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Q1 2006 Earnings Call

Company Participants

- Jose Carlos Grubisich, CEO
- Jose Marcos Treiger, IRO
- Paul Altit, CFO

Other Participants

- Daniella Guanabara, Analyst
- Frank Mcgann, Analyst
- Marc Mccarthy, Analyst
- Marco Siqueira, Analyst
- Ricardo Cavanagh, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to the Braskem's First Quarter 2006 earnings conference call. Today with us we have Jose Carlos Grubisich, CEO, Paul Altit, CFO and Jose Marcos Treiger, IRO for Braskem. We would like to inform you that this event is being recorded and all participants will be on 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)

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 the beliefs and assumptions of Braskem's 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 Jose Marcos Treiger, the IRO at Braskem. Mr. Treiger, you may begin your conference.

Jose Marcos Treiger

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Thank you. Ladies and gentlemen. good morning and once again thank you very much for attending Braskem's quarterly conference call. Just like in previous quarters we will make a brief slide presentation commenting on our Company's performance in the First Quarter of 2006. After that will begin the second part of our conference call when we will open a q-and-a session during which our CEO, Jose Carlos Grubisich and our CFO Paul Altit will be available to answer your questions.

So let us please move now to our slide number three where we shall begin our remarks.

On slide number three we present some highlights for the First Quarter of 2006 as a whole. And in the First Quarter of the current year total sales volume of general plastic resins, polyethylene, polypropylene and PVC have increased by 1% as compared to the Fourth Quarter of last year.

In the domestic market, sales of polypropylene increased by 7% when compared to the previous quarter. Sales of PVC in turn were increased by 17% when compared to the First Quarter of last year and especially in the domestic market where 14,000 additional tons were sold, reflecting the Brazilian market growth potential for PVC.

When expressed in U.S. dollars net revenue in the First Quarter of â€˜06 also remained stable at $1.2 billion whilst in Reais net revenue decreased by 14% registering BRL2.6b.

Braskem continues to capture increasingly positive results from Braskem Plus, its operational excellence and business competitiveness program which should allow for its completion ahead of schedule.

Since the beginning of the Braskem Plus program through March 2006 our Company has captured BRL270 million in productivity gains on an analyzed and recurring basis. And this amount in fact surpasses my BRL52 million initial estimates for the period.

Braskem's net income reached BRL122 million in the First Quarter of 2006 as compared to BRL206 million registered in the First Quarter of last year and to a loss of BRL5 million in the Fourth Quarter of â€˜05.

In April Braskem signed an agreement with Pequiven from Venezuela for the implementation of the Jose project which is expected to be the most competitive of its kind in the Americas. This project is intended to produce 1.2 million tons of ethylene from natural gas yearly and in addition to polyethylene and other second generation petrochemical products as well.

Standard and Poor's and Fitch have both revised and upgraded Braskem's corporate credit ratings. S&P revised Braskem's ratings to brAA with a stable outlook in the national scale while Fitch raised it to BB with a positive outlook in the foreign currency scale and above the (business ordinary) rating.

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We have issued our second perpetual bonds with an offering of $200 million at a 9% coupon. With its issuance we have reduced even further Braskem's costs of capital and with our debt to average maturity from nine years to 16 years.

Let us move now to the next slide, number four and here we observe that the possible recovery in the domestic market for general plastic resins is already under way, especially with respect to polypropylene and PVC.

Braskem's performance in the PVC market improved in line with overall markets while in the polypropylene market the Company's performance was impacted by some scheduled and previously programmed stoppages which lasted for nine days.

The reduction observed in polyethylene reflects two factors combined. First, the market adjustment resulting from the entrance of a new player RioPolymers or RioPol in the State of Rio de Janeiro. And second, the non-recurring sales of 12,000 tons of polyethylene by Braskem to RioPol during the First Quarter of last year to enable RioPolymers' pre-marketing activities and which was not repeated now in the First Quarter of 2006.

In this First Quarter of 2006 Braskem made gains in strategy (inaudible) and profitability over sales volumes and expects to reduce its inventories and possible higher price levels as of the Second Quarter of 2006.

