

Q3 2010 Earnings Call

Company Participants

- Luciana Ferreira, IRO
- Marcela Drehmer, VP, CFO and Director of IR
- Rui Chammas, Head of Polyolefins Unit

Other Participants

- Christian Audi, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Braskem's Third Quarter 2010 earnings conference call. Today with us we have Bernardo Gradin, CEO, Marcela Drehmer, CFO. And Luciana Ferreira, IRO. And Rui Chammas, Head of Polyolefins Unit for Braskem.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode throughout the conference presentation. After Braskem 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 IR website at www.braskem.com.br/ir. The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call.

There will be a replay facility for this call on the website. We remind you that this -- 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.

Forward-looking statements are based on the beliefs and assumptions of Braskem management and on information currently available to the Company.

They involve risks, uncertainties. And assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions. And other operating factors could also affect the future results of Braskem and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Luciana Ferreira, Braskem's IRO. Ms. Ferreira, you may begin your conference.

Luciana Ferreira {BIO 15106436 <GO>}

Good morning, ladies and gentlemen. I would like to thank you for participating in yet another Braskem quarterly earnings conference call. Today we'll be commenting on our results for the Third Quarter 2010.

With the acquisition of the control of Quattor Participacoes and Sunoco Chemicals in April 2010, this conference call is based on pro forma consolidated information that includes 100% of the results from these new assets for all periods.

In accordance with CVM instruction 247, these figures also consider the proportional consolidation of shareholders in Cetrel S.A. The quarterly information was reviewed by independent external auditors with the exception of Sunoco Chemicals for 2009 in the First Quarter 2010.

Let's go to the next slide, our first one, slide three, where we begin our comments. This first slide presents the highlights in the Third Quarter. EBITDA in the period was BRL1.03 billion, in line with the previous quarter.

The highlight was the strong performance at Quattor, which accounted for one-third of consolidated EBITDA and the extraordinary performance of the Brazilian market, which despite the deceleration in the world economy had registered demand growth of over 15%.

Remember also that this result was generated in a scenario marked by the downcycle in the petrochemical industry and the appreciation in the Brazilian real. Braskem sales in the domestic market posted growth of 17% from the previous quarter.

On the operational front, the highlight was the consolidated utilization rate at the crackers, which operated above 90% capacity reflecting the continued operational improvement at Quattor, which had an EBITDA of BRL302 million in the period.

Braskem remains committed to reducing its leverage and maintaining an investment-grade credit rating. At the end of September, the Company's ratio of net debt to EBITDA stood at 2.63 times, which represents a decrease of 24% from the Company's post-acquisition leverage ratio of 3.46 times.

Reinforcing its commitment to financial solidity, in October, Braskem placed \$450 million in perpetual bonds with a coupon of 7.375% per annum, which lengthened its average debt term to 11.9 years, considering the payment of the perpetual bonds issue in 2005 of \$150 million that will be made in December 2010.

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The startup of the Green Ethylene plant with capacity integrated to the production of 200,000 tons of green polyethylene led Braskem to become the global leader in biopolymers. Not only did Braskem deliver the project on time and within the estimated cost. But also the polyethylene was (rapidly) specified in less than 24 hours.

Continuing the process to integrate the assets of Quattor, on August 30th, Braskem's Board of Directors approved the merger of Riopol shares making it a wholly-owned subsidiary. In parallel, the secretariat with the Ministry of Justice recommended to Brazil's antitrust authority, CADE, the unqualified approval of the Quattor acquisition.

Braskem remains focused on capturing synergies from the Quattor operations. And by September had already implemented synergies in the amount of BRL235 million in annual and recurring gains to be fully captured in 2011.

Moving to slide four, we see the performance of the Brazilian thermoplastic resin market and the growth in the Company's sales to its sector. Domestic demand for resins grew by 16% from the Second Quarter to reach 1.3 million tons, its best performance ever. Meanwhile, Braskem sales grew by 17% on the previous quarter to reach 934,000 tons.

In addition to the Third Quarter being seasonally stronger, this growth was driven by the strong performance of our business related sectors and of industrial production. Sectors related to consumer goods and construction also continued to post solid performance, registering growth of more than 10% from the previous quarter.

The contraction (in the above factor) did not affect results, given the excellent distribution of sales and the fact that we serve almost all sectors of the economy. The expansions in income, credit. And industrial production were the main drivers of growth in the quarter.

