemical producer, was formed in August 16, 2002 by the corporate integration of six major companies: Copene that produces basic petrochemicals (first generation products) and five other companies, OPP Química, Trikem S.A, Nitrocarbano S.A. Polialden and Proppet S.A. that produce several second generation products such thermoplastics (*i.e.*, polyolefins) and chemicals (*i.e.* chlorine and caustic soda) and other products. The company is controlled by the Brazilian groups Odebrecht and Mariani, with other important shareholders such Petroquisa (Petrobras group) and the major Brazilian private pension funds Previ and Petros.

The Company directly employs approximately 2,800 people and operates 13 industrial plants located in the states of Bahia (the Camaçari Complex), Alagoas (in Maceió and Marechal Deodoro, but referred here as the Maceió Complex), São Paulo (the São Paulo

Complex), and Rio Grande do Sul (the Triunfo Complex). In the Camaçari Complex, Braskem operates two polyethylene plants, one PVC plant, one PET plant, one Chlorine/Alkali plant, one Caprolactam plant, and a naphtha cracker, formerly known as Copene, the predecessor company of Braskem.. In the other complexes Braskem operates: (i) a PVC and a Chlorine/Alkali Plant in the Maceió Complex, (ii) a PVC Plant in the São Paulo Complex, and (iii) a polypropylene and two polyethylene plants in the Triunfo Complex.

IDB Participation

Mitigation of cross-border risks: Braskem is a major player in the regional petrochemical business. However, the bulk of its production is destined to local markets (*i.e.*, local value-added petrochemical producers). With a heavy component of Braskem's capital structure denominated in US\$ the company has a high exposure to currency fluctuations as demonstrated in the 2001/2002 financial results. Supporting Braskem access to long term local currency funding via the Brazilian capital markets will improve the capital structure of the company from a foreign exchange risk prospective, allowing for a better match between local currency revenues and financing costs. In addition, availability of access to local currency facility is a core component for a properly functioning domestic financial market. By supporting a long-standing Brazilian producer's access to long-term funds in Reais, the IDB will help foster matching domestic savings with domestic investment needs.

Support of longer tenors (deepening the market): The Brazilian capital markets (Reais denominated) is mostly characterized by short-term debt instruments, with only a few transactions in longer tenors (*i.e.*, 5 to 8 years). These longer tenor transactions have been mostly issued by the sovereign, by public sector related corporations (*i.e.*, Copel) and by BNDES guaranteed issuances. Particularly during the last year (months previous to the elections of last November), the market for issuers such as Braskem (rated Br A+) have been very short (two years) given the lack of appetite by investors on long term exposures to these type of risks. Supporting issuances of these type of credit risk to extend the tenors in the local market will facilitate the deepening of local currency financing and will contribute to improve the asset liability management of Brazilian corporates.

Development of new capital market instruments: Support of the securitization of future receivables (*i.e.*, off-take contracts of Braskem) via the issuance of a secured bond in the local capital markets will add a new type of fixed-income instrument in local currency. The involvement of the Bank as provider of a partial credit guarantee will also have an impact in the testing and the implementation of the existing regulatory framework for securitized transactions in Brazil (*i.e.*, securitization law, on-shore trusts, pledging of third-party contracts, etc.) as seen in similar experiences in other countries. The presence of the IDB PCG will facilitate market demand by local pension funds and other institutional investors of these new type of instruments.

Demonstration effect: If successful, the securitization experience of Braskem will have a replication value in other sectors of the Brazilian economy. Demonstration of how securitization techniques can be used to strengthen the credit quality of a particular issuer (improving investor appetite for the issuance) could lead to the establishment of a recognized asset class in Brazilian Reals. This will provide a new type of funding vehicle for Brazilian corporations. Thus, the Bank's participation is seen as critical to help disseminate to the investors the concept of how to mitigate risks through securitization techniques and therefore not require additional credit enhancement, such as the Bank's PCG, in future transactions. As the fifth largest corporate in Brazil, Braskem's future flows of receivables transaction will, no doubt, be widely disseminated.