Moving ahead now to the slide number four. Aligned with our strategy to play a very active role in the consolidation of the Brazil petrochemical sector, Braskem has a tight control over Politeno. As a result Braskem currently owns 100% of Politeno's voting capital and 96.15% of its total capital. The usual payment established was equivalent to $111 million and the total amount of the transaction will be adjusted according to Politeno's own operational performance over the next 18 months which will be continuously measuring the spread between polyethylenes and ethylene margins in the domestic market.

Only for the sake of comparison, the increase in production capacity of polyethylene in Braskem resulting from this very acquisition of Politeno is equivalent to 75% of RioPol's production capacity; currently the second largest leader in the market. Braskem's polyethylene total annual production capacity reaches now 1.2 million tons a year. In fact, the acquisition of Politeno increases Braskem's level of integration in Camacari in the State of Maria. As of now Braskem's second generation plants do consume 80% of the total ethylene produced at the basic petrochemicals business unit in Camacari.

In commercial terms the Company increases and diversifies even further its portfolio of products to include now a new breed of resins, medium density polyethylene as well as (EVE), the (inaudible) in products utilized in the production of shoes and educational toys for example.

In addition the acquisition of Politeno benefits Braskem with a well recognized set of comparisons including recognized product choice and recognized technological innovation.

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Braskem intends to operate Politeno at the limit of its current annual production capacity of 320,000 tons of polyethylene and also plans to raise that production level to 400,000 tons per year in 2007 with (advanced in making) an investment of only $10m.

Let's move now to the slide number six. During the First Quarter of 2006 in order to be prepared to take advantage of the possibility of a higher domestic demand for Braskem's products as of the Second Quarter of this year the Company scheduled major stoppages in these second generation plants. As a result, the sales capacity utilization rate in the First Quarter of 2006 decreased due to one, a major stoppage at (Polyalbertz) polyethylene plant in the state of Bahia. Two, to a maintenance stoppage in January and February in one of Braskem's polypropylene plants in (the major) complex in the state of Rio Grande do Sul. Three, due to a maintenance stoppage of the MVC unit and four, to lower production levels of ethylene due to the decreased consumption of this product by its internal customers.

Therefore the capacity utilization reductions observed in the period are non-recurring ones in nature and were designed to prepare the Company for opportunities which may arise from the prospects of a growth in demand as of the second semester of 2006.

In addition, it is worth noting that the First Quarter of the year always represents a period of seasonal adjustments for the industry. Consequently, Braskem's production volume of general plastic resin declined in the First Quarter of 2006. A 4.2% reduction compared to the First Quarter of last year and a 2.6% reduction as compared to the last quarter of last year.

Also total sales of general plastic resins fell by 6.1% when compared with the First Quarter of â€˜05 mainly due to a 21% reduction in our export volume. If compared to the previous quarter, however, total sales of general plastic resins were increased by 0.8% helped by a 7% increase in sales of PVC as observed throughout the first three months of 2006.

On the next slide, on number seven, we present the financial impact or impacts observed in the First Quarter of 2006 resulting from the current business scenarios.

Braskem's Group sales in the First Quarter of the current year reached BRL3.4b, 14% and 8% lower if compared to the First Quarter of last year and to the Fourth Quarter of 2005 figures respectively.

Such performance is due to lower sales volume in the First Quarter of 2006 as well as from the 18% appreciation of the Brazilian Real against the U.S. dollar over the same period responsible a 15% drop in average sales prices measured in reais as compared to the First Quarter of 2005 and for a 2% drop when compared to the previous quarter.

Braskem's EBITDA reached BRL400 million in the First Quarter of 2006 compared to BRL688 million reported in the First Quarter of 2005. This resulted from the non-recurring revenue of BRL112 million stemming from the reversal in provisions for the PIS and COFINS taxes resulting from recent and final decisions by the Brazilian Courts.

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When expressed in U.S. dollars the First Quarter of â€˜06 EBITDA reached $183 million compared to $213 million registered in the Fourth Quarter of last year and $258 million registered in the First Quarter of â€˜05.

Such reduction is due mainly to an 18% currency appreciation of the Brazilian Real against U.S. dollar, this year as well as a significant 25% increase in the price of (NAPHTHA ERE), along with a drop in sales volumes.

