

Q1 2007 Earnings Call

Company Participants

- Carlos Fadigas, CFO
- Jose Carlos Grubisich, CEO
- Luiz Henrique Valverde, IRO

Other Participants

- Sergio Torres, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we wish to welcome everyone to Braskem's First Quarter 2007 Earnings Conference Call. Today with us we have Mr. Jose Carlos Grubisich, CEO, Carlos Fadigas, CFO, and Luiz Henrique Valverde, IRO for Braskem. 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.

(Operator Instructions)

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 and 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. Statements are based on the beliefs and assumptions of Braskem management's 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 vary 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 Mr. Luiz Valverde, Braskem's IRO. Mr. Valverde, you may begin your conference.

Luiz Henrique Valverde

FINAL

Good morning, ladies and gentlemen. First of all, we'd like to thank you for attending this conference call hosted by Braskem at this time to discuss our First Quarter 2007 results. I just want to remind you that the results discussed here have been adjusted to eliminate the effects of the proportional consolidation prescribed by the Brazilian Securities Commission CVM Instruction 247. Thus, only those investments directly managed by Braskem were consolidated while the Company's equity interests in Corpesul and Petroflex were recognized on the equity accounting methods. So let's now move to slide number three. Slide number three represents the highlights for the period. With the acquisition of Group Ipiranga petrochemical assets including the 29.46% participation in Copesul's voting and total capital, as already widely disclosed to the market, Braskem took an important step toward the consolidation of the petrochemical sector in Brazil with the consolidation of the Triunfo Complex in Rio Grande do Sul where it's already operates polyethylene and polypropylene plants. The completion of this transaction occurred at the plant on April 18th, 2007 with a total payment of 2.1 billion reais out of which 652 million reais were disposed by Braskem.

Also related to this transaction and as already announced at the market, Braskem has provided for the access of a bridge loan of up to \$1.2 billion for a period of two years at extremely competitive rates, 35 basis points above LIBOR for the first year and 55 basis points above LIBOR in the second year.

As regarding to CADE, Brazilian antitrust authority, Braskem has draw [ph] the Transaction Reversibility Preservation Agreements as revoked [ph] in the restrictions imposed by that authority in ensuring the ownership and the management of the petrochemical asset. In this period Directors and Executive Officers have been elected in Corpesul and Ipiranga Petrochemical. On April 18th, 2007 Braskem filed a request for a public tender offer to acquire shares and delist Corpesul. The price offered is 37.60 reais per share.

Related to our project in Venezuela, some important developments have occurred during this First Quarter 2007 with the signing of the PDAs, project development agreements, and establishing joint ventures with Pequiven. As already disclosed to the market, Braskem is analyzing the possibility of implementing two projects in Venezuela. First one, a polypropylene plant with 500-- 450,000 tons of annual projection capacity with investment of \$370 million. The unit has previously been announced for El Tablazo and will now be developed in the Jose Complex. The plant is expected to start operations by the end of 2009.

The second project, which is an ethane cracker with a projection capacity of 1.3 million tons per year of ethylene coupled with a 1.1 million tons per year polyethylene facility and other petrochemical products. Investments will amount-- in this new complex-- will amount \$2.5 billion and those plants are expected to start operations by the end of 2011. These two joint ventures will be developed in partnership with Pequiven in equal conditions with a capital structure of 30% equity, 70% debt. Braskem's disbursement in these two projects will amount to approximately \$450 million in the period of 2007 and to 2011.

Moving then to the next slide, number four, we highlight all the major accomplishments during this period. Politenno's incorporation on April 2, 2007 extraordinary general meetings of Braskem and Politenno approved the merger of Politenno, thus completing the

Bloomberg Transcript

FINAL

acquisition process started one year before. During the month of April Politeno shareholders were offered the option to exercise the right of appraisal or to receive in exchange for their shares Braskem's class A preferred shares. The merger was successfully completed resulting in the issuance of 1,533,670 class A preferred shares. The Company capital was increased by 19.2 [ph] million reais, which represents only 0.4% of its total capital. This event will help to accelerate the capture alternatives with Politeno reassessed at \$143 million in that present time.

On April 2nd Braskem entered into a contract with Refinaria Alberto Pasqualini located in Canoas, state of Rio Grande do Sul for the initial supply of 70,000 tons of propylene per year with potential to exceed 100,000 tons per year of propylene. Such volume will serve as a complement to the supply of its current plant at the Southern Petrochemical complex and ensure the supply of raw material for future expansion.