The share of imported materials in the Brazilian market remained stable, growing in line with the growth in domestic demand. 66% of products coming into Brazil originate from the Americas. Note that over 30% of Brazil's imports come from Colombia and Argentina, countries that enjoy zero import tariff, since they are part of the Andean Pact and Mercosur, respectively.

Moving to slide five, we present selected financial indicators for the quarter. EBITDA remains stable in relation to the Second Quarter since the strong growth in sales volume was offset by the lower sales price. EBITDA margin in the quarter stood at 14.2%, decreasing by 1.8percentage points from the Second Quarter, following the compression in spread in international markets which began to improve only in August.

The quarter registered financial income of BRL193 million compared with financial expense of BRL575 million in Second Quarter. The result was mainly due to the devaluation of the Brazilian real against the dollar of 6% in the period.

Excluding the effects from monetary and FX variation and from the nonrecurring expenses, as shown in the slide, that impacted both items in the quarter, the Third

Quarter registered financial expense of BRL266 million which was BRL42 million lower than in the Second Quarter. And BRL98 million lower than the Third Quarter last year.

Moving to slide six, we have the EBITDA evolution. So this slide shows the factors that influenced EBITDA in the quarter, which remained virtually stable in relation to the previous quarter, as I said in the previous slide. EBITDA came to BRL1.03 billion in the quarter despite the worsening international spreads.

Thus the new capacity coming online and the appreciation in Brazilian real which generated an FX loss of BRL65 million formed by a negative impact of BRL160 million revenue and a projected impact of BRL95 million on cost.

Note the strong sales volume growth in the period with an impact of BRL301 million which reflects the strong local market, the good export opportunities, the high operating rates of the Camacari and Triunfo Complex. And the continued operational improvements at the Quattor assets.

Let's go to slide seven where we show Braskem's debt amortization schedule for September 30th this year. At the end of the quarter, Braskem's gross debt stood at \$8 billion, strictly in line with the balance on June 30th. In Brazilian reais, debt stood at BRL13.4 billion, a 7% reduction.

Meanwhile, the balance of cash and financial investments grew to \$2.069 billion or BRL3.505 billion. As a result on September 30th, consolidated net debt stood at \$5.8 billion, down 3% from the previous quarter.

In Brazilian reais, net debt stood at BRL9.9 billion or 9% lower and was also affected by the 6% dollar devaluation in the period. The stability in 12-month EBITDA at around BRL3.8 billion combined with the reduction in net debt led to decreasing financial leverage as measured by the ratio of net debt to EBITDA.

In local currency terms, this ratio declined from 2.85 times to 2.63 times, a 7% drop, in line with the Company's goal of reducing its leverage and obtaining an investment grade rating. In dollar terms, this ratio declined by 3% from 2.84 times to 2.75 times. The average term of consolidated debt increased from 8.2 years in June to 8.7 years in September which is considered adequate given the Company's cash flow.

This result was made possible by the issue in July of \$350 million in bonds maturing in 2020 with an annual yield of 6.875%. The issue of perpetual bonds in October with the associated call in December of bonds issue in 2005 in the amount of \$150 million will lengthen this average term to 11.9 years like we said in one of the first slides.

Moving to slide eight, slide eight shows Braskem's capacity to manage its debt, reduce its leverage and adjust its debt profile following the acquisition of Quattor. Based on pro forma data for December '09, Braskem had an average debt term of 6.6 years and financial leverage in Brazilian real of 3.46 times.

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The injection of BRL3.74 billion by shareholders plus the combined issues in capital markets of \$1.2 billion through the issue of 10-year perpetual bonds, lengthened the average debt term to 11.9 years and improved the average cost of our debt.

Note that the increasing debt term is based on pro forma figures that consider in this quarter the issue made in October. We also reduced our exposure to bank debt with a debt profile now once again well-distributed among various funding sources, similar to Braskem's profile prior to the acquisition.

On slide nine, we show the synergies that have already been implemented from the Quattor acquisition. The estimated synergies already (inaudible) from the acquisition totaled BRL400 million in annual recurring EBITDA to be fully captured by 2012.

These synergies were divided into various fronts in accordance with their type. And as of September, initiatives had already been implemented to capture BRL235 million in 2011.

On the industrial front where the biggest synergy gains were identified totaling BRL173 million, the highlight was improvement in production planning; for example, for co-products at Crackers such as the streams of aromatics, butadiene and gasoline, as well as optimizing the use of additives and catalyzers.

Actions have also been implemented on other fronts and we expect gains in distribution and storage resulting from better internal planning and from exports. On the financial front where the expected synergies come to BRL340 million in net present value, the initiatives are advancing in line with our expectations. And the impacts can already be seen in the net financial result shown on slide five.

Moving to slide 10, we present the Company's expansion platform using renewable raw materials. This is the foundation for achieving our 2020 vision which is to become the leader in sustainable chemicals. The startup of the 200,000 ton Green Ethylene plant in September 2010, which will serve as feedstock to make green polyethylene, has led Braskem to become the global leader in biopolymers.

Maintaining the focus in its strategy and its constant drive to be an innovative company that always meets the needs of its clients, in October, at K Fair, the largest event in the global plastics industry, Braskem announced its Green Polypropylene project. The project calls for using a plant with annual capacity of at least 30,000 tons of green polypropylene. And should receive the approvals needed, including the Board of Directors', in 2011.

Braskem also has in its pipeline many strategies for using renewable raw materials in other cracker streams. And as soon as the projects mature a bit more, they will be announced to the market.

Moving to slide 11, we provide the latest news on the Mexico project, which is one of the Company's growth drivers for diversifying its raw material matrix and increase the competitiveness of its cost. The project which is expected to become operational in early

2015 provides for the construction of a cracker with annual production of 1 million tons of ethylene integrated in the production of 1 million tons of polyethylene through a joint venture controlled by Braskem.

With investment projected totals \$2.5 billion using a structure of 70% debt, 30% equity, the JV has already chosen the technology for two out of the three plants of polyethylene. The agreement with Ineos was announced on November 9, 2010.

The focus for the short term is on refining engineering, procurement and construction. And the front-end engineering design. This focus also calls for restructuring the project finance with the participation of export credit agents and multilateral agencies.

On this particular front, we have already received four more letters of interest from agencies and banks, totaling \$3 billion.

Moving to slide 12, which is our last slide, we'll present the main areas management is currently focusing on. The global scenario is market by caution, whether due to the fact that we are in the downcycle of the petrochemical industry because of the new capacity coming on line and the resulting margin compression, or just the slowdown in the world economy.

However, some mitigating factors have become evident and the industry's performance has exceeded the expectation of many analysts. But they are now more optimistic in relation to the petrochemicals cycle.

In this scenario, Braskem continues to focus on meeting the growing demand in Brazil, which like other developing countries has confirmed the strength of its growth and to present a very favorable outlook.

On the operational front, Braskem reaffirmed its priority to capture and add value to its acquisitions. We also would like to emphasize our commitment to maintaining the financial health and solidity of the Company, whose financial discipline should ultimately lead to an investment-grade credit rating.

Seeking to ensure its leadership in the Americas in its vision to become a leader in sustainable chemicals, Braskem maintains in its pipeline growth projects in Latin America that use competitive raw materials, the increased use of renewable raw materials. And the evaluation of the Company's participation in the Comperj project in Brazil.

And that concludes our presentation. Thank you very much for listening. And let's move now to the q-and-a session.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Please hold while we pause for questions. Our first question comes from Christian Audi from Santander. Please go ahead. Christian, your line is open.

Q - Christian Audi {BIO 1825501 <GO>}

Okay, can you hear me? Hello?

A - Luciana Ferreira {BIO 15106436 <GO>}

Yes.

Q - Christian Audi {BIO 1825501 <GO>}

Okay, fine.

A - Luciana Ferreira {BIO 15106436 <GO>}

Hello, (multiple speakers).

Q - Christian Audi {BIO 1825501 <GO>}

Thank you. My first question is as we look at the improvements you've made at Quattor which have been significant in terms of capacity utilization, I was wondering if you could give us a sense of how much more is left to go?

In other words, as you look at the improvements you've made, if you were to try to quantify them, would you say that -- what percentage of the work is behind you? 50% of it is already done. So there's 50% to go? I'm just trying to quantify or qualify a little bit more how much of the significant improvement is behind us and how much is yet to come?

