

Q3 2009 Earnings Call

Company Participants

- Bernardo Gradin, CEO
- Luciana Ferreira, IRO

Other Participants

- Frank McGann, Merrill Lynch
- Ricardo Cavanagh, Analyst
- Sergio Torres, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's Third Quarter '09 Earnings Conference Call. Today with us, we have Bernardo Gradin, CEO, Carlos Fadigas, CFO and Luciana Ferreira, IRO for Braskem. (Operator Instructions) We have simultaneous webcast that may be accessed through Braskem's IR website, www.braskem.com.br/ir. The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call on the website. We remind you that questions, which will be answered during the Q&A session, may be posted in advance on the website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on 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 call over to Luciana Ferreira, Braskem's IRO. Ms. Ferreira, you may begin your conference.

Luciana Ferreira {BIO 15106436 <GO>}

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Good morning, ladies and gentlemen. Thank you for participating in yet another Braskem quarterly earnings conference call. Today we will be commenting on our results for the Third Quarter of 2009.

Before I begin, I would like to remind you that with the merger of Petroquímica Triunfo's assets in May this year, this conference call is based on pro forma consolidated information that includes 100% of the results from this new asset for all periods here stated. Also in accordance with CVM Instruction 247, this figures consider the proportional consolidation of the interest in Cetrel.

Let's go now to the first slide, slide number three, where we will begin our comments. I would like to start by commenting briefly on the current scenario for global petrochemical industry.

The scenario in the Third Quarter was marked two distinctive periods. Up until August, we noted a recovery in price for resins and basic petrochemicals, reflecting a continued strength in the Asian demand, the upward trend in raw material price as well as supply restriction. These factors were influenced by the lower capacity utilization rates, delays in the startups of new capacity. And operational problems in certain regions.

The upward trend in price reversed in September impacted by lower oil prices and the following drop in naphtha prices, the seasonal deceleration in Chinese demand and also the startup of new capacity, especially in (inaudible).

In October, we (inaudible) recovery in price, however, the scenario for spreads in the Fourth Quarter was (inaudible). Higher supply initiating[ph] downward pressure on prices, which should be partially offset by the continued weakening of the U.S. dollar and higher oil prices and the volatile signs of economic recovery in developed countries.

Looking to the medium-term, the high volume of supply in the Middle East should pressure margins in the industry, in fact prolonging the down cycle until 2011.

Let's go to slide number four, please. Slide four presents the scenario for the petrochemical industry in the region. The recovery in domestic demand that began in March proved sustainable and it allowed Braskem to operate at high utilization rates, outperforming industry growth.

For Braskem, the Third Quarter was marked by all-time high PP sales and ethylene production in its ethylene plants in Camacari Petrochemical Complex in Bahia state. Despite the higher consumption, inventories in the production chain remained below 2008 levels, with the entire chain running at a high level of efficiency.

Other factors that positively affect demand and which should continue to do so in the Fourth Quarter are the high seasons in agribusiness sector and a strong performance in the construction sector, which is already feeling the impact from the outset of the 2010 utilization[ph] rates.

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The upturn in domestic sales associated with the high prices and the strong performance of export sales, drove Braskem's net revenue to BRL4 billion in the Third Quarter, a growth of 10% over the previous quarter. These effects offset the higher raw material costs leading to EBITDA of