Related to Petroquímica Paulínia, which is a joint venture with Petrobras in the proportion of 60% for Braskem and 40% for Petrobras and with the objective to build a plant with an initial projection capacity [ph] of 300,000 tons per year of polypropylene, there can be potential increases 350,000 tons of projection capacity. This plant is-- this project is performing according to what was initially scheduled and this plant is expected to start operations in 2Q '08.

Moving to the next slide, which is slide number five, we show the resin market world [ph] and Brazil. The Brazilian thermoplastic resin market PE per (inaudible) has grown at a sustainable pace since 1st Q '06 driven by a number of factors including the growth of the Brazilian economy, the increased offer of credit in the country, the reduction in the referenced interest rate and the higher available income.

The main sectors to where this growth is being observed are the automotive, civil construction, the consumer group and more recently the agri business. As shown in this slide comparing 1Q '07 with 1Q '06, there has been an increase in demand for all resins. Consolidating our 4.3% growth with a special (inaudible) results in PVC, which was benefited by the performance of the civil construction industry.

For the polyethylene market growth amounted to 1% impacted by the imports of manufactured groups. Comparing 1Q '07 with 4Q '06 we notice a 10% market growth evidencing the seasonality of the petrochemical business, chiefly vis-a-vis the cyclical reduction of volumes usually recorded during 4Qs.

Also, Braskem's resin sale's volume in the domestic market reported a 3% drop in the first Q '07 against first Q '06 chiefly due to the reduction in polyethylene sales, which were 10% due to the arrival of a new competitor in the region. Considering total sales volume, which consolidates domestic and international markets, Braskem's resin sales reported a growth of roughly 7% in 1Q '07 against 1Q '06.

In slide number six we show some of the many economic effects observed during the First Quarter of 2007 and comparing periods. In first Q '07 Braskem's net revenue was 2.9 billion reais, up 5% from 1Q '06. This increase is mainly related to higher ethylene and

resin sales volume and to a 12% increase in the average international price of the three resins. These factors were partially offset by depreciation in the real of 4% in average.

Exports in 1st Q '07 amounted to \$329 million representing 24% of the net revenue and remains 24% above exports in 1st Q '06, which were up [ph] \$266 million. Basically large exported volumes combined with the higher prices at the international markets accounted for the positive variation.

Braskem's EBITDA amounted to 432 million reals in 1st Q '07 representing a 4% increase related to the 470 million reals obtained in 1st Q '06. It is important to note that during 1st Q '06 a non-recurring revenue of 112 million reals was reported due to a Petrofin's [ph] credit recovery and that in the 1st Q '07 we have a non-recurring revenue of 17 million reals arriving from the adjustment of the provision for future disbursement by Braskem upon the settlement of the Petros plan which involves Braskem's employees who were former employees of Copene.

Excluding these non-recurring effects EBITDA would be 415 million reals, against 305 million reals representing a substantial increase of 36%. There's an evidence of Braskem's improved operating performance. When expressed in dollars EBITDA reported an increase of 8% coming from \$190 million in the 1st Q '06 to \$205 million in the first Q '07.

Braskem reported a net profit of 107 million reals in 1Q '07 against a 124 million reals profits in 1Q '06. This 17 million negative variation is due mainly to the acknowledgement of 84 million reals in non-recurring revenue net of taxes in 1st Q '06. Braskem's financial leverage measured by the net debt to EBITDA for the last 12 months' ratio decreased from 2.72 times at the end of the fourth Q '06 to 2.51 times on March 31st, 2007 which is perfectly compatible with Braskem's cash generation and much lower than the average term of investments, which is 17 years.

Moving now to the next slide, slide number seven, we have the most important factors impact in the EBITDA variation during the First Quarter of 2007 vis-a-vis 1 Q '06. Braskem's EBITDA for the first Q '07 was 432 million reals with a 15.1% margin on net revenue. This represented a 4% growth when compared to an EBITDA of 470 million reals with a 15.3% margin in first Q '06. Both periods include non-recurring revenues in the amount of 112 million reals for the first Q '06 and they're off [ph] 17 million reals for the first Q '07. Without giving effect of this non-recurring items EBITDA for 1st Q '07 would be 415 million reals, a 36% growth compared to the 305 million reals in the first Q '06.