Lower EBITDA registered in the First Quarter of â€˜06 was responsible for a 22% increase in Braskem's net debt/EBITDA ratio. (Security) increased from 1.63 times on December 31, 2005 to 1.97 on March 31, 2006. Thus Braskem reported net income of BRL122 million in the First Quarter of â€˜06 compared to BRL206 million in the First Quarter of â€˜05 and a BRL5 million losses reported in the First Quarter of 2005 which also in turn represented a sound operational performance in the present scenario coupled with equal financial performance.

On the next slide, number eight, we show in greater detail the main factors responsible for the 42% decrease in EBITDA in the First Quarter of â€˜06 as compared to the same period of last year, the First Quarter of 2005.

The continuous alignment of our prices for the international prices following a pick-up in international prices had a positive impact on EBITDA of BRL319 million during the First Quarter of 2006.

The non-recurring revenue mostly attributed to the final ruling by Brazil's Courts on the issue of PIS/COFINS taxes in the amount of BRL112 million contributed to a positive valuation in EBITDA of BRL68m.

Once again the increase in raw material costs in the same period, a 25% surge in master prices combined with an 18% currency appreciation of the Real against the U.S. dollar impacted EBITDA negatively in the amount of BRL457 million and BRL111 million respectively.

Lower than expected total volumes sold may be due to lower export levels also impacted EBITDA negatively in the amount of BRL107m.

All these factors combined helped explain Braskem's First Quarter 2006 EBITDA of BRL400 million versus the BRL668 million registered in the First Quarter of last year.

On slide number nine we present Braskem's main economic indicators. As we may observe Braskem reported net revenue of BRL2.6 billion in the First Quarter of 2006, 14% lower than the First Quarter of 2005 net revenue which was BRL3.1 billion and 7% below the Fourth Quarter of 2005 net revenue figures.

The Company, in line with its adopted strategy, which (present) profitability over sales volume and managed to maintain price rates in the domestic market around 30% of all

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international spot prices.

EBITDA margin had a reduction of 7.2percentage points when compared to the First Quarter of â€˜05 as it went from 22.4% to 15.2% due to higher NAPHTHA prices and the currency appreciation this year.

If in turn, compared to the Fourth Quarter of 2005, EBITDA margin was reduced by 1.7percentage points and moved from 16.9% to 15.2%.

In the First Quarter of the current year Braskem's net financial result was negative BRL81 million excluding foreign exchange rate valuations and monetary restatement. Net financial result was BRL179m, in line with the First Quarter of last year and 5% above the Fourth Quarter of 2005 results.

Again in the First Quarter of this present year the equity result in the amount of BRL24 million was BRL17 million lower than the First Quarter of 2005 figures. If compared to the previous quarter, the Fourth Quarter of last year, we notice that BRL49 million increase in the actual results line during the First Quarter of 2006. This improvement is due to the improvement strategies which took place in (inaudible) during the last quarter of last year.

It is important to mention that the positive impact of the introduction of the Provisional Measurement of 255 in Brazil on local taxes, which will be effective as of the Second Quarter of 2006, will also be reflected on Braskem's results.

When taking into account Braskem's consumption of NAPHTHA and the price of this commodity, the Company's profit this term would be reduced by approximately BRL180 million annually.

Let us move now to slide number 10 and here we present Braskem's debt profile as of March 2006.

Braskem continues to favor a reduction on its cost of capital as well as a reduction of its exposure to foreign exchange in addition to an increase in the average debt maturity of its financial obligations.

As of the First Quarter of 2006, Braskem's results reflect introduction of CVM 408 Instruction, establishing that terms of receivables on (CVs) must be accounted for as debt and therefore for the sake of comparison and clarity we have made some adjustments to the figures reported in the previous quarter.

Braskem's net debt as of the end of the First Quarter of 2006 reached BRL3.5 billion in line with the BRL3.4 billion figure reported at the year end of 2005.

When expressed to you as dollars, however, Braskem's net debt reported $1.6 billion in the First Quarter of the present year compared to $1.5 billion in the First Quarter of 2005.

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Braskem's level of financial leverage as measured by the net debt over EBITDA ratio changed from 1.53 times on December 31, 2005 to 1.97 times as of March 31, 2006.