A - Marcela Drehmer {BIO 16721570 <GO>}

Thank you for the question, Christian. Regarding the utilization ratio, Quattor's utilization ratio were around 89% and we are sure and positive that it can run close to 95%. So in this sense, we are very close how far we can go in terms of utilization ratio and that -- on top of that, we have the synergies. And we have announced the synergies around BRL400 million. And so far we have kept around BRL235 million. So -- but you have 50% to move on the synergies. But we do have to also wait for the final approval from the antitrust agents.

Q - Christian Audi {BIO 1825501 <GO>}

Great. And in terms of capacity utilization targets, what are your expectations in terms of capacity utilization both for Quattor. But also for Braskem as a whole, reaching this 95%? Is this a First Quarter '11 event, first half of 2011 event? Can you give us a sense of timing of how quickly you could reach that level?

A - Marcela Drehmer {BIO 16721570 <GO>}

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Yes. We're expecting that we can reach that in the First Quarter, the later in the Second Quarter of 2011. That's our expectation. If there is demand here in Brazil and the demand is very -- is moving very fast, is really increasing very fast, we think that we can raise this up to 95% in the First Quarter. The worst scenario will be in the Second Quarter. But we're talking about the first semester of 2011.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Great. The second question is given how healthy the Brazilian market is, how concerned are you of imports increasing as we enter 2011? I'm sure all producers are now seeing particularly with expectations of improvement in global pricing into 2011, looking very closely at the Brazilian market. So how concerned are you about an import pickup?

Are you seeing any signs in the chain that there's increasing pressure from imports? Any color there would be helpful.

A - Marcela Drehmer {BIO 16721570 <GO>}

Today I have my colleague, Rui, because he's the head of the polyethylene unit -- Polyolefins unit. Rui, do you mind to answer this question please?

A - Rui Chammas {BIO 16720217 <GO>}

No, no. It's true that we do have overcapacity in the market already this year, 2010. And the forecast for 2011 is that will continue, more or less of the same scenario in terms of extra capacity, especially coming from Middle East. But what we have faith in the market as a matter of fact is that the material coming from the new capacities are very, very concentrated in commodity grades that do not fulfill -- does not fulfill the real demand of the Brazilian market.

When we go to the customer level, normally what they're asking us is a complete portfolio, a very sophisticated logistic system to provide them the right material at the right time, the right moment, together bonded with the financial structure that gives them working capital.

And normally, a company providing material from outside without knowing the market, without knowing the investment, they are not ready to give credit to these companies here in Brazil. So yes, we foresee some material potentially coming from outside. But I don't see they really competing against us in Brazilian market with the same quality level, service levels. So there's no reason for having imports increasing in our market.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Thank you. And the last question now on the financial side of things, I was just curious, when you look at the topic of investment grades, what's your sense of how long would Braskem have to keep their net debt to EBITDA below 2.5% in order for the rating agencies to seriously consider giving you investment grade?

In other words, as they look at your ability to sustain low leverage ratios, is that a six-month time period to look at? Is that a year time period? I'm just trying to better assess when an investment grade could realistically be given to you on the back of this improvement you've made on your leverage ratios.

A - Marcela Drehmer {BIO 16721570 <GO>}

Sure. In our conversation with the rating agencies, they say that we should keep this ratio at least for three quarters. But the first thing about the ratio is that they recognize that Braskem was able to reduce the leverage even in the middle of the trough, because we consider 2010 as the trough of the cycle.

So when we look forward, we are very positive about our leverage -- in our capability to leverage the Company and keep the ratio very close to this one. And because of that, we are really concentrating in these conversations with the rating agencies. So we are almost there --

Q - Christian Audi {BIO 1825501 <GO>}

Right.

A - Marcela Drehmer {BIO 16721570 <GO>}

-- in our opinion of course. And I think the market recognized that, pricing our bonds very close to the investment-grade company.

Q - Christian Audi {BIO 1825501 <GO>}

Great. Great.

A - Marcela Drehmer {BIO 16721570 <GO>}

Okay.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you very much.

A - Marcela Drehmer {BIO 16721570 <GO>}

You're very welcome.

Operator

(Operator Instructions) And we have no further audio questions at this time. I'll turn the call back to Ms. Marcela Drehmer for closing remarks.

A - Marcela Drehmer {BIO 16721570 <GO>}

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Thank you, again for the participation in the call. It's really a pleasure to have you all interested in our Company. And we look forward to have you again in our next conference call. Thank you very much.

Operator

Thank you very much ladies and gentlemen. This concludes Braskem's earnings conference call today. You may disconnect your lines at this time.

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