

Q4 2011 Earnings Call

Company Participants

- Carlos Fadigas, CEO
- Marcela Drehmer, CFO, IRO
- Roberta Varella, IR Manager

Other Participants

- Conrado Vagner, Analyst
- Denis Parisien, Analyst
- Felipe Santos, Analyst
- Gustavo Gattass, Analyst
- Marcus Sequeira, Analyst
- Paula Kovarsky, Analyst
- Pedro Medeiros, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, I would like to welcome everyone to Braskem's 4Q '11 and Full Year of 2011 Earnings Conference Call. Today with us we have Carlos Fadigas, CEO, Marcela Drehmer, CFO and IRO and Roberta Varella, IR Manager.

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After Braskem's remarks are completed, there will be a question-and-answer section. At that time, further instructions will be given. (Operator Instructions)

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

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on beliefs and assumptions of Braskem management and on information currently available to the Company. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Braskem and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Roberta Varella, IR Manager. Ms. Varella, you may begin your conference.

Roberta Varella {BIO 19105478 <GO>}

Good morning, ladies and gentlemen. I'd like to thank you for participating in yet another Braskem earnings conference call. Today we will be commenting on our results in the Fourth Quarter and in fiscal year 2011. First, we'd like to remind you that pursuant to federal law 11638 as of 2007, the results in today's presentation reflect the adoption on International Financial Reporting Standards, or IFRS.

In addition, unless state otherwise, for all periods presented, Braskem's consolidated numbers reflect the pro forma consolidation of 100% of the results of Quattor Participacoes and Sunoco Chemicals, which were acquired in April 2010.

The financial statements also include a proportional consolidation of Refinaria de Petroleo Rio-Grandense, or RPR, the full consolidation of Cetrel as of the Second Quarter, retroactive to January 2011, and, as of the Fourth Quarter, the polypropylene business acquired from Dow Chemical.

Information in today's presentation was reviewed by an independent external auditor with exception of Sunoco Chemicals for the First Quarter of 2010.

Let's move to the next slide, where we will begin our comments. On slide three, we will talk about the global scenario and Braskem's highlights in the last quarter. The optimism on the world economy, which lasted through mid July, was replaced by expectations of economy contraction. The inefficiency of the measures taken to contain European sovereign debt crisis had a negative impact on growth in developed and emerging markets.

Higher oil prices, pressured by geopolitical issues encountered in North Africa and the Middle East, also negatively affect the demand. In this context, the global demand for petrochemicals was reduced, leading to a reduction in industry profitability. The industry's capacity utilization rate fell to a range of 70% to 80%, seeking to maintain a balance between the supply and demand worldwide.

In response to this short-term scenario, Braskem anticipated a scheduled maintenance shutdown at its cracker in the state of Bahia and with the shutdown already scheduled at its Triunfo site, the Company's capacity utilization rate was 80% in the Fourth Quarter.

Net revenue was BRL8.7 billion, practically in line with the prior quarter, driven by the dollar appreciation of 10% in the period. EBITDA was BRL718 million, impacted by the margin

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compression in the period. However, the Company remained focus on its long-term strategy, committed to expanding its operations and creating value. In line with its strategy to add value to its current streams, Braskem advanced in the investments of its PVC and Butadiene capacity expansion projects.

For the Greenfield project in Mexico, which had the advantage of gas as feedstock and supply of the Mexican market, a net importer of polyethylene, Braskem began ground preparation work to ensure the construction of the industrial plants in 2012. Braskem also confirmed lately its leadership in the Americas, becoming the largest polypropylene Company in the United States after consolidating the polypropylene business acquired from Dow Chemical in the last quarter of 2011.

In the scenario of higher volatility and advanced global competition, the federal government has played an important role in further developing the Brazilian industry. In December 2011, for example, the Reintegra program was implemented. The initiative shall improve the competitiveness of the Brazilian producers by refunding the federal taxes at around 3% of export revenues. It's also important to note that the recent measures were taken in order to avoid the strong real appreciation.

Moving to slide four. This slide presents Braskem highlights in 2011. The average utilization rate of Braskem's crackers was 83%, compared to 87% in 2010, negatively impacted by the power blackout that affected operations in northeast plants until mid May and by the scheduled maintenance shutdowns at Triunfo and Rio Janeiro as well as the anticipation of the shutdown of one of the lines at the complex in Bahia, as mentioned in the previous slides.

Despite the lower volume available for sale, net revenue posted double-digit growth, reflecting the higher prices in the period, which followed the international market. EBITDA, which was stable in relation to 2010, the first nine months of 2011, ended the year at BRL3.7 billion, affected by the continued margin compression by the lower demand, which was adversely affected by seasonality and the global macroeconomic environment, by the competition for imported products entering the country through ports with special incentives, and by the stronger local currency.

In its continued effort to improve competitiveness, Braskem advanced to capture the synergies from Quattor assets acquisition and implemented a cost cutting program in the second half of the year, which capped selling and administrative expenses at levels similar to those in 2010, effectively neutralizing the impact from inflation, wage hikes, and the merger of the new assets.

In line with the strategy of maintaining a strong commitment to the Brazilian market, Braskem formed a partnership with BASF for the supply of propylene to the future acrylic complex redirecting its sales from the export market to the domestic market. Also in the year, Braskem concluded first engineering phase of the new petrochemical project to be installed in Rio de Janeiro. The expectation is to move forward with its engineering detail in 2012 with the project going to the board of directors in 2013 for a final decision.

In its international expansion strategy, Braskem consolidated its presence in the US polypropylene market as previously mentioned, reflecting its strategy to optimize that portfolio, a differentiated position in the Brazilian market, and strong ownership structure. Braskem was upgraded to investment grade by the three major risk rating agencies.

Let's go now to slide five. Slide five presents the performance of the Brazilian thermoplastic resins market and as well as the actions to strengthen the local industry. Demand for thermoplastic resins reached 1.2 million tons in Fourth Quarter of 2011, down 10% from the prior quarter due to seasonality and the uncertainty in the international scenario.

In the year, the Brazilian demand for resins was 4.9 million tons, virtually in line with 2010, affected by the higher imports of manufactured products. The imports of thermoplastic resins also remained high, explained by the power blackout that impacted Braskem's production and its product availability on the beginning of 2011, the stronger local currency, and the higher volume of imports entering the country through ports with special tax incentives.

The consumption of plastic products in the domestic market grew by around 10%. This growth positively affected by the factors mentioned above, was captured by the high imports of manufactured goods which frustrated this growth expectation of the domestic petrochemical and plastics chain.

Moving to slide six, this slide presents the factors that influenced EBITDA in the Fourth Quarter in comparison with the prior quarter. Braskem's consolidated EBITDA was BRL718 million, down 24% from Third Quarter due to the lower contribution margin with a negative impact of BRL345 million, explained by the narrowing of international resins and basic petrochemical spreads, which decreased by about 14% and 10%, respectively.

The lower margins were partially offset by the positive impact of BRL119 million due to the insurance claims on the amount of BRL103 million and the reduction on fixed costs reflecting the continued efforts to improve competitiveness and the commitment to effectively manage the business.

The 10% dollar appreciation in the period generated a positive impact of BRL62 million, which was composed of a positive impact on revenue of BRL785 million and a negative impact on costs of BRL723 million.

Let's go to the next slide, please. Slide seven shows the change in EBITDA in 2011 compared to the prior year. In 2011, Braskem's consolidated EBITDA was BRL3.7 billion, down 80% from 2010. The lower sales volume generated a negative impact of BRL338 million in the period, mainly due to the power blackout that limited production to mid May and the higher number of scheduled maintenance shutdowns in the period (affects) the situation when compared to 2010.