The sectors of the commercial policy, which sustained domestic prices aligned with those of the international markets, has had a positive impact of 241 million reals. The increase in sales volume at Braskem has had a positive impact of 45 million reals. The increase in raw material costs, mainly naphtha, ethylene, propylene has had a negative impact of 54 million reals. The average exchange rate of variation between the two periods, which amounted to a 4% appreciation of the real vis-a-vis the dollar had a negative impact of 39 million reals.

FINAL

Comparing the two quarters we also notice an increase in selling expenses of 47 million reais coming from number one high expenses with export, meaning logistics and commissions as a consequence of an increase in exports, which amounted to 28 million reais; number two, increase in the provision for doubtful accounts in the amount of 14 million reais and number three, volume bonus granted to (inaudible) in the amount of 10 million reais.

In sales, general and administrative expenses there was 12 million reais increase arising from number one, expenses with personnel, 6 million reais, and number two, auditing consulting, legal services in the amount of 16 million reais which was partially offset by this 17 million reais non-recurring revenue previously mentioned. Thus, during the First Quarter of 2007 Braskem reported an EBITDA of 432 million reais, equivalent to \$205 million.

Moving now to the next slide, slide number eight, we show the net financial results for the 1st Q '07, which was an expense of 113 million reais against 239 million in the previous quarter representing a 53% decrease. The 4.1% depreciation in the reais vis-a-vis the dollar in this quarter compared to an appreciation of 1.7% in the fourth Q '06 had a positive impact on the first Q '07 financial results in the foreign exchange variation line amounting to 97 million reais. Excluding the effects of the exchange in monetary variation financial results reported an expense of 203 million reais, a 7% [ph] drop if compared to 4Q '06 results, which amounted to 218 million reais. And the main reasons for this variations are reduction in taxes and banking expenses in the amount of 50 million and reduction in all the financial expenses including expenses with hedge contracts, commissions on financing operations and other expenses, which amount to 5 million reais.

Compared to the first Q '06 the 15 million reais or 8% increase is primarily due to the fact that Braskem has invested a greater portion of its cash in reais indexed to the CDI giving rise to a higher monetary variation line against a lower result in interest on financial req [ph]. Up to the limit of 100% of the CDI return on these investments is recorded in the monetary variation line.

Moving now to the next slide, slide number nine, the simplified income statement shows the evolution of the main line and our results for the quarters of comparison. Basically we have already commented on the performance of this first Q '07. However, we would like to highlight some important issues. The first, the consistency of Braskem's operating performance as evidenced by the 36% growth in EBITDA between first Q '07 and first Q '06 excluding the non-recurring tax that have already been disclosed before. Also, the improved financial results when compared to 4Q '06. Also, the Copesul's good performance with an impact of 56 million reais in the equity income line, thus evidencing [ph] the quality of the assets of the asset Copesul itself, and lastly as a consequence of what we have discussed in this presentation, Braskem has shown a net profit of 107 million reais in the first Q '07.

Moving to the next slide, slide number ten, we show Braskem's figures in 2006 pro forma basis contemplating the consolidation of the petrochemical assets of the Ipiranga Group including its stake at Copesul. With the conclusion of this transaction conducted in partnership with Petrobras Braskem will strengthen even more its leadership in the thermoplastic resin market contributing to an increase in competitiveness of the Brazilian

Bloomberg Transcript

petrochemical chain by a competitive integration of the first and second generation and enabling access to its main raw materials, namely ethylene and propylene.

Braskem is now a \$10 billion Company in terms of gross revenue with an EBITDA of 1.4 billion [ph] and also important with its financial leverage almost unchanged after this acquisition. Therefore, with implementation the acquisition group Ipiranga Petrochemical assets and its projects in Brazil and abroad, Braskem moves forward toward implementation of its strategic intent of becoming one of the ten largest petrochemical companies in the world according to market value.

Well ladies and gentlemen. this concludes our prepared remarks and we may start our Q and A session. Thank you.

Questions And Answers

Operator

(Operator Instructions)

Our first question is coming from Sergio Torres of Bear, Stearns & Co.