Excluding the impact of this new Instruction CVM 408, Braskem's leverage ratio would have been, or would have varied from 1.36 times to 1.67 times.

Currently, Braskem's dollar denominated debt accounts for 47% of the total amount of debt incurred by the Company, while in 2004 it accounted for 71% of the total debt.

Braskem also managed to maintain the average debt maturity of 9.3 years as of March 31, 2006 and including the reinstatement second interest of Braskem's debt consolidation in April 2006 the average maturity of debt reaches 16 years. It is worth noticing that in December 2004 this figure corresponded to just three years.

Excluding the convertible debentures due in 2007 annual amortization expenses are on average one half of last year's total annual depreciation and amortization which demonstrates our capacity to maintain state of the art assets, as well as our capability to service in parallel our indebtedness. And meanwhile maintaining a flexible level of cash and cash equivalents in such a way as to secure greater operational, financial and servicing flexibility.

These factors combined have enabled the Company to obtain significant improvement in terms of its corporate ratings from both Standard and Poor's and Fitch, as previously informed. Both rating agencies recognize Braskem's sound financial management and its allocated capital discipline.

Let us move now to slide number 11 and here we present some data related to Braskem's investments made during the First Quarter of 2006.

Braskem's capital expenditures totaled BRL142 million compared to BRL75 million reported in the First Quarter of last year. The valuation is due mainly to investments made in the basic Petrochemicals business unit with a capacity expansion in isoprene investments in the form of Braskem projects and investments in the form of Braskem product as well.

Investors may (inaudible) they have been allocated in the areas of operations, technology, health, safety and environmental protection benefiting each one of Braskem's business units.

Additionally, in line with the objectives that we have expressed operating and the high and adequate levels of safety Braskem has spent around BRL30 million improving its strategies.

(Before we should) continue it is important that the program scheduled for 2006 total investments of BRL900 million are estimated for this year, or 26% more than the BRL717 million recorded in 2005.

Now most relevant is the assets scheduled for 2006 we highlight for example the polypropylene project in (Polmenia) of 360,000 tons of production capacity and in partnership with Petroquisa. And additional expansion of 30,000 tons of polyethylene in annual production capacity. And 8,500 tons increased production capacity of Isoprene annually, a capacity expansion at the (Arau 2) terminal in Bahia, as well as the forming of Braskem project continuation.

Considering now on slide 12 the current stock price level. Braskem's Board of Administration has authorized its management to implement a share buyback program to repurchase common shares as well as class A preferred shares of Braskem stock to be held in Treasury for subsequent sale or exchange with voucher reduction in its capital.

The deadline for conclusion of this share buyback program is (100 million days) as of May 3, 2006. Given the Company's free float and the volume of shares held in Treasury, Braskem may purchase up to 1.4 million common shares and up to 13.9 million class A preferred shares.

In Braskem's view this share buyback program consists of an important strategic opportunity to create value for all of its shareholders and it also demonstrates Braskem's long term commitment to local and global capital markets.

At this time, I would like to thank you all for participating in this first part of Braskem's First Quarter 2006 conference call and would like very much to begin its second part, the q-and-a section with the participation of our CEO Jose Carlos Grubisich. And our Vice President of Finance and Investor Relations Paul Altit, both here by my side. Thank you, all very much and let's start on the q-and-a.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from Frank McGann from Merrill Lynch.

Q - Frank Mcgann {BIO 1499014 <GO>}

Yes, hello. Good day. Just a couple of questions. One, I was wondering if you could perhaps discuss the current trends that you're seeing in terms of the volumes as you go into the Second Quarter? Also perhaps any pricing initiatives or pricing particularly with regard to polyethylene.

And then lastly perhaps you could, what lines did the tax savings of the 189 reais that you mentioned that you should be able to benefit from this year. What lines of the income statement will we see that on?

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

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Okay, Frank, Jose speaking. As far as volumes are concerned let's just give you what happened in the First Quarter. The market (had), we had an 8% volume increase in polyethylene First Quarter â€˜06 in relation to the First Quarter of last year. Plus 16% for PVC and plus 24% for polypropylene. The compounded average was 14%. So it was a very good start for the year. Volumes in (inaudible) were relatively low by the end of last year which means that the culprits are budgeting for consumption and not for our investability. That's the good news.

And in April we had also a very good level of sales so a very nice increase in April â€˜06 in relation to April â€˜05.

And at least in terms of Braskem sales the volumes were much higher than what were recorded in terms of close range in the First Quarter. So volumes for polypropylene keep growing very fast and PVC is growing on a very consistent basis and polyethylene is growing by 5 to 10%.

We made the decision to leave the market growth for new polymers in order to keep the profitability of polyethylene at a reasonable level.

In terms of pricing, as you know we have always aligned our prices with the international market for the resins taking into consideration all the potential cost to bring the product into Brazil. And in the First Quarter we had focused very much our pricing policy at improving to the maximum possible level our selling prices in order to protect our profitability.

But we had already anticipated a major increase in (inaudible). So when we compare our strategy in the First Quarter true of these trends in the international market this spreads rampant polyethylene, polypropylene and PVC to NAPHTHA we increased this by 15 to 17% First Quarter â€˜06 in relation to First Quarter â€˜05. And in our product mix this trend was reduced by only 8 to 10% in terms of the resins.

So because of the reflect in the P&L because we had a major impact come from the aromatics in our basic petrochemicals units and in our basic petrochemicals units as well we had our pricing schedule in relation to the European markets we do not have the market share for most of our products. Our pricing is very much in line with international prices. And we had a disability in the price score in ethylene and aromatics.

Income at the reported base petrochemicals and we think that we can recover part of that gap in the Second Quarter because the (review) prices have been increasing steadily since the beginning of April.

In terms of the impact of the tax reduction for the PIS and Cofins, that's a reduction in the cost of raw materials, naphtha, domestic naphtha and ebullient naphtha is a reduction of 3.65% in relation to the international price and this is going to add a 45 starting in the Second Quarter.

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We had read a marginal (inaudible) in March and we are going to have full impact starting in the Second Quarter. Okay?

Q - Frank Mcgann {BIO 1499014 <GO>}

Okay, great thank you very much.

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

Thank you.

Operator

Thank you. Our next question comes from Marc McCarthy from Bear, Stearns.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Hello, sorry about that. This is Marc McCarthy from Bear. Jose, I was hoping you might be able to spend some time and give us some sense about the Venezuela project as well as the other expansionary projects that are sort of talked about in Brazil and a timeframe for the Jose project versus the timeframe for those projects, those potential expansionary projects in Brazil and the direction that you see for the incremental volumes that you'd be bringing on from Jose if in fact they were to be on by 2011? And if you could discuss within the context of that what you'd expect that gas price to be.

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

Okay, you mean in Venezuela and Bolivia.

Q - Marc Mccarthy {BIO 1542384 <GO>}

I'm really only speaking about Venezuela.

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

Okay. A good point. In terms of new investment in Brazil we have a project with Petrobras in Polmenia with 350,000 tons of polypropylene. We have already ordered the critical equipment which were in the critical part of the investment and we are confirming the start-up date for late in 2007 early 2008 and that schedule is going to -â€“ depends on the supply of propylene from the refineries of Petrobras, Slovenia and (inaudible). So the project is on time. We are starting the cleaning of the land, preparing all the land preparation and we are going to implement the investment starting the Second Quarter. So I should think it's on time and in line with our plans.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Just to clarify my question. Brazil relates to the real basic petrochemical side of this in terms of Petrobras's heavy well petrochemical complex, potential expansionary plans by Copesul that you would have a part of and/or your expansions in Venezuela.

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

Okay. So as far as the (questions) are concerned, we do not have at present any investment with (Motorac Vopesup). So no project has been presented to the Board at this point in time and at Copesul there are two projects which are under evaluation. One is to transform the (MTB) production into ETB which is a more environmental friendly product. And there is another project under consideration which is that they go direct of the Butadiene to be transformed by Petroflex into synthetic rubber.

And in our own base petrochemicals in Camacari we have a project under consideration also to transform (METV) into ETV and we have already implemented some practice -- production practice. And it has been confirmed that we can invest in this new capacity with very marginal investment costs so we might be in a position to decide in another party this by the end of the year.

We have a project which is under permutation, should debottleneck our isoprene capacity. That has already been decided in the last year's market.

And we have a project to increase our capacity of paraxylene from 200,000 tons to 350,000 tons.

And we have also under consideration an alliance with Petrobras to invest in a new fixed unit production in Camacari. But the investment in paraxylene is not dependent on investment of (PTA) because we could eventually sell the paraxylene to other producers in Brazil.

In terms of the global acts of our (requirements in Camacari) we are still making some assessment and a final evaluation because we are going to have a shutdown for maintenance in 2007 and that will be at the right timing to make any improvement.

We have hired (Levy) to work with us in the technology. We are looking at all the raw material except for (either) natural gas and liquid fixture and we are going to make our final decision either to vote on that or not in 2007 until the end of September this year.

If we do not decide to debottleneck the (crop) that in 2007 the next window of opportunity will be 2010 when we plan a second shutdown for maintenance in another plant of our property. So that is the situation here.

In Venezuela we have two projects. One is a polypropylene project which is going to be most likely a 50/50 joint venture with Pequiven to invest in 400,000 tons of polypropylene using propylene in El Tablazo which is an existing site. And we are finalizing the assessment and the technology and economic assessment of the project and we might be in a position to make a final decision within the next three to four months. And we think we could create the joint venture with Pequiven until the end of the year.

As far as Jose is concerned, you know that Jose is an existing site. There are already many investments there. Many joint ventures between Pequiven and foreign companies for the improvement of that oil. So they have three or four kind of refineries to transform their heavy crude oil for Orinoco into lighter crude oil to export. We have in the site many projects produced from ethanol, urea and ammonia. They have liquidity, water supply, all the basic infrastructure. Pequiven has already worked very much in this petrochemical project in Jose so they are well prepared for all the economic and technology assessment. And we think that until the end of the year we might be in a position to make a golden goal in terms of economics and technology and we are going to use all the intellectual property we have developed in the Bolivian projects and we think that we could be in a position to make some investments starting in 2007 in terms of basic engineering and project behaving.

And they start our projects for polypropylene early 2009 and for the cracker in polyethylene end of 2010 early 2011.

And at the same time, Marc, we are also working for insurance to ensure we have a project which is robust in terms of political risk and financial risk in Venezuela and we think that that could be included in the cost of the project and of course it has the means to compensate this over cost we should have a more competitive natural gas price.

We are talking about a price for natural gas in Venezuela in the range of $1 per (liter cube) but the final price will be depending on the economics of the project because we have also an alliance with Pequiven to guarantee a minimum return on the investment.

Q - Marc Mccarthy {BIO 1542384 <GO>}

I understand, Jose. Thanks very much for answering each of the questions. My last thought is just where do you envision this volume, to which market do you envision this volume being directed to and to what extent does it supply Brazil?

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

Not very much, Marc. We are -- our first priority is to supply the market in Venezuela and as part of the project we have an alignment with Pequiven to create conditions to bring converters into Venezuela either from Latin America but also from other parts of the world because we think that we can create a very competitive pool of attraction for foreign investment in the converting part of the value chain.

We think that we can also be in the squad leaders for the Pacific countries of Latin America where we cannot reach with the competitive proposition out of Brazil for different reasons. And we are also targeting the market in Mexico because Mexico is right now a net importer of polyethylene and polyolefins in general and of course the production platform in Venezuela should be very competitive, should supply the U.S. market. We are one day and a half, two days from the U.S. market and as the American petrochemical companies are delocalizing their production into the Middle East we think that in projects as competitive as the Middle East projects could be a very competitive source of supply for the U.S. market.

Q - Marc Mccarthy {BIO 1542384 <GO>}

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Great. Thanks very much, Jose.

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

Thank you.

Operator

Thank you. Our next question comes from Daniella Guanabara from Pactual.

Daniella Guanabara. Hi. Good morning again. I have a question about the Middle East. I wonder if you have any news about the timetable of the new petrochemical plant that is supposed to be in Iran and if you believe that the tension in the country related to the nuclear energy could somehow delay those projects?

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

Daniella. Good morning again. All the information we have coming from the Middle East is that the Iranian projects they are in the same timetable we shared with you last time. They are planned to be on stream in the end of 2007 and full impact in the market in 2008. So it seems that all the tensions are not impacting at least up to now the timetable of the projects.