The contribution margin generated a positive impact of BRL136 million. The increase of main basic petrochemical spreads close to 20% was partially offset by the decrease in

international thermoplastic resins spreads.

The local currency appreciation of 5% between the two periods had a negative impact of BRL333 million, comprising a BRL1.7 billion negative impact on revenue and a BRL1.4 billion positive impact on costs. In 2011, expenses had a positive impact of BRL221 million, mainly explained by the insurance claims on the amount of BRL103 million and by the contract compensation of suppliers around BRL60 million.

Moving on to slide eight, this slide presents the synergies from the Quattor merger. The capture of synergies advanced to total BRL400 million in 2011, surpassing our expectation of BRL377 million in synergies in the period. The largest gains continued to be on the industrial and logistic front, mainly due to the better planning of export operations, the reduction in the number of grades, the integrated purchase of feedstocks, and the optimization of our integrated planning for petrochemical complex and second generation. That's our thermoplastic resins plants.

The full synergy gains of BRL495 million in annual and recurring EBITDA are expected to be captured in 2012. The highest concentration of the identified synergies is related to the industrial and logistic fronts, which represent almost 70% of the total synergies captured.

On the financial front, gains are being captured each quarter, led by fiscal gains and a lower carrying cost of debt. Regarding the last acquisition, Braskem identified synergies of \$140 million in net present value. The main gains are related to optimizing the product portfolio and feedstock purchases as well as maximizing the operations efficiency of the industrial plants.

Let's go to the next slide, please. Slide nine shows Braskem debt at year-end 2011. Braskem's gross debt stood at \$8.1 billion, up 5% from September 30. In Brazilian real, gross debt was BRL15 billion, increasing 7%.

Due to the uncertainty related to the global scenario, the Company took advantage of the attractive conditions offered by a credit line from the Brazilian bank, Caixa Economica Federal, and got a loan of BRL400 million with a term of eight years. Braskem also captured close to BRL280 million in offshore loans with an average term of 4.5 years. 63% of gross debt was (baggage) to the dollar.

The year-end balance of dollar-denominated cash investments decreased by 9%, reaching \$1.7 billion, returning to a normalized level after the disbursement made to acquire the polypropylene assets in October. The Company's net debt closed the Fourth Quarter at \$6.4 billion, increasing 10% from the prior quarter. Measuring local currency, net debt was BRL12 billion. In both cases, affected by the dollar appreciation at the end of the period. 73% of net debt was dollar-denominated.

Braskem's coverage of debt amortization is 26 months, in line with its strategy of high liquidity maintenance. Considering the two stand-by credit lines worth \$600 million, this coverage increases to 29 months.

Financial leverage, as measured by the net debt/EBITDA ratio, increased from 2.3 times to 2.8 times in US dollar due to the higher investment and disbursements in the period. In local currency, this leverage ratio stands at 3.2 times.

On December 31, the average debt term was 12 years. Considering only the portion of debt denominated by the dollar, the average term is around 17 years. The average cost of Company's debt was 6% in dollars and 9.8% in Brazilian real. Early this year, in line with its strategy of optimizing its debt profile and maintaining its strong commitment to financial solidity, Braskem returned to the capital markets, raising \$500 million by reopening its 2021 bond and perpetual bond issue, with both placed at more favorable conditions than the original issue.

Moving to next slide. Slide number 10 presents the Company's CapEx in 2011. Braskem invested BRL2.1 billion, which surpassed the initial estimate of BRL1.6 billion and was some BRL300 million higher than the amount dispersed in 2010.

The biggest deviation from initial plan are basically explained by the additional investment of BRL102 million in the Mexico project due to anticipation of earth-moving works and the acquisition of equipment with long-term delivery lead times. The project, which should start operating by mid 2015 not only offers attractive feedstock costs, but will serve the Mexican market, which is a net importer of polyethylene.

The acceleration of the timetable for the Butadiene project with disbursement of BRL127 million, however, this project already received around BRL200 million, the Butadiene pre-sale contract. The disbursement anticipation of the PVC expansion project of BRL138 million, which aims to add value to the vinyl segment by replacing EDC export sales by higher value-added sales of PVC. For 2012, total investment is estimated at approximately BRL1.7 billion, of which around 40% will be directed to capacity expansion projects.

Let's go to the next slide, please. Slide 11 presents the outlook for the petrochemical industry. The short-term scenario continues to be marked by caution. The political instability in the Arab world, which has been aggravated by the Iran issue and the lack of definition on European sovereign debt has increased volatility in oil markets and the recovery global demand.

In view of this scenario, international petrochemical spreads are expected to remain pressurized in short-term, however, the expectation of a recovery in demand could lead to an improvement in the industry profitability as of the Second Quarter. In the case of Brazil, the country's robust job market and continued growth in household income should positive affect the performance of the economy, potentially spurring continued demand for plastics due to rising demand for higher value-added products.

The recent measures adopted by the federal government to boost local demand and improve the competitiveness of Brazilian producers could also have a positive impact on the industry.

Imported products. We have gained ground in several sectors of the Brazilian economy in 2011, driven by the VAT tax benefits granted by certain ports, the stronger local currency, and the robust domestic consumption should continue growing at a more and more (direct) pace. The recent measures adopted by the federal government to improve the competitiveness of the national chain should have positive impacts on the industry.

Moving to slide 12. On this last slide, we present the management priorities. In line with the strategy to strengthen its business and boost its competitiveness, Braskem remains committed to supplying the local market, working to develop a Brazilian industrial policy that reinforces the national petrochemical and plastics chain.

The Company also remains focused on the improvement of the partnership with its clients, resulting in the expansion of its domestic market share, fully capturing the synergies from the Quattor acquisition and of the identified synergies found in Dow's polypropylene business acquisition, the continuous pursuit of higher operation efficiency by reducing costs and adding value to its product portfolio.

Concluding the PVC and Butadiene expansion projects with aim to add value to existing streams, finalizing the project finance structure and starting the industry plant construction on the project in Mexico, which will further diversify its feedstock mix at competitive prices while supplying the polyethylene shortage in the Mexican market.

Further detail on the engineering studies for the construction of a new petrochemical chemical complex in Rio de Janeiro, (north-western) parish using gas-based feedstock and expanding the use of renewable feedstocks without losing our focus on maintaining its financial solidity.

That concludes today's presentation, so let's go now to the question-and-answer session.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) And the first question is from Conrado Vagner from Bank of America. Please go ahead. Conrado, your line is now open for questions. If your phone is on mute, please unmute your line.

Q - Conrado Vagner

Okay. Good morning, everyone. I have questions in two subjects. The first one is on imports. I'd like to see how -- how you see the situation so far this year. Have imports reduced their share in the domestic market or there have been no significant change from what we saw last year? And also, if -- though it's hard to predict if you have any idea or any expectation on when the deal on the state-tax differences would be voted and then implemented in the country?

Then on the second subject, I'd like to know if you're still looking for acquisitions in the United States and what kind of companies would you be looking for? Thank you.

A - Carlos Fadigas

Conrado, could you help us and repeat the second question? You mentioned imports this year. We also got the last comment, you want us to make on acquisitions in the US, but I think we are missing the --. I think you mentioned between these two topics. Could you say that again, please?

Q - Conrado Vagner

Yes. The other one is on the deal that's in the senate regarding the difference in taxes from -- for states which have incentives for port.

A - Carlos Fadigas

Okay. Okay. Great. So let me start with ports and then go from ports to the level of imported material in Brazil right now. Well first of all, as you all know, Brazil has certain states that provide tax incentives to imported products coming to the ports of these specific states. That has, in effect, provided roughly 9% to 10% price advantage or cost advantage to the imported resin in Brazil, actually to all imported products in Brazil that arrive at these ports.

That is in the basis of one of the reasons why the industry in Brazil grew as much as it could back in 2011, last year. That has affected Braskem customers. The data we have shows that the demand for converted plastic for the end product has grown roughly 6% last year, but my customers -- our customers had sales that declined roughly 1%, at least they bought less resin last year and that's mainly because they have lost share to imported transformed products -- transformed plastic.

On top of losing market share and therefore buying less resin, they bought even less from Braskem because they were also, as they bought resin, they bought more imported resin. And that has led to a loss of 6 percentage points of market share from Braskem to the imported material. At the end of the year, the average was roughly 65% market share to Braskem, 6% to another local producer, focus on PVC, and the imported resin in Brazil was accounting for 29% of the market.

So it has a double effect on Braskem because it jeopardizes sales of my customers and also jeopardized my sales to my customers as well. What we have seen in the beginning of this year, we have been able to gain some percentage points in market share this year. So we moved up from the position we had of 65%.

Regardless what happens with ports, we should grow market share this year, and that has also to do with the new PVC plant that we'll start up in two months in the northeast of Brazil, the 200,000-ton PVC plant that will add to the current capacity we have of roughly 450,000 to 500,000 tons of PVC, so will give us a nice 40% additional PVC and therefore will help us grow our market share.

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But out of the average of 65% market share we have, PVC has the lowest, is 46%, what we have right now in PVC, and naturally that brings the average down to 65%. So we not only have grown already, but we'll grow even more in 60 days when we have the new PVC plant running.

On top of that, we do expect the Brazilian Senate to vote on a resolution that will present this state to keep providing tax incentives to imported resin. I think that the current situation of the world economy, I would say, and all the other countries working very hard to defend their own industry is absolutely fundamental that the Brazilian government act and the Brazilian Senate act to also prevent illegal competition or more advantage competition -- more advantages situation to the imported resin in Brazil.

And we expect that to be solved either at the end of this month or the beginning of the next month, at least that's when it's scheduled to be voted, this resolution, that will finish what we call port war in Brazil, the dispute between the ports to see which one gives better incentives to the importers.

So we want to have this solved. And once we have that, on top of having a new PVC plant, we do expect Braskem to grow its market share, hopefully back to the historical levels. And just to give you an idea, back to 2010, we had roughly 70% market share, so I believe it's a very good initial destination if we move from the 65% we have back up to something around 70%.

On your second question, Conrado, on acquisitions in the US, right now, just to remind everyone, we right now have five plants operating in the US, and all of them in polypropylene. We are right now the leaders in polypropylene. And we have a petrochemical complex in Mexico, also North America, where on top of building ethylene cracker we are building two polyethylene plants. When this petrochemical complex is up and running, we're going to have 1 million tons of -- 1 million and 50,000 tons of polyethylene and 1.500 million tons of PP.

At this point, we are focused on two different things. The main focus is on the first one and has to do with integration with raw materials for the polypropylene plant. Braskem is the largest buyer of propylene in the US and we are considering right now the construction of propane dehydrogenation plant that would convert gas propane into propylene, raw material for polypropylene. And so that's one thing that has been started.

We are considering doing it ourselves, but also we are considering building that with some of the players in the gas/ethylene/propylene market. We could partner with this player to build a PDH, this propane dehydrogenation plant.

On top of that, also on integration into propylene, we are considering increasing our splitter capacity. We have right now splitters in the northeast of the country that convert different grades of propylene into polymer-grade propylene. That would give us more flexibility to buy chem-grade propylene and refinery-grade propylene, and through this splitting capacity upgrade that to polymer-grade propylene. So instead of buying only one type of propylene we could increase the capacity of buying other types of propylene.

So either through propane with a PDH or through different types of propylene, we are working on further integrating our five polypropylene plants in the US into more competitive raw material.

The second alternative, I would say, is an -- additional second alternative relative to propylene is to analyze the possibility of building a cracker -- a ethane cracker to convert gas again -- ethane into ethylene and then pull the ethylene through polymerization.

At this point, I have to remember you that we are right now working on two petrochemical complexes -- one in Mexico and one in Brazil, in the state of Rio de Janeiro, the cracker -- the complex that has been called Comperj. They both will come from gas to petrochemicals. And to get involved in a third one in the US at this point, it's unlikely that we do it by ourselves, begin a third construction of a larger cracker in the US.

So the most likely thing to happen would be to have Braskem partnering with one or two other petrochemical players to build another cracker and then be able to add one or two lines of polyethylene in the US. That would be a very nice complement to the 1 million tons coming from Mexico of polyethylene and 1.5 million tons that we currently have of polypropylene in the US.

In terms of acquisitions at this point, I don't see anything that is really interesting in the polypropylene space. We already have five plants. The second largest producer has three plants in the US. We're already the leaders of the market. And although there are opportunities to acquire another player, we don't see anything attractive in terms of price and we don't see a lot of strategic advantage of buying another player in the polypropylene space.

In terms of polyethylene, that could complement nicely the position we are going to have in Mexico. But on the other side, if any of the polyethylene assets in the US are very high at this point because of the cost advantage they have coming from ethane to ethylene and then polyethylene. So that's why in (PP) space makes much more sense to build rather than to buy something that is already running. So that's my view on that US, Conrado.

Q - Conrado Vagner

Okay. That was great. Thank you very much.

Operator

Thank you. The next question is from Paula Kovarsky from BBA. Please go ahead.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Hi, guys. Good afternoon. (technical difficulty) here. The first question -- trying to better understand your strategy to regain market share, assuming a positive outcome of the voting in the senate for the reduction of incentives for the incentivized ports, as far as I

can understand, more towards the Fourth Quarter the Company was actually forced to give up a little bit of margins to fight imports back.

But my question is, do you believe, let's say, a 6% reduction in the incentive opens room for price increases in the country? Or you will probably stick to your commercial strategy as you did last year and the focus will be on regaining market share? So this would be question number one, and then how fast do you think you can regain your 70%?

The other question relates to the cash generation and actually the reduction in the receivables account, yet top-line was virtually flat comparing Third Quarter and Fourth Quarter. So we would like to get a better understanding on how this -- where this improvement comes from, if there's anything perhaps to do with anticipation of receivables and how shall we forecast this line going forward? So this would be the two main questions.

A - Carlos Fadigas

Thank you, Paula. It's Carlos Fadigas, very good question. Let me start with the ports and the commercial strategy and then Marcela will address your second question.

First of all, let me reinforce that I do believe we are getting very close to the solution of the port incentives. I think the scenario has come to a critical point, not only to petrochemicals. If you read what we have published -- when I say we, I mean the Brazilian industry -- on the papers, mentioning the need to end these tax incentives and how many jobs it has jeopardized, Brazil has lost roughly 800,000 jobs in the industry and Brazil has a lot of money already because of right now it's incentivizing imports.

So we're close to the solution. If you read also how the Minister of Finance in Brazil has positioned himself in favor of a quick solution to that, it's quite clear that the government has decided to step in with this feud between local and state to find a solution and to end that.

So there is voting scheduled to happen at the end of this month. There is a open plenary session scheduled to happen next week where this issue will be openly discussed among senators but also with the participation of representatives from the industry. Several industrial associations like Abiquim, like (Abimark), that represent the chemical industry, (technical difficulty) (implement) and several other industries will be present there and the voting scheduled to happen at the last week of this month.