Q - Sergio Torres {BIO 7078415 <GO>}

I have a couple of question. One is regarding to your SG&A. I know you in your Press Release you split the analysis between selling expenses and administrative expenses, I tend to look at them combined, but regardless I see that the level of First Quarter SG&A is very close to that of the Fourth Quarter and I understand that a lot of it has to do with the high level of exports and I was wondering considering the implementation of your new program for lowering expenses, how much can we expect of these to come down in the subsequent quarters and how much of this would remain high and linked to the high level of exports?

A - Carlos Fadigas

Hi, Sergio. This is Carlos Fadigas speaking. First of all, we do have to look at these expenses separately because they have a very different dynamic one from the other. Regarding administrative expenses we are now implementing the gains and capturing the gains from both (inaudible) Braskem and from the SAP [ph] and the (inaudible) and therefore we expect to reduce the fixed cost of the Company throughout the year of 2007. We are also starting a program to map all the fixed costs we have and we are going to start working on reducing these costs through the year not only capturing the gains of the (inaudible) Braskem and investing [ph] (inaudible), but also making an effort to reduce these costs. So towards the end of the year with the implementation of these reductions we may see an important reduction in fixed costs, maybe 2percentage points when compared to net revenue of the Company.

Regarding sales expenses, these numbers are going to vary throughout the year and this will mainly depend on the level of exports that we have. Most of these costs are related

FINAL

to exports, at least some of them, and these numbers are going to vary throughout the year. And I wouldn't say that the level that we had by the end of last year and the level we had by the beginning of this year is the level we're going to have throughout 2007, but we're going to have to follow this number quarter by quarter.

Q - Sergio Torres {BIO 7078415 <GO>}

One follow-up. Thank you for the answer. Is the salary increase that you mentioned that had occurred during the quarter, is that all that should we expect for the year or do you have other segments of the Company that you still have to adjust and realign to this new level of salaries and if that is the case, how do you expect for that realignment in salaries to be reflected once you consolidate IPQ and Corpesul?

A - Carlos Fadigas

Sergio, most of the realignment in salaries have already been done, so the salaries in Brazilian reais won't move significantly throughout the year. So what had to be done has been already done and has already factored the First Quarter of '07. Naturally, this line will vary when expressing U.S. dollars, but we won't have significant increase in salaries throughout the year again.

Q - Sergio Torres {BIO 7078415 <GO>}

Okay. I have another question. I have another two questions for that, but I don't want to monopolize the mike. You can take others and then maybe I'll come back?

A - Carlos Fadigas

Go ahead then.

Q - Sergio Torres {BIO 7078415 <GO>}

Okay. Okay. Thanks. One has to do with the pricing in the domestic market. Naphtha prices in the area has increased in March, so between-- well, substantially in March and April, so we can see already we're going to have good visibility of what your naphtha costs will be for the Second Quarter provided the one month lag, so March will impact April and April will impact May and it looks like May prices are remaining quite strong. So in anticipation of these higher naphtha costs, are you starting to pursue initiatives to raise prices in the domestic market? And I've seen flat prices in polyethylene prices in Asia and I wonder how-- I'd like to hear how flexible could you be in raising prices domestically?

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

You're right. Naphtha price has erupted over March and April and this is going to have a kind of mechanical impact in our average naphtha costs in the Second Quarter and it's not difficult to make the calculation on how this is going to impact the petrochemical industry going into this quarter. What we do expect is to increase our selling prices. Polyethylene, polypropylene and PVC starting in this May between 5 to 10% in reais and that's been implemented. And we do expect to have a kind of recovery in the international selling prices in May and June, which will enable us to implement an additional price increase eventually in June and that's just to keep our profitability in line with what we had in the

Bloomberg Transcript

Third Quarter and trying to recover the level of profitability we did record in the Fourth Quarter of the year, which was the highest in 2006. So we are going to increase 5 to 10% in May and as prices might go in the right direction in the international market in May, we do expect to have a follow-up in June.

Q - Sergio Torres {BIO 7078415 <GO>}

Okay, that's good news. One question is, could you please clarify for us the final implication of this new agreement you had with the antitrust entity in Brazil, what can you do and what you cannot do when managing the assets of Corpesul and Ipiranga Petrochemical? I remember in the last conference call when you discussed the transaction you mentioned that you wanted to redistribute the allocation of polyethylene production from high-density to one side to low-density exclusively to another and also to increase the reputation of the polypropylene assets in IPQ. How these restrictions or this new agreement that you proposed to CADE allow you to do that in the time frame that you originally expected and which other initiatives have you come up with and which others you cannot perform according to this agreement?