Q - Daniella Guanabara {BIO 6588273 <GO>}

Okay. Thank you, very much.

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

(Bonus), I should say that they are already late. The last forecast that they are going to start late in September.

Q - Daniella Guanabara {BIO 6588273 <GO>}

Okay. Thank you.

Operator

Thank you. (Operator Instructions) Our next question comes from (Marco Siqueira) of Deutsche Bank.

Q - Marco Siqueira {BIO 21145715 <GO>}

Hello. Good morning. I'd just like to have a sense of the price of naphtha that you've been importing from Venezuela beginning April. What's the discount relative to the other prices?

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

Marcus, you know we do not make any disclosure about a specific contract with a fixed stock supplier because in all the contracts we have a confidentiality clause that we cannot share the prices and the discounts in any of the contracts. That includes Petrobras, Bolivia, Algeria and of course Venezuela.

What I can share with you is that with our contract is for the volume which has already been disclosed. The price is based on the international price. The price is in the northwest of Europe, the other price and on top of that we have in discounts on the FOB basis to compensate for the freight increase and all the costs we have in this transaction. In order to have a price landed in Camacari more competitive than our local option.

Q - Marco Siqueira {BIO 21145715 <GO>}

Right, thank you.

Operator

Thank you. Our next question comes from Ricardo Cavanagh from Raymond James.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Yes, hello. Good morning. My name is Ricardo Cavanagh from Raymond James. And I have two questions. The first one is well you mention in the press release that you expect a recovery of international prices and my question will be related to how are you seeing which is moving this potential recovery in prices if it's a pick up in demand and then to pass through the high naphtha cost?

And the second question would be in relation to the option that Petroquisa have decided not to exercise on Copesul. If that possibility is completely discarded or there could be the case that at some point in time the opportunity might arise again?

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

Okay. Let me tackle the prices. Our assessment is that the global economy is growing steadily and fast, more than first expected. It is going to create additional opportunities in terms of demand. This price cycle is well known. We know the process. We think that Copesul will be operated close to the limit, which means that we have additional opportunities for price and possibility of increase.

The second point to answer to your question is that prices were not increased in the First Quarter but yes we have increases in raw materials in the international market. So it seems that all the players did not believe very much in the oil price at 75 and they didn't decide to increase their selling price at the same pace. So I think that all the petrochemical producers decided to wait some time to see which would be the stable level for the oil price. And as we are getting one or two increases in cost right now we anticipate that the selling prices in the international market and in the domestic market would increase in the Second Quarter and we think that we made the right decision. So we think that prices will be aligned for resins and for aromatics and base petrochemicals according to the new level of oil and the new level of naphtha and oil quality.

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As far as the option is concerned. So the option was not exercised because between Petrobras (inaudible) we did not find alternative conditions which would open opportunities for a common decision and to let the table for the option to be exercised. We do not have any agreement whatsoever at this point in time. But of course we still have all the discussions for the consolidation of the petrochemical sector which are underway. But now not as a contract, not as an option as a framework. We keep all discussions with all the players in the Brazilian market and the international market as we have always done so there is no legal framework or any option decided or final in our relationship with Petrobras, Petroquisa but we keep the discussion with all the local and international players for consolidation restructuring or -â€" but as a means to find the new opportunities to grow and to grow with additional profitability.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay. Thank you, very much.

Operator

Thank you, (Operator Instructions) There appear to be no further questions at this time. I'd like to turn the floor back over to management.

A - Jose Marcos Treiger

Well, this is Jose Marcos Treiger speaking. I would like to thank you all again for participating in our First Quarter of 2006 conference call. We would like to invite you for our next one when we are going to be discussing the Second Quarter results and I would like to thank also Jose Carlos Grubisich and Paul Altit for their support (inaudible) in this area and I would like to ask Paul for his very last remarks.

A - Paul Altit

Well, thank you very much for your presence and I'd like to mention that we are entirely (supporting) if you'd like to have any specific meeting or conference call. Please get in touch with us. So thank you once again.

A - Jose Marcos Treiger

Thanks, Paul.

Operator

This does conclude today's conference call. You may now disconnect.

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