So let's just start by saying that I'm confident that we're going to have a solution to that. And the second -- building on that, the incentive right now being given to in court, in several cases, around 9%. If you look at the industry average EBITDA, Braskem had an average EBITDA margin up to 11% throughout the whole year.

And we know historically Braskem has had EBITDA margins higher than average. So 9% is not really a small difference, it's actually a huge difference. For several industrial

segments, it's a difference of being profitable or not, and we've been living with this huge difference for more than a year right now.

So once we have this solved, I would say, I think it opens the space for both things to happen. We do plan to go up from the current 65% market share that we have right now. If you look at what Braskem had back in 2010, we had 70%. I don't believe in a market where we don't have exports and imports, so I think at the end of the day as we reach a normal level of imports, we're going to have a market of imports, I don't know, 25% -- 20% to 25%, and we will fluctuate on that number.

We have another local producer, Focus on PVC, that has roughly 6% of the market. So at the end of the day, we're talking about a market share of between 70%, 75% to Braskem, so not that different from what we have right now.

As already mentioned, PVC, the new plant will help us gain market share and we do expect to have prices moving up to the benefit of both the petrochemical industry and also to the benefit of our customers. Not the price of petrochemicals, but also our customers will be able to reprice their products because right now they are under a lot of pressure with the imports of transformed plastic, of end products with plastic as well. So this change will benefit both the plastic convertors, but also Braskem.

So in the end, summarizing everything I told you, I do believe we're going to be able to do both things -- move prices up, both to our segment and to the plastic convertors. And this change won't be as big as the 9% it was the tax incentives because naturally the imported products not reaching all single markets in Brazil, but also a recovery in market share from Braskem getting close to more historical levels. I'll pass to --.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Just as a clarification, Fadigas, the request is actually to reduce the interstate tax from 12% to 4%, which would then represent a 60% reduction in the benefit. Is that the correct reading?

A - Carlos Fadigas

I'll put it in a different way. Right now, the state has the right to charge 12%. Out of this 12%, they are giving 9% to the importer and keeping 3% to themselves, (formula) reduce the 12% to 4%, naturally the state loses a lot of room to provide incentive. So will they keep 1% to --? It doesn't make any sense for them to give up the full 4%, then there is really no incentive to the states to do that. So we don't see a scenario in which the importers keep the 4%.

Really, there's some space to keep incentivizing imports, providing them with 2% and keeping 2% to themselves. Maybe they give 1%, keep 3% to themselves. Whatever the scenario, if you're talking about 1% or 2%, it's a very interesting reduction coming from 9% to 1%, or coming from 9% to 2%. So at the end of the day, it opens around of something between 7% and 8% in terms of the delta between the incentive they'll have right now and the incentives they will have in the future. But it's also like --.

Q - Paula Kovarsky {BIO 15363001 <GO>}

And your expectation? Sorry. Then your expectation is that you will get the 4%, so you don't see a scenario where perhaps the approval is somewhere in-between? And also, is it clear that if approved it is immediately enforceable? Or you have to, since it's part of the budgeting exercise, it will have to wait till the following year?

A - Carlos Fadigas

Okay. Let me start with the second. Once it's approved by the Senate, it's readily applicable. So even if product is already inside the country, it's subject to that. What the --.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay.

A - Carlos Fadigas

-- situation is the interstate tax. It means that when -- if the product leaves, let's say, one of these states that provide incentives, it leave the state, the state has no longer the right to 12%, it only has the right to 4%. And therefore, whatever is already inland in Brazil, the state has only 4% as room for maneuver. So it's readily -- we are not talking about increase in taxes. We are not talking about things that would lead us to wait for one fiscal year to be fully implemented. So it's readily implemented.

My expectation is that there are several alternatives being discussed right now the proposal -- the recent proposal mentions 4% readily applicable. There are discussions about doing it gradually, coming down from 12% to 4% over several years. It's quite clear to the government that the industry cannot live with that situation any longer, so the Minister of Finance has expressed that the position of the government is to go straight from 12% to 4% right now.

There are other demands that actually are more radical, demanding that to go down to as low as 1%. Nobody's really defending zero because if you put it -- that tax to zero, you give more incentive to the state to even keep auditing the imports. So there is a positive scenario in which it goes further below 4%.

There's another discussion that says let's remove several products from the benefits, but let's keep another one and keep the ones that don't compete with the local industry. I believe Brazil has a fairly diverse industry, people producing most of the things, so I think that at least the things we produce here -- and actually, we do produce petrochemicals -- would be excluded from that list. But my point of view is that it will be much better for the Brazilian industry and economy if we get rid from the incentives for all different segments regardless of how much you produce locally or not. Is that --.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay.

A - Carlos Fadigas

-- clear enough?

Q - Paula Kovarsky {BIO 15363001 <GO>}

Thank you, very clear. Yes, very clear.

A - Marcela Drehmer {BIO 16721570 <GO>}

Hi, Paula, it's Marcela. I'm going to answer your second question regarding the accounts receivables. What we saw back in September is that the number of (inaudible) was higher, so the synergies that we provided to our clients was higher. If you compare to the previous quarter, the two of them, okay? So that's why you get such a decrease for December. Actually, we adjusted for the same synergies that are used to provide to our clients.

So just to give an idea, in September the number of days for payments was around 22. In June was 17. And in December, if you do the same calculation, was around 13. So we came back to the same situation that we had in the Second Quarter and the First Quarter. And on top of that, we start to adjust the receivables that we have outside Brazil.

In our operations in the US, especially US right now, and what we do is like a (true sale) program, long-term one, when we definitely sell the risk to a third party. So we had this effect in December. But I would say that more important than that is that September was really an outlier, okay?

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. And a quick last question regarding other operating revenues. This line posted a big increase Fourth Quarter over third, so could you just let us -- just give us some color on what it is and if it's recurring or not?

A - Marcela Drehmer {BIO 16721570 <GO>}

Yes. We had an impact of some recovery from the insurance company regarding the accident that we had last year. So we had some additional revenue on this (top). We had some -- there is an explanation in the income statement regarding the non-recurring expenses related to the assets that were deferred.

And on top of that, we had some rebates that we received from our suppliers as a compensation of the (scale) negotiations that we are having right now. So it's -- as a consequence of the synergies that we are discussing with the suppliers. Okay?

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. So this is -- you understand this higher level is recurring then?

A - Marcela Drehmer {BIO 16721570 <GO>}

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Yes. Part of that -- regarding the negotiation with the suppliers, they are recurring. Okay?

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you. Thank you very much.

A - Marcela Drehmer {BIO 16721570 <GO>}

Thank you.

Operator

Thank you. The next question is from Gustavo Gattass from BTG. Please go ahead.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi, guys. I have two quick questions. The first one, I just wanted to understand because we were running some numbers on our own models, trying to figure out whether or not it was profitable today for Braskem to increase its production and effectively sell that into export markets, given the current pricing.

I just wanted to have a feel from you guys, are we likely to see Braskem maintaining a bit of a lower production rate? Or are you in a condition today where you feel comfortable that going back to more aggressive production rates in first and Second Quarter is going to be profitable, even if you can't find a market for the product domestically?

The second thing that I just want to check as well, I was happy to see the dividend in spite of the full year loss. And I just wanted to hear from you guys, could you talk about how you are seeing the dividend policy for Braskem in the future? Should we consider that from now on, even in tricky conditions from the point of view of the currency gains and losses, you will strive to have some kind of a dividend for your shareholders?

A - Carlos Fadigas

Gustavo, let me start with the first question on profitability of the exports. One important thing is that effective December last year, the whole industry, the exporters of the manufactured product are titled now to the Reintegra, that has given a tax credit of 3% to all exports.

Braskem is one of the largest exporters of Brazil, and this 3%, although it does not cover all of the taxes trapped in the production, it's a good way of giving us back some of these taxes as we export into (pro hydaz) with a 3% incentive to exporting helps make a difference on conditions where we have tight margins to export.

Another thing is that this time a new contract with Petrobras last year in June for propylene, Braskem historically was producing all the propylene used until the startup of Paulinia. On top of Paulinia, that does not consume propylene from our factories -- it buys from Petrobras refineries -- the assets that came with Quattor also by a lot of propylene from outside.

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So in the case of propylene, you have at this point about half of the PP capacity we have in Brazil that is buying propylene from Petrobras and not integrated in our crackers. And the contract we signed for propylene with Petrobras, it provides a win-win situation in which Petrobras, instead of using this propylene for liquid petroleum gas, it sells to Braskem as propylene.

And with that, we have some incentives to export, the align incentives in which we buy more propylene and we can run the polypropylene plants at the higher rate and export more propylene because there is an incentive to export, providing better returns to both Braskem and Petrobras as it a propylene supplier.

Finally, on PE, on exports of PE, we don't export PVC. On exports of PE, and I should also mention the byproducts, the (core) products, benzene, toluene, para-xylene, butadiene into one -- we are right now keeping track of prices. With the level of prices we had in January, it was hard to export to several markets, so you're right. In some cases, we do not have the competitiveness to run the crackers at full capacity. That happened in January.

Prices have moved up from January to February and now to March, we have coming up. I don't see how prices could stay at the level they were at the end of December, the beginning of January. That could only be explained in a brief period of time when we don't have China buying, when we have a very critical situation in Europe with doubts about the future of Greece and the Eurozone and so on.

So they have to move up. It doesn't have to move up only to Braskem, it has to move up to everybody. So that's why we already see the natural move in prices up that has allowed us to run crackers at full capacity. So if we have this trend going forward, based on the Reintegra, based on the new contract for propylene, based on better prices for both polyethylene and core products, I think we're going to be able to run the crackers at full capacity.

And that's why I have mentioned in the Portuguese call that we do plan to run the crackers close to full capacity as possible, (and that we) it's not 100%, something between 90% and 95%, where we have the crackers running at average at 83% last year. And makes a very big difference for an active cracker to run at 95% coming from 83%.

So we do expect to have the competitiveness going forward, but we did have a few moments in this year -- January, specifically -- where we did not have the capacity to export to certain markets, mainly Asia, both when we had the freight costs with the very depressed prices we had in Asia at the beginning of the year.

On dividends, your second question. I'm also glad that we were able to pay the nice BRL0.5 billion, BRL480 million to our shareholders. I also mentioned that we paid BRL670 million last year, so over the last two exercise we pay more than BRL1 billion in dividends to our shareholders -- BRL1.2 billion in dividends to our shareholders.

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We do want to keep paying dividends to the shareholders going forward and I believe this BRL400 million level could be a reasonable level for us to sustain over time. Naturally, we have to keep one eye on the cash disbursement to pay the dividend and another one on the very aggressive investment plans that Braskem has.

Keeping the financial strength of the Company is very important to us. We are right now starting the construction of the Mexican project, where it's a BRL3 billion investment in terms of fixed assets. It's a BRL4 billion investment, when you add to that the interest rate during the construction period, the working capital needed to run this business. And on top of that, we're also working on Comperj to demand some cash as well.

So what I'm trying to say is that investment is a priority. We do need to keep growing the Company, to make it even bigger and more competitive. Mexico and Comperj are priorities. They are both gas based, petrochemical complexes. But on top of that, we do believe we can keep paying the dividends. And naturally, we need to have a better environment around us to be able to do that.

And when I mention a better environment, I'm talking about the end of the incentives at the ports, I'm talking about the better exchange rate that we already have right now, at least at his point, and I'm talking about better spreads internationally. If you combine all these things, I'm confident that we could be able to sustain these levels, but even on top of that, make the investments we have to make.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you. Let me just ask a very quick follow-up. As far as the benefits on export and the benefits on the propylene that you mentioned, do you think they can make a meaningful contribution to the First Quarter or is there any reason why we should believe that this is something that only shows up through time, be it because of inventory builds that were made in different conditions or anything like that? Is that something that already pops up?

A - Carlos Fadigas

Gustavo, the Reintegra became effective last quarter, so we're going to have that throughout the First Quarter. The full quarter, for the first time, in the First Quarter of 2012.

The propylene contract was signed at the end of June. It became effective the first of July last year, so you already saw that. So no change from quarter-to-quarter. It was already there at the third and Fourth Quarter of last year.

So the only change quarter-over-quarter will be the benefit of Reintegra. Having said that, I have also to emphasize that although we see a positive trend in international spreads, we started the year at the very low point. That's why I also mentioned answering your previous question that it was so low that it was unsustainable.

I think we had the benefit of discussing a lot of these topics back in 2008 and 2009 when we saw something similar at the end of '08, the beginning of '09. And naturally, at that

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point, if you'll remember, and I'm sure you remember, we had polypropylene being sold at the lower price than propylene. We have PE being sold at the lower price than ethylene. So prices are all over the place and they didn't make much sense. We saw something similar to that at the end of the year, beginning of 2012.

So yes, we have better month-over-month, prices moving up, but we started at the very low year and doesn't show up the result of the First Quarter.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you.

Operator

Thank you. The next question is from Felipe Santos from JPMorgan. Please go ahead.

Q - Felipe Santos {BIO 16391255 <GO>}

Hi, Fadigas. My question is really just Comperj. We've seen that Petrobras has postponed the plans on the plant. And I would like to know how those affects our plans. This is a project that has been pushed for a while and you always are waiting for the Petrobras to -- for the (expand a little) on the plant? So how do you see this new change and how does it affect for you going forward? Thank you.

A - Carlos Fadigas

Felipe, very good question. Actually, I believe that every time you work on the Comperj, getting more and more confident that we're going to have the petrochemical Comperj coming to the market at the right time.

If you remember, if you go back some four or five years, back in '07, '08, everybody was concerned about the Comperj, it will be running in 2014 and eventually exporting the vast majority of the production and so on. So as of yet, I wouldn't say postponed, but you get adjusted to the real market need, I think that we have a better and better project because as it comes online later it comes online much more focused on internal markets rather than on exports.

The information we all have through the press -- and I'm talking about the refinery you mentioned that got postponed -- and I cannot talk on behalf of Petrobras, but also read what you read, that the refinery at the Comperj was postponed, if I'm not wrong, from the end of this year to the end of '13.

It does not affect our project. At this point, the Comperj -- the petrochemical Comperj we are discussing is going to be fed with gas and the refinery is being built at the same place by Petrobras. Unfortunately, we call both things with the same name with Comperj, but they are two very different things.

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Petrobras is building two refineries and we are building a petrochemical company. And this point, they have very little connection because the refinery will be focused on the production of diesel oil mainly and the raw material we're going to be using is going to be coming from the pre salted gas. So we are at this point very independent from the startup of the refinery.

So in summary, we are not affected by the startup date of the refinery. And second, as we review and work on the date to bring this product online, it's getting actually more possible as it gets delayed because it's going to come to the market at the right time rather than too soon.

Q - Felipe Santos {BIO 16391255 <GO>}

I see. That's great. And just one quick follow-up. Will the negotiations between Braskem and Petrobras get easier now, now that Maria das Gracas is on the board? She's on the board of Braskem as well. So does this change anything? Is this an improvement for you?

A - Carlos Fadigas

Could you state again what you mention about the board? I'm not sure I got it.

Q - Felipe Santos {BIO 16391255 <GO>}

Yes. Because Maria das Gracas Foster, the new CEO of Petrobras, is on the board of Braskem, right?

A - Carlos Fadigas

Okay. Yes. So let me comment. I understood now. Let me comment on that. We have had the benefit of having Maria das Gracas Foster on our board for, if I'm not wrong, about two years now. And I mention the benefit because not only Maria das Gracas but also Paulo Roberto Costa are both very knowledgeable, I would say, experts to a certain extent in petrochemicals. They've been involved with this segment for quite some time.

Petrobras has four board members in Braskem board. We have an 11 board member's board, so we have four out of 11. We also have on our board the financial, the CFO of Petrobras, Almir Barbassa, and also Francisco Pais, what they call Executive Manager (inaudible) with Petrobras.

And we have had the benefit of having a very strong presence of Petrobras, and that's very good because, as you all know, Petrobras has always been committed to the petrochemical sector. It started with Petrobras and we have been benefitted from their support. They were a very active player in consolidating the petrochemical segment. Specifically, Maria das Gracas and Paulo Roberto have a very deep knowledge of petrochemicals and they have supported us in every single decision.

So it's a very good combination. We have very good board members from other dredge and from BNDES as well. So that has helped the Company already, very -- a lot up to now.

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I'm not really sure who Petrobras will keep on Braskem's board. I report to the board, so I can only wait to see what the names they're going to keep or not on our board. I will be delighted to have the CEO of Petrobras at Braskem board, but at this point I'm skeptical that we're going to have this benefit. Maria das Gracas' agenda is probably very, very crowded at this point, and I don't see the CEO of the biggest Brazilian company having the time to sit on our board. If it happens, I'm going to be very happy, but it's like that she -- Petrobras will have another board member replacing her.

Having said all of that about the involvement of Petrobras and about the board, I also have to state that the discussion we have with them on gas has nothing to do with the ownership, with the 36% they have at Braskem. It's a very commercial-oriented, two important players, two big companies discussing what's the right balance in terms of price of raw material.

Naturally, Petrobras sees the need to have a strong petrochemical sector, and Braskem is the largest customer of Petrobras if you put the (inaudible) distribution aside, it's controlled by Petrobras. So we have been having very good discussions with them and negotiations with them. It won't be affected by the ownership they have at Braskem, but I believe it's going to be affected by the size of the buyer we are, the relevance of the petrochemical sector, the need to develop a fifth petrochemical complex in Brazil, the need to industrialize in Brazil, the raw material from the pre-salted.

I think that the government is going to get involved with that as well in providing tax incentives. And I do hope we can get some tax incentives to build Comperj and I believe it's absolutely fundamental to Brazil that we industrialize internally these natural resources rather than simply exporting crude oil and natural gas. It doesn't make any sense for the sixth biggest economy in the world to be an exporter -- only an exporter of natural resource.

So I think these will be more important factors than the presence of Maria das Gracas in our board.

Q - Felipe Santos {BIO 16391255 <GO>}

Thank you very much. That's all and wonderful.

A - Carlos Fadigas

Thanks, Felipe.

Operator

Thank you. The next question is from Marcus Sequeira from Deutsche Bank. Please go ahead.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Yes. Hello, everyone. Just one question regarding the United States producers. Given the fact that their margins are pretty good right now with the low gas prices, have you seen pressure from higher exporting to Brazil and a bit of pressure on prices as well because of that?

A - Carlos Fadigas

Yes. We have, Marcus. We have. Just to clarify things a little bit, right now US has the next position on feedstock for full year at least. As you convert ethane into ethylene and then into polyethylene, they do not have advantage in polypropylene. As the US moved away from naphtha and focused on cracking gas and cracking ethane, the US market was left with much -- with less propylene and with a lot of ethylene.

So you don't see imports in Brazil from the US on polypropylene. It's not relevant. They are not competitors to do that, but we do see -- and I believe that's your question -- we do see exports growth in exports from the US to Brazil in polyethylene, and that's a consequence of not only (depth) but two other things.

So in total, the three things would be the advantage they have right now coming from gas, coming from ethane. The ports, we have already talked a lot about, and the exchange rate. So it's a fast combination. I think that's what explains the current prices in Brazil and explains to a certain degree the loss of market share and the EBITDA margin we had in the Fourth Quarter as well.

The solution to that should come from a different exchange rate. It's not in our hands, but I do believe that we have already seen a better exchange rate. Just to put it in perspective, the average exchange rate for 2011 was BRL1.65 reais per dollar -- sorry, BRL1.67. Was the strongest exchange rate, strongest real we have ever seen since 1994. When you adjust that for inflation, but mainly through the elimination of the tax incentives at the ports. So the change should come from that.

Over time, we do believe that there's advantages that ethane has over naphtha. We'll revert back to normal balance. That's how the economy has operated, always operated. A lot of people right now is investing to use gas to produce petrochemicals and, as a consequence, price of gas should go up over time. The byproduct of (crack) and naphtha have gone up, so this has compensated somehow the advantage. Even Braskem some -- cost advantage, the naphtha producers, so it will balance over time.

That's why when we say we want to build two complexes based on gas. It's not only because of the advantage of gas, but it's to be more balanced going forward. So I gave you a very long answer, Marcus, but in summary, yes, we've seen this impact and we are working right now to offset this impact as we move forward.

Q - Marcus Sequeira {BIO 4622700 <GO>}

All right. Thank you very much for your answer. Thank you.

Operator

Thank you. And the next question is from Pedro Medeiros from Citigroup. Please go ahead.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Hi. Good morning, guys. I have three quick questions. The first one is, if you can, can you elaborate a little bit further about your scenario for prices for 2012 for BTX and butadiene and its potential contribution to the results in 2012 since you have an expansion project?

A - Carlos Fadigas

You want to go through the other questions, Pedro, and then we answer three of them?

Q - Pedro Medeiros {BIO 16187063 <GO>}

Well the second one is if you could comment a little bit more on the scope of the Green PP project that's potential investment size cracker location and if there are any indications that it can vertically integrate back on the chain, not to the exposed write-down of prices or quality.

And the last one, the third one, is I wanted to understand what exactly triggered the meaningful increase on the naphtha trading business for this year. And if you can share with us what type of margin contribution does that business present to you and if that is sustainable going forward?

A - Carlos Fadigas

Okay. Great. Let me start with benzene, toluene, and paraxylene, BTX, and with butadiene that you mentioned on your first question. First of all, as you know, we are going to start running a new butadiene plant in July. That should allow us growth production of butadiene from the current level of 300,000 to 310,000 tons of butadiene, up to 370,000. And it doesn't grow 100,000 tons because the plant would start running only in July, so we're going to have the full year benefit only in 2013.

In terms of BTX, just to give you the number, as we've run our plants, of naphtha crackers, at higher capacity but then it should move from roughly 1 million tons to close to 1.2 million tons of benzene, toluene and para-xylene, to give an idea in terms of volumes of this too.

In terms of contribution to the result of the Company, that is a much tougher question because you ask about a price scenario, and prices have been all over the place over the last six months. I would say that at this point I'm less ambitious about being able to forecast price.

I think that everybody left 2011 a little bit more humble with the capacity to predict what's going to happen in the economy. And that has to do with GDP growth that we all got wrong, convertor of plastics in Brazil that we all got wrong, and prices we are not expecting the regression in price at the end of the year.

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So what I'm trying to say is that we've seen price of butadiene at \$4,000 per ton and we've seen prices around \$2,000 per ton. And that makes a very big difference when we compare one year to the other. I give you the volume because price is something much more challenging.