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

We do understand that this new agreement with the Brazilian FTC allows Braskem to implement all the key action plans we had identified and increase in competitiveness and productivity of Corpesul Ipiranga Petrochemical and Ipiranga Chemical as separate legal entities. So we do want to have a very clear alignment between the interest of the different shareholders of different companies, so we are going to make it clear that those assets will be measured on a standalone basis. But starting next week we are putting in place some working groups to identify opportunities in each individual company to elaborate on best practices and common knowledge we have within the system Ipiranga, Corpesul and Braskem in order to implement starting from now all the optimizations, which will lead to cost reduction or portfolio optimization. What has been agreed with the Brazilian CADE enabled Braskem to place full flexibility on the Management decisions.

What we do need to ensure is that the operation could be reversible if the final decision is not positive, but all of the decisions we are going to implement are inline with the negotiations with CADE. We can check portfolio because we can reverse by the end of the day if needed, but we do want to leverage starting from now everything which can be done to reduce cost and improve profitability of each individual company. Note that the negotiation with CADE is related to let's say legal change in corporation or integration of assets. If we have a major change in physical-- changes in the industrial production or trademarks and product change, which could not be re-implemented in the future or major change in terms of supply chain, raw material acquisition, but we think that we can implement all the action plans without jeopardizing the agreement we have with CADE at this point in time.

Q - Sergio Torres {BIO 7078415 <GO>}

Okay, that's good news as well and, Jose Carlos, last question, I promise-- in your discussions with the developing banks that could potentially help you finance the wholesale project in Venezuela (inaudible) financed that project, what has been their concern regarding a project in that country in particular? I understand your point of view

that we have discussed. You have been quite vocal in the past about your knowledge and track record for Braskem and Odebrecht in Venezuela and I know you're comfortable with that risk, but how comfortable the development banks that you have been spoken to are with the country risk in Venezuela?

A - Carlos Fadigas

The concerns of the bank, not only the development banks, but also the local banks, the international banks that have a local presence are much more related to the project itself and the risks associated with a project financed by nature than with geography. We have to bear in mind that the project has an international flavor to it, meaning that it's going to purchase raw material at a fixed price that is going to make it competitive internationally and it's going to sell most of its products abroad outside Venezuela and receive hard currency from that. So at the end of the day it's a project in the coast line of Venezuela fully dedicated to export, at least export the vast majority of its products, with equipment that are going to be purchased abroad with international quality stock management, so it's to a certain extent an international product located in Venezuela, so that's something that helps a lot of the products not a project being able to choose to supply the local market or with equipment to chase locally or which a product that has a local dominated price, so that helps a lot the project itself.

Naturally, all the banks, not only the development banks, but all the banks are going to want to have some assurance regarding the price of the raw material. That's something that's critical to every single project financed and I believe this could be particularly important and especially important in Venezuela, so the price of the raw material and the kind of tax that are applied, that apply to the project itself, but apart from that we haven't seen special concerns regarding the fact the project is located in Venezuela. At least not formally, we haven't received any kind of questions or they haven't expressed formally any concern with the fact that the project is located in Venezuela.

Q - Sergio Torres {BIO 7078415 <GO>}

So you're saying that nationalization risk is something that it has not been a main concern to the banks so far?

A - Carlos Fadigas

If you think about it Sergio, I don't want to discuss the risk of internalization per se, but at the end of the day for the debt holder who controls the equity it's not of importance, so their concern about that the fact of the product should turn in results-- to show results and to repay the debt and that's something that this project is very capable of. If you want to discuss the risk of nationalization that's something else and then we can discuss that, but that's not the main concern of the banks and that probably won't be an obstacle in financing the project. I don't think that's going to be on the table when discussing the structure of the credit finance.

Q - Sergio Torres {BIO 7078415 <GO>}

I understand. Thank you very much, everybody, for your time.

Operator

(Operator Instructions)

There appear to be no further questions. I would now like to turn the floor back to Mr. Grubisich for any closing remarks.

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

Okay, so thank you all for attending this international conference call and we are here (inaudible) if you have any additional questions or any doubt about our First Quarter results, you can call us anytime. Thank you very much, and have a nice weekend.

Operator

Thank you. This does conclude today's Braskem's First Quarter 2007 earnings conference call. You may disconnect your lines at this time and have a wonderful day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript