Q3 2006 Earnings Call

Company Participants

- Jose Carlos Grubisich, CEO
- Luiz Henrique Valverde, IR Manager
- Paul Altit, CFO

Other Participants

- Emerson Leite, Analyst
- Eric Ollom, Analyst
- Ricardo Cavanagh, Analyst
- Sergio Torres, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Braskem's 3Q06 earnings conference call. Today with us we have Jose Carlos Grubisich, CEO; Paul Altit, CFO; and Luiz Henrique Valverde, Investor Relations for Braskem. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After Braskem's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

We have simultaneous webcast that may be accessed through Braskem's 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. 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 in 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 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 call over to Luiz Valverde, (inaudible) at Braskem. Mr. Valverde, you may begin your conference.

Luiz Henrique Valverde

Thank you. Good morning, ladies and gentlemen. I'd like to thank you all for attending Braskem's conference call. It's time to discuss our Third Quarter 2006 results.

To begin with, I'd like to remind you that the information presented here has already consolidated 100% of Politeno, as of the second Q06. And that the figures presented in this presentation are pro forma, meaning that they have also fully consolidated Politeno's results in order to permit our analysis on a perfectly comparable basis.

So let's move on to slide number three and begin our presentation. In slide three we show the increase in demand for thermoplastic resins in Brazil with the recovery of historical levels of elasticity in relation to the GDP; boosted by the growth of the Brazilian economy and by the increase in the per capita income.

Market demand presented a significant increase of 10% in the nine months ended September 2006 when compared to the same period of last year. It's worth mentioning that the 13% increase the polypropylene market. Braskem maintains its leadership position in the Brazilian market with a share of approximately 43%, being the only company in the region to offer the three main thermoplastic resins; polyethylene, polypropylene. And PVC for its customers.

In slide number four we present some highlights of the 3Q06. Braskem presented an important increase in its EBITDA margin, relative 14.1% of its 3Q06, 5.2percentage points over the 8.9% margin registered in the second Q06. It's worth mentioning that this performance was built on a challenging scenario evidenced by the high levels of prices for oil and naphtha.

On October 23rd, Braskem completed 100% of its share buyback program which launched on May 4, 2006. The Company acquired 13.1 million Class A preferred shares. From the 13.9 million PNA shares targeted for buyback, 0.8 million correspond to the shares issued as a consequence of the merger of Polialden into Braskem. Those were not acquired by minority shareholders of Polialden who exercised their withdrawal rights.

Braskem reported its third nanotechnology patent in the 3Q06 and announced the launch of the first Brazilian resin using nanotechnology, a polypropylene application. It occurred on November the 6th. The expected production capacity amounts to 10,000 tons and will be available to attend the automotive, electronic and home appliances markets.

On October the 1st 2006, Braskem successfully started up its new integrated management system, Formula Braskem. As a result, beginning in 2007, the Company expects to capture efficiency and productivity gains derived from systems integration, from a more-efficient decision-making process. And from a comprehensive review of business processes occurred throughout implementation of the project. Braskem invested BRL130 million in this project. And the Company expects to capture as of next year, gains for BRL206 million as net present value.

On slide number five we continue with some highlights of the period. Braskem implemented three new financial transactions in the 3Q06 aiming at improving even more its debt profile and further reduce its cost of debt. The three transactions are-- one, the issuance of notes in the amount of $275 million with 8% coupon and 10-maturity, combined with a partial buyback of the notes due in November 2008 which had an original coupon of 12.5% in the amount of $185 million or 67.1% of the original amount issued. And also, the issuance BRL500 million bond in the local market, with a five-year maturity and a cost of 103.5% of the CDI.

Also important, the construction of the PP unit in Paulinia proceeded according to the initially planned schedule. The final construction permit was obtained. The foundation and the landscaping have already been initiated. The critical equipment has already been acquired. And the process of technology transfer from Braskem to Petroquimica Paulinia was intensified in the 3Q06, especially in the engineering and human resources area with the training of technical personnel.

According to GMI, GovernanceMetrics International, Braskem was one of the two companies with the highest corporate governance rating among Brazilian companies, scoring 6.0; 40% above the average for emerging-market companies, which was 4.3%; and 88% above the 3.2 average for the Brazilian companies.

Moving through the next slide, number six, we present some of the main economic effects of the Third Quarter. Braskem's 3Q06 net revenue increased by 13% in Brazilian reals, when compared to the 3Q05. The key factors for this performance were the successfully implemented price increases for the thermoplastic resins occurred during the 3Q06; coupled with higher sales volume in domestic markets, especially for the polypropylene and PVC. Another important contribution came from the good performance in exports that already surpassed $1 billion as of September 2006.

Braskem's net export revenue reached $396 million in the 3Q06, 56% higher than the $254 million recorded in the 3Q05. This increase was due to increased sales volume and better international market prices for aromatics and resins. The percentage of export revenue divided by the total net revenue increased from 20% in the 3Q05 to 26% in the 3Q06, slightly lower than the 27% observed in the Second Quarter of 2006.

EBITDA totaled BRL461 million in 3Q06, compared to BRL374 million in 3Q05. The main (factor) difference in this performance were the significant increase in net revenue that achieved BRL3.3 billion in the 3Q06 being the result of the best performance of the year and it was caused by the (inaudible) debt we already discussed. This increase in net revenue more than offset the increase in naphtha prices, as well as the increase in the prices of our ethylene and propylene acquired from Copesul.

Braskem's last 12 month EBITDA amounted to BRL1.6 billion. Braskem's EBITDA when expressed in US dollars, increased by 33% from $160 million to $212 million. Braskem's

(LTM) EBITDA amounted to $724 million.

Braskem's financial leverage measured by the net debt to EBITDA ratio remains perfectly constant in relation to the Second Quarter 2006, calculated at 2.96 times on September 30, 2006. This figure is significantly inferior to Braskem's average debt maturity of 16 years.

Braskem recorded a net loss of BRL65 million in the Third Quarter 06, compared to a net income of BRL46 million in the 3Q05.

In the next slide, which is number seven, we present the main factors influencing the quarter-on-quarter EBITDA variation in greater detail. Braskem's success in implementing price increases in the domestic market, as already discussed in a previous slide, led to a significant positive impact of BRL374 million on the 3Q06 EBITDA.

Increases in raw material prices, especially naphtha, had a negative impact of BRL171 million. Total sales volume remained virtually flat, with a negative impact of BRL18 million on EBITDA. The foreign exchange rate variation had a small impact on our EBITDA in this 3Q06 as well. As a result, Braskem recorded EBITDA of BRL461 million in 3Q06, equivalent to $212 million.

On the next slide, number eight, we analyze the financial result of Braskem in the 3Q06. Net financial results, excluding monetary and foreign-exchange losses, amounted to BRL226 million in the 3Q06; 35% superior to the result of the Second Quarter of 2006 when it amounted to BRL156 million.

Two main factors impacted this result. First, non-recurring expenses of BRL29 million related to implementation of financial transactions aiming at increasing the average maturity of our indebtness and reducing our cost of debt, as already mentioned previously; and two, a change in the allocation of our funds with an increase of the portion denominated in Brazilian reals and linked to the CDI with a consequent reduction of the (portion) in US dollars.

Moving to the next slide, this is slide number nine. We present the amortization at the end of Braskem's debt, its allocation by currency and the cash and cash equivalents for the period ended September 30th 2006. It is important to highlight that Braskem is continuously focusing on number one, increasing its average debt maturity with a consequent longer-term maturity profile, which is now 16 years; two, reducing its cost of debt; three, becoming more efficient in allocating funds for its working capital needs; and four, reducing its foreign exchange-rate exposure.