Let me give you an idea in terms of price, where we see prices for, for instance, butadiene. We saw international price in dollars per ton on the Third Quarter of \$3,800 per ton. It came down to \$2,600 at the Fourth Quarter, so from \$3,800 in the Third Quarter to \$2,600 in the Fourth Quarter. And that's average for the quarter. Inside the quarter, you have everything from \$3,000 to \$2,000 in the Fourth Quarter.

We're expecting to get close to \$3,000 in an average in the First Quarter. It's already above that right now, but we came from a very low point in the beginning of the year. That's why it's roughly at \$3,200 at this point, but the average shouldn't be as high as that.

To be very honest with you, we avoid telling you where it's going go. I do believe that we should have numbers better than we had at the end of last year, but it's very hard to predict at this point.

We are doing what we can do in terms of increasing the capacity of butadiene, increasing the production of BTX as we run our crackers at higher rates, but it's very tough to predict butadiene. We've seen changes prices between the moment we ship the product from here to the moment it arrives in Asia, let alone trying to guess what is going to happen throughout 2012.

Let me promise you the following. We're going to have this CMAI conference at the end of this year -- oh, sorry, the end of this month. So when we talk again in 50 days to discuss the First Quarter of 2012, then I will be more adventurous and try to give you a forecast for butadiene and BTX and the Investor Relations team will have this forecast to share with you.

At this point, the whole industry has very low visibility from that. We've been discussing with CMAI and they have a very low visibility of that because we've seen also change in price of naphtha.

A very long answer. Let me go to polypropylene. Is your question on polypropylene focused in the US or you're also asking about Brazil as well?

Q - Pedro Medeiros {BIO 16187063 <GO>}

I'm sorry. I was trying to understand just the scope of (inaudible; multiple speakers) --.

A - Carlos Fadigas

Apologize (inaudible; multiple speakers). Go ahead, please.

Q - Pedro Medeiros {BIO 16187063 <GO>}

I'm sorry. No. I think you were going there, so --. What I was trying to understand for this, just if the Green PP investment is high, then --.

A - Carlos Fadigas

You are breaking up, Pedro. I'm sorry --.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Can you hear me well?

A - Carlos Fadigas

Now I can.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay. I'm sorry. So what I was trying to ask is the scope of the Green PP project, it's potential investment size and how much of that should be funded from your equity, if it is approved by the board? And what's the cracker location? Will that be in Triunfo as well or in another plant?

A - Carlos Fadigas

Okay. Great. Now I've got it. Green polypropylene, okay. As we invest in Green polypropylene, you're going to look for the same kind of debt that we look for when we started construction of the Green polyethylene. So naturally, at the time we invest we borrow money from the Brazilian Development Bank that, as we all know, for an investment they lend you money below Selic, below base interest rate in Brazil, so there's no reason for us to not borrow this kind of money.

In the case of the Green polyethylene, we also got prepayments from customers. Not plastic convertors, but traders. We still sell some volume of Green polyethylene to Asia and we got prepayments from customers that also help us fund the investment. So in the end of the day, it's going to be a mix of equity, debt from BNDES, and prepayments from customers.

We have not decided where we are going to build this plant. It's going to be built close to one of the crackers we have right now. Right now, we're ready (pursue) end by year actually very likely a location for that plant, but have not decided yet. We are discussing with these two states, which kind of support we can get from them to help us make this investment at this point.

So I'm going to move to your last question, on naphtha trade. Yes. We increased the trade of naphtha. That has to do with the sense of position we have been developing over time. We do have a very, I would say, knowledgeable team dealing with the purchase of not only naphtha, but also oil as a way to hedge, I would say, our needs of naphtha throughout the year.

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So we typically keep the purchase of Braskem a little bit above the need we have of physical material. And as we guarantee we have the shipments and as we guarantee we have this naphtha coming to Brazil, then we resell some of the excess positions.

With a very volatile year we had in 2011 with the Arab Spring, with Iran, with everything we could have on the menu of potential problems in naphtha production regions, we decided to be more careful. We decided to improve the level of pre-purchased naphtha and have guaranteed that we'd have enough product coming to Brazil.

Right now, Braskem is a very large buyer of naphtha in the international market. Petrobras is a very large buyer of naphtha as well. I think they have a 7 million ton contract with Braskem. I think they are buying externally roughly 3 million tons of naphtha. So that we in Brazil are in a position of buyer of 6 million tons, half of that Petrobras is buying to supply Braskem, half of that we are buying ourselves. And Petrobras has been buying more naphtha as they use this. Brazilian production of naphtha to be gathering, so that's why they've been importing more naphtha on top of importing more gasoline.

So as we've been more important with international market, we decide to be more protective, more careful, and that's why we bought a little bit more naphtha. And we would not expect a trend to keep going on, especially if we have more stable situation in the Middle East.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay. Thank you. Thank you, Fadigas.

Operator

And the next question is from Denis Parisien from Deutsche Bank. Please go ahead.

Q - Denis Parisien {BIO 20333702 <GO>}

Thanks very much for the call and for taking my question. I'm wondering about your rising debt levels, and do you have a target to get those levels down, especially in light of what I guess is not a completely sustainable working capital, a source of cash in the most recent quarter, still challenging price environment, spreads are still tight? And your debt levels continue to grind upward. Do you have a target for the end of the year or a long run target where you'd like to get to? And will you be doing any capital markets transactions this year that you can disclose to us to fund your various projects? Thanks very much.

A - Marcela Drehmer {BIO 16721570 <GO>}

Hi, Denis, this is Marcela. I think the target for the ending of the year should be -- go back to the level around (2.5). This is our target. Of course, that we are facing a challenging year and challenging First Quarter, especially, but our expectation is that the spread should move up in the second semester. So we understand that we can look for this target, we can go after this target.

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And to talk a little bit about the capital markets, we just capped the markets. We did a recap for the 10-year and also for the perpetual bond, we raised \$500 million. Of course, we continue to follow the market and spreads are moving down. Yields are moving down. And when it occurs, of course, that appears new opportunities to replace old debt with a new one. But we don't have anything in the short-term planned. We'll continue to follow even though if this level of yields is stable or not, so that's the strategy.

The strategy is the same that we have done so far. Follow the market. If there's opportunity to replace a more expensive debt to another one, we will do, but we don't have anything in place right now. Okay?

Q - Denis Parisien {BIO 20333702 <GO>}

Thank you.

Operator

And the next question is a follow-up question from Paula Kovarsky from BBA. Please go ahead.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Yes, just a follow-up question on CapEx. The total number for 2011 came up as a surprise, as back in November or so you were still talking about BRL1.7 billion. So could you just give us a little bit more color on what happened for that higher number and if the anticipations affect CapEx guidance for 2012?

But also, on the Mexican project, what's the equity assumption behind the numbers that you guys are guiding?

A - Carlos Fadigas

Okay. Paula, first of all, I think that -- putting aside a little bit the communication issue, I'll start by saying that the anticipation of the investment that we did last year was a very positive one. We moved from an expectation of BRL1.6 billion to BRL2.1 billion, and that was deliberated as we wanted to anticipate the startup of the -- especially the two plants in Brazil -- the butadiene and the PVC plant in the state of Alagoas.

On top of that, that decided to start a little bit earlier with project in Mexico because the rain cycles and we wanted to do the earthworks and what we call the (haplinage) in Portuguese, the earthworks in the site before the rainy season in Mexico. So it was a very positive movement, a proactive one from the Company management to guarantee we were going to have these plants running at the appropriate time.