As of the end of the 3Q06, Braskem had 46% of its debt denominated in US dollars, compared to 56% at the end of the 3Q05. It's also worth mentioning that excluding the convertible the bank is doing in 2007, Braskem's current annual average debt matures are below $200 million, which Braskem believes to be consistent with its cash flow generation.

On slide number 10, our final one, we present our outlook for the Fourth Quarter of 2006 and 2007. Regarding domestic demand; Braskem expects that economic growth experienced so far will be sustained during the 4Q06 as well as in 2007, which should positively affect its sales performance for the thermoplastic resins.

Regarding prices; with respect to prices for our thermoplastic resins, Braskem will maintain its policy of privileging profitability in the sale of its products, providing high value-added services to its customers that are supported by a differentiated structure of innovation and technology. This strategy has allowed Braskem to maintain over time, domestic prices higher than international market prices considering the (e-port perigee).

In the 3Q06, these spreads had an important recovery compared to the second Q06 due to the successful realignment of prices in the domestic market. For the 4Q06, Braskem will maintain its efforts in realigning its domestic price to international prices, aiming at additional profitability improvement.

Regarding cost; Braskem's main raw materials are naphtha, used by its Basic Petrochemicals Business Unit; and ethylene and propylene, both of which are acquired from Copesul and used in the Company's second generation plant in the Triumfo complex. These raw materials represent 75% of Braskem's cost of goods sold in the 3Q06. And they of course are highly correlated with oil prices.

We have been observing a decrease in oil and naphtha prices since September. It is important to mention that the major impacts of such decreases are shown in Braskem's 3Q06 cost of goods sold yet. Once Braskem acquires 60 to 70% of its naphtha needs from Petrobras, (they will knock down) our price over previous months.

With that said. And other things remaining constant, Braskem expects an important decrease in its cost of goods sold due to this effect; average naphtha price decreased from $595 per ton in Q206 to $522 per ton in September. And $508 per ton in October.

Regarding Braskem Plus and Formula Braskem; Braskem expects to capture gains of BRL420 million on annualized and recurring basis until the end of 2006, with the full implementation of the Braskem Plus program. These results will derive from productivity gains obtained through improved efficiency and higher operational reliability in the production facilities of the Company.

In addition, the project Formula Braskem, with a net present value of BRL260 million, became operational in October 2006.

Regarding Paulinia project; consistent with a strategy to maintain its leadership in the regional thermoplastic resins market, Braskem is investing in a partnership with Petrobras in the construction of a new polypropylene plant in Paulinia, Sao Paulo, with an annual production capacity of 350,000 tons. The start up of this plant is scheduled for the First Quarter of 2008, with initial estimated production of 300,000 tons. Braskem holds a 60-percentage stake in Petrochemical Paulinia.

Regarding Venezuela; One of Braskem's strategic drivers is the production and sale of petrochemical products at globally competitive costs. Accordingly, Braskem is analyzing, together with Pequiven, the construction of a polypropylene plant in El Tablazo, Venezuela with an annual production capacity of 400,000 tons. The expected investments of this plant total $370 million. And this plant is expected to commence operations by the end of 2009.

Also in Venezuela, Braskem is at an advanced stage in analyzing the construction of a new cracker to produce ethylene from natural gas, coupled with integrated production of polyethylene and other second-generation products in the Jose complex. The basic premise for constructing this complex is that it will become competitive with low-cost producers located in the Middle East. This project is a joint venture between Braskem and Pequiven. And it's currently in the technical and economic feasibility-study stage.

To meet the work demands of this project, Braskem has begun to mobilize working groups for each project and is opening a branch office in Venezuela to oversee these investments and move them forward.

Well, this concludes our prepared remarks and we may start our Q&A session.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from Emerson Leite from Credit Suisse.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay. Good afternoon. I have three questions. First is on the pricing outlook. I would like to understand what is, as of today, the situation of your domestic prices relative to international prices. You used to have a big spread that was reduced during the more-difficult times earlier this year. And now with the price increases during the Third Quarter we believe you have now reestablished a pretty good margin relative to international price. So I'd like to understand what is that margin for the main thermoplastics, P, PP. And PVC, today? And also, if you could comment on the outlook for the Fourth Quarter; we have seen some of these prices in the international markets coming off --any of the other side of that--I also want to understand the aromatics. What's the pricing outlook there?

That's on pricing. The second question is on CapEx for 2007. I would like to know --what is the estimate of CapEx, including expenses with maintenance or program stoppages for the year?

And the final point, which is something that we are more kind of confused (about), is on the financial expenses. I was particularly surprised by the high-level of financial expenses this quarter considering that we had a relatively stable (inaudible) environment, meaning inflation and currency was relatively stable. Obviously there was some volatility in the Third Quarter. But at the end of the quarter it was relatively flat relative to the beginning of the quarter. And still the level of financial expense was very high. And I was wondering if we should assume that is the kind of recurring financial expenses we should model going forward for the Company. Thank you.

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

Okay Emerson. Good afternoon; Grubisich speaking. Let me start by the pricing outlook. As you mentioned, we were very successful during the Third Quarter in realigning our selling prices for polypropylene, polyethylene and PVC in the Brazilian market. As you also mentioned, during the Second Quarter, we had suffered a (major squeeze) because prices in the international market had already started to increase and in Brazil we faced many, many difficulties due to the arrival of the new players into the marketplace.

But we concentrated our efforts in the Third Quarter to improve profitability by increasing all our selling prices and by the end of September we had already a position where spreads in the Brazilian market had been reduced. And in fact, the average selling price in September was much higher than our selling pricing in (June), which means that we are starting the Fourth Quarter with a very good position in terms of selling prices for all our products. And as you may know, we also announced a price increase for October which was fully implemented during last month, which is going to bring additional profitability in our P&L.

We are still monitoring the international market conditions for November and December. With the reduction in oil price and naphtha cost, we do anticipate that we may have some slowdown in prices in November and December, which means that prices will come down some how but profitability will still be very high.

And as we have already announced to the market, our goal is to keep our local prices always in line with international market prices. And we try always to have a good service margin on top of the (inaudible) for all our products. Because we do deliver many services to our customers; technical assistance, development, supply-chain management; (is managed) in terms of exchange rate. And we are going to have a full benefit in the Fourth Quarter of this major cost reduction of naphtha and we know already that our cost for naphtha in October and November will be much lower than the average of the Third Quarter, because of the September international market price.

And as already translated into our naphtha cost for October and the actual prices in October will be translated into our costs in November. So the true story of the costs of the Fourth Quarter is already known. And this is going to be positive.

What we also are anticipating, we may have a slowdown in volumes. That's what happened in October. Because with our additional price increase, many local customers decided to use their local inventories instead of purchasing again more products; so we have a reduction in volumes in October. But we do anticipate that we are going to recover again volumes in November and we are going to wait until December to see what's going to be the final level of inventories in the Brazilian market.

But I would say that overall, that's good news for 2007 because our assessment is that the inventory level will be relatively low by year end, which means that we are going to have a full impact of this low inventory level in 2007. And we are going to start 2007 with a very good price level for the Brazilian market in relation to the international market. And as you also mentioned, all our spreads have been realigned to the international spread level.

As far as CapEx is concerned, we do expect to invest close to BRL700 million in 2006. Our first assessment for 2007 is that our business plan will be in line with depreciation and amortization. And Braskem might invest between BRL600 to BRL700 million in 2007. That's our initial expectation for our business plan. On top that, we do anticipate the total costs related to shutdown for maintenance between BRL80 to BRL100 million, which would be added in terms of cash out, 6 to 700 in real CapEx, plus 80 million to BRL100 million in terms of the cost related to shutdowns for planned maintenance.

And I'll have Paul to discuss the financial expenses with you.

A - Paul Altit

Emerson, if you have the chance to look at the page number eleven of the financial release, we can enjoy here that between the Second Quarter '06 and Third Quarter of '06, we did have-- an increase of BRL67 million, which means we had a net financial result, if we do exclude monetary variation, also FX variation of 156 in the Second Quarter and 226 in the Third Quarter; which means that we had an increase BRL67 million between second and Third Quarter.

What basically happened here I think is easy to describe is as following-- Braskem did (inaudible) debenture for which we paid underwriting and legal expenses so forth. We did a new bond, 10-year bond; also underwriting fees and legal expenses. We did a prepayment for part of our '08 bond, $170 million, which meant that we also paid arrangement here fees and withholding tax on top of this remittance; so all this together answers for BRL30 million out of the BRL67 million.

As you can imagine, we did several other transactions, which all together, increased also financial taxes, which is called in Brazil as you know CPMF and IOF and IR; at an extra BRL10 million. We had FX variation of BRL10 million. So all this address together roughly BRL50 million. As compared to 67, the main difference comes to some derivatives on top of some aromatics and also the discount that we gave to some specific clients.

So (inaudible), the BRL30 million is non-recurring because we did several different operations because the market was very positive. So this certainly won't happen in the Fourth Quarter, as you can understand.

FX variation; well, we have to wait what will happen in the Fourth Quarter. An increase of BRL10 million in the CPMF and the other financial taxes should not occur because we didn't have so much volatility in this flow of funds coming into the country and leaving the country to pay this amount of debt with has just been mentioned.

And I think that's it. I think this answers your question.

Q - Emerson Leite {BIO 4003528 <GO>}

Paul, the only question I still have is still on the monetary variation and the FX impact. We have BRL100 million in the Third Quarter. And inflation was flattish-zero. Currency movement was very limited, almost flattish. So why are you still having BRL100 million of expense in such a stable environment? That means almost BRL400 million in annualized expenses on that.

A - Paul Altit

I think you can not multiply the one quarter by quarter. You have to look at inflation and also FX variation every single quarter, Emerson. What happens is that when we increase the exports, as we have been doing, there (inaudible) as much business there for any variation on FX, doesn't back financial results as you know. So we have increased a lot, exports from 20% of net revenue up to 24-25%; so that is a dramatic change.

If you will remember, in '05 we exported $900 million and this June should be supporting something around 1.2 or $1.25 billion. So this is a dramatic change in our (costs) related to exports.

Second, we have been investing a lot in dollars. And this I think is pretty well explained in the financial release. And therefore, there is some kind of impact, also a FX variation on top of these assets. Will still have also impacts on the debt related to dollars. This also has changed. You used to have 25% of total debt related to dollars, now it's around 45% which should vary to something around 50%. And we have also an important financing of naphtha for our import which is a substantial amount, which is also related to dollars.

So all this together, makes us -- a company that has an important impact every time we have FX variation. FX variation, even though small in the quarter, is still in fact a big number in assets and also in debt, commercial debt and financial debt.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay. Thank you.

Operator

Thank you. Your next question is coming from Ricardo Cavanagh from Raymond James.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Yes. Good morning. I have two questions. The first one is considering the El Tablazo complex in Venezuela which is the stage on the decision process to start investing in Venezuela and when could the first investment take place? And secondly, is if you could provide us a word-- your outlook for the petrochemical cycle; more specifically for the capacity additions that you foresee for 2007 in the international markets?

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

Ricardo. Good morning; Grubisich speaking. As far as El Tablazo and Venezuela; as you may know, we have two different products in Venezuela. One is El Tablazo, where we are going to build a 400,000-ton polypropylene capacity. And the second one is an integrated petrochemical complex to use natural gas as feedstock to be downstream integrated into polyethylene, 1 million tons; and eventually an additional several thermoplastic resins.

So the project which is going to be implemented; firstly is the polypropylene project; so we have already signed the project development agreement with Pequiven. We are moving ahead in all the final details of the negotiations-- the supply agreement, the shareholders agreement. And our intention is to create the joint venture in the first part of 2007. And we do anticipate that everything is moving as we planned. We should start the investment in the second part of 2007, to have the operations on stream during 2009.

And the base objective of that project is to supply the Venezuela domestic market, the west coast of South America. And we do also intend to supply polypropylene to Mexico and eventually to the United States.

The second project, which is a more complex one, which will require more investment too; we do plan to have the joint venture created during 2007. If everything goes as planned, we should start the basic engineering and all the engineering detail studies in the second part of 2007; to start physical investment in the second half of 2008. And we do anticipate the start-up of the production during 2011.

All the projects most likely will be in a 50-50 joint venture with Pequiven. We will assure the operation's management and (inaudible) should have all the marketing and commercialization outside of Venezuela. And (Corivare), an affiliate of Pequiven, would assure the commercialization in the local market in Venezuela. We do intend to have all those two projects invested on the project final phases, if possible no recourse, 30% equity, 70% debt.

Okay, as far as the petrochemical cycle is concerned, we are now putting together our business plan for 2007 and onward. And what we see is that 2007 and 2008 we are still going to be in a very balanced situation as far as supply and demand is concerned. We do not anticipate major new competitors to come on stream before the beginning of 2009. Most of the projects in the Middle East are delayed right now. And they are delayed not for financial reasons. But for engineering availability and management -- the competence available for those projects. So they are delayed.

We have got confirmation from many different sources that there will not be any major competitor come on stream whatsoever in '08. So that's why we think that most of the products will be operating at 90-plus utilization rate of capacity. And we do anticipate that the spreads in 2007 and 2008 will be relatively good. So we do not anticipate any slowdown either in volumes or in profitability in 2007 and 2008.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay. Thank you, very much.

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

Thank you.

Operator

(Operator Instructions) Your next question is coming from Eric Ollom from ING.

Q - Eric Ollom {BIO 4374335 <GO>}

Hi. Good morning, everybody and congratulations on the result. You were talking about -- you were expecting lower volumes in the Fourth Quarter, partially due to cleaning out some inventory. Can you just give us a volume-- what is your volume expectations for 2006?

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

Eric. Good morning. Thank you for your comments. It's difficult for us to anticipate what's going to be the movement in terms of inventory management by our clients. If we compare Fourth Quarter to Third Quarter, normally we have a slowdown in economic activity in Brazil because the middle of December we start our Christmas holiday combined with summertime. And normally, people do not manage their inventories in December because they don't like to present their balance sheet with very high inventory levels. That's the normal behavior in Brazil.

And we did increase our selling prices, all over the Third Quarter we did increase selling price in July, in August, September; and again in October. What happened is that our customers decided to reduce their inventory in October. But we think that we may recover a big chunk of the volume in November because our assessment is that the inventory level in resins and in products is very, very low; which is good news for us.

As you know, we are going to have a pit stop for maintenance in our Olefins I cracker (inaudible), which also is going to play in the favor of price stability in the market. But we do anticipate a sudden reduction in volume in the Fourth Quarter. I cannot tell you what the volume reduction -- in percentage terms. But I don't expect it to be a huge difference between the volumes in the Third Quarter and the volumes in the Fourth Quarter.

And what's positive about our perspective for this quarter is that we're going to have high selling prices because if we have accumulated on increase in the selling price, that's quite positive. And we're going to have a low cost related to naphtha because we know that the September naphtha cost has already been translated into the cost for October. And the average cost for naphtha, which was the actual cost in October, will be the naphtha for November. So two-thirds of the quarter are already known. And this is going to lead for a very good contribution margin in percentage terms.

But I would not expect a big reduction in volumes in this Fourth Quarter.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. So if you were to put your expected performance for the Fourth Quarter this year versus the Fourth Quarter last year, in terms of margins and volumes, it would be somewhat-- perhaps somewhat in line with the end result, perhaps a little bit lower? Would that be a politic way to express it?

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

Eric, you know we do not give guidance on our EBITDA level. What I can give you is a combination of our variables. You can compound them in your model.

If we compared 2006 Fourth Quarter in relation to Fourth Quarter of last year, we are going to have a better profitability margin, because we have this very nice combination of high selling prices with our spreads realigned to what you can see in the (inaudible).

We are going to have a better position in terms of costs. And we are going also to reduce our own inventories because we are going to have this shutdown for 10 days in December; which means that we are going to use more of our inventories. And we are going to have a better position profitability-wise and cash-wise.

In terms of EBITDA level, in absolute terms I prefer not to comment on that because it's not our policy. But I think that you have right now all the elements to compose it to make your own assumption about the volumes.

I would say that volumes will be-- let's say between 90 to 95% of the volumes we had for the Fourth Quarter last year.

Q - Eric Ollom {BIO 4374335 <GO>}

Excellent. Thank you, very much. I appreciate it.

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

Thank you.

Operator

(Operator Instructions) Your next question is coming from Sergio Torres from Bear Stearns.

Q - Sergio Torres {BIO 7078415 <GO>}

Good morning, Jose Carlos; good morning, everybody. My question has to do also with El Tablazo project. Has the source of propylene for this project been defined yet? And as a follow up, is there a material cost difference among the different alternatives? Thank you.

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

Sergio. Good morning. Can you repeat the last part of your question--?

Q - Sergio Torres {BIO 7078415 <GO>}

Sure. In your presentation in New York, you discussed that there are at least two different alternatives for the propylene source for the Tablazo complex. And my question is -- is there a material cost difference between those two alternatives? One was propylene coming from a refinery and the other one was some sort of a new technology, like special propylene or something like that.

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

I understand your point.

Q - Sergio Torres {BIO 7078415 <GO>}

Thank you.

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

What we have now in our discussion with Pequiven, is that Pequiven will (procure) to the propylene production to supply our El Tablazo joint venture. And we have already with them that the propylene price will be US (Gulf) minus a large discount, which will make our joint venture, as competitive as the most competitive projects on a global basis.

So independent on the technology or the production options we may decide upon, the supply of propylene from Pequiven to our joint venture will be based on US Gulf, less a discount. And we do not have any impact on the invested cost for them to produce propylene or the technology they decided to use in their production facilities.

Q - Sergio Torres {BIO 7078415 <GO>}

Okay, I understand.

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

And so with that -- it's, let's say, much safer for us in terms of project and profitability evaluation in our relationship with Pequiven.

Q - Sergio Torres {BIO 7078415 <GO>}

Okay. As a follow up Jose Carlos, is there enough propylene right now to supply the complex or is there any question mark on the volume of propylene that would be available to you?

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

No, no. There is no doubt about the propylene. Pequiven will make all the necessary investments to have a full supply of the propylene which is required for 400,000 tons of polypropylene which is the scope of the El Tablazo project.

Q - Sergio Torres {BIO 7078415 <GO>}

Okay. Great. Thank you, very much.

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

The commitment that they have with us is that they are going to invest in (inaudible) within the Tablazo complex, to produce propylene. Or they are going to bring propylene from any other refinery, or have a combination of both to make sure that we are going to have all the necessary propylene in the pipeline to be competitive in our polypropylene projects.

Q - Sergio Torres {BIO 7078415 <GO>}

Excellent. That's great news. Thank you, very much.

Operator

(Operator Instructions) There appears to be no further questions at this time. I would like to turn the call back over to Mr. Grubisich for any closing remarks.

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

Okay. Thank you, very much for your participation in our conference call. As always, we are at your disposal if you have any further questions or any doubt. Myself and our team will be here at your disposal. Thank you, very much. Have a nice afternoon where you are. And have a nice weekend. Thank you, very much.

Operator

Thank you. This concludes today's Braskem's conference call. You may now disconnect your lines at this time. And have a wonderful day.