Having said that, as we feel we should have provided more clarity the market, that we had decided to anticipate and to accelerate these two projects, and most likely around September we would have started resin (bed) with the investment community. Despite

the fact this was a positive movement, we could have done better in terms of communications.

For 2012, we do have this BRL1.7 billion target. Should it change, you can be sure that we're going to work better on the communications so you guys will know whether we are reducing that due to the environment around the Company or increasing that if we found that opportunity to increase the investment and so on.

In terms of Mexico, the CapEx for the project is BRL3 billion -- \$3 billion in terms of assets. So I'm talking about industrial assets. This number will go up to close to \$4 billion at the end of the project when we have to put the working capital for this business on top of the interest rate to all the construction tiers, the fees involved, and so on.

30% of that will come from equity. And as you know, right now we have a 65% share of the project, so at the end of the day I think the math leads to 10% -- roughly 10% of the total CapEx as an equity contribution from Braskem. As you take 30% of the equity and 65% of that coming from Braskem -- 20% of the total project.

So at the end of the day, the number between \$600 million, if you take the \$3 billion number, to \$800 million, if you take the \$4 billion total number of investment, should be invested over the next four years, including 2012. So it's a burden of between \$150 million and \$200 million per year is not a big burden to Braskem at this point as we move forward with this investment. Go ahead.

Q - Paula Kovarsky {BIO 15363001 <GO>}

The CapEx guidance includes only the equity contribution?

A - Marcela Drehmer {BIO 16721570 <GO>}

Exactly.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Okay. Clear. Very clear. Thank you.

A - Carlos Fadigas

And let me take this opportunity to also mention that the project financing is moving forward quite well. Marcela Drehmer and her team is very focused on that right now. We have one director based in Mexico at this point, has been more in Mexico than Brazil, flying from Mexico to Washington to close the financial package of this project.

And we have been receiving very good support, especially from the multi-lateral agencies. They are very committed to the project and providing us with the capital needed to deposit. We are working right now on the contracts and actually on guarantees and conditions, timetables, schedules, and so on.

But the main concept of the project and the support from the multi-lateral agencies has been assured and reinforced up to this point, and I'll take this opportunity to mention the very position contributions they've been making to the project. And also, congratulate the stellar team, Braskem team, on the work they've been doing on that, a very big project throughout the challenging period in the financial markets with European prices as well.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you. Thank you very much, Fadigas.

A - Carlos Fadigas

Thank you, too.

Operator

I'll turn the call over to Mr. Carlos Fadigas for closing remarks.

A - Carlos Fadigas

Let me make a brief remark as we finish here. I'd like to comment on three things. The first one on the environment we've encountered, that we've faced in 2011 and the beginning of 2012. Over the last several years -- and I actually could mention decades -- we haven't seen the combination of such challenge things. We talked about exchange rate, we had (sensitive) higher the Brazilian real, average Brazilian real back in 2011.

At the same time, we had, and still have, Brazilian states providing up to 10% tax incentives to imports to the country. We have the Eurozone in crisis throughout the whole year and it got much worse at the end of the year, and that has led to China leaving its buying position at the end of the year and it stopped buying.

We saw collapse in price at the end of the year. We saw -- as we had an economic crisis, we saw the price of oil staying up and it's surprisingly up also now and it has to do with the fact that at the same time we had an economic crisis that should have led to lower oil prices, we also had problems in the Middle East, Arab Spring, problems in Iran. So we had a tough combination of an economic crisis with expensive oil and expensive naphtha.

We had very little growth for Brazil. We came from 7.5% GDP growth in 2010 and we had 2.7% last year, a disappointment to everyone. And as we had stronger Brazilian real, we had inflation and labor in Brazil that was higher than 6.5% -- actually, close to 8%.

So I'll tell you, I've been in this industry for two decades now. We have people that have been in this industry for more than three decades at this point and we have never seen such a tough combination that we had last year, and we still saw in the very beginning of this year.

Having said that, we are working right now, first of all, to change the environment, and we can and we have to act to change this environment. As one of the biggest industrial

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companies in Brazil, as a fundamental Company to the whole chemical segment of the Brazilian economy, Braskem has been very proactive in talking to the government in terms of how it should address issues related to the loss of industrial fabric in Brazil, as we saw plants close and investments going away from Brazil, and what they should do to stop the tax incentive as soon as possible, what Brazil could do in terms of exchange rate, and so on.

And we are working right now, trying to influence the government to develop a political industry for the petrochemical and plastics segment in Brazil because it's needed. We saw the government already announce the reduction of the taxes on labor. For specifically the plastic segment, it shows four segments and the plastics segment is involved as one that's going to be contemplated.

So on top of saying that we are working to influence the government, I should say also that we've seen a proactive government that has been accepting these suggestions, that has been working to change environment.

We have always been working very hard internally. We even captured BRL400 million in synergies last year. We've got roughly BRL170 million in fixed costs last year. That's why coming from 2010 we had inflation of roughly between 6.5% and 8% from one year to the other and the fixed costs of the Company did not move up. And it didn't move up because we cut costs internally as much as we could.

We implemented a new relationship program with customers that we call (Visio), comes from the word vision, that has led to several initiatives that has helped prevent further loss in market share.

I would say that we have prepared our plants to be in 2012 with no maintenance stoppage scheduled for the crackers. So we had three maintenance stoppages, we had a blackout last year, and we started this year in a much better condition. And we're going to have traditional plants and new butadiene plant and a new PVC plant this year, so we did everything we could back in 2011 to keep Braskem as competitive as possible.

And I am somehow glad that we only lost 3% EBITDA in dollars from 2010 to 2011. The number 2011 level was only 3% lower than the previous year. And I've already mentioned how challenging last year was, so I think that we showed the capacity to react to the challenging scenario around us and tried to keep EBITDA as high as we could. Even if we take the number in Brazilian reais, it is actually a consequence of the exchange rate, we lost 8% EBITDA last year. So we've done our homework and we still have a lot to do as we work here in 2012 to have a better yet.

Having mentioned the environment and the things we did, I'd like to leave and finish this call with a positive word on the future of Braskem. I'm still absolutely confident we're going to have a very positive and bright future. We have in Brazil at this point raw material that is becoming more and more available with the pre-salt.

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I don't see Brazil as the sixth largest economy in the world exporting natural resources, so we will need the Comperj to industrialize the gas we're going to be producing in the pre-salt area. Brazil is very fortunate to have at the same time a strong, dynamic domestic market, to have raw material for the petrochemical segment, and to have such a large petrochemical Company that is able to actually act on this opportunity and build Comperj.

We've been working over the last 20 years since the privatization program to create what is now the largest petrochemical Company in the Americas, what is now the fifth largest petrochemical Company in the world, that is based in a country that is rich in natural resource and is fortunate to have a strong domestic market. We're going to have a new petrochemical complex running in 2015 in Mexico based on this same competitive theme as we're going to have at Comperj.

So as we go through these, I would say, challenging years of 2011 and the beginning of 2012, I'd like to reinforce the belief we have in the petrochemical segment, the belief we have in the plastics segment in Brazil, and the commitment that we have with this segment, and I believe the investment level has also shown that what we have seen is in line with what we are doing.

So I'm still optimistic and confident that we're going to have a fantastic petrochemical segment and a much bigger, more competitive, and more profitable Braskem going forward.

Thank you, again for your time and your attention, and I wish you all will have a good weekend. And see you in roughly 50, 60 days to discuss the First Quarter results of Braskem. Thanks again and bye-bye.

Operator

Thank you. This concludes today's Braskem Earnings Conference Call. You may disconnect your lines at this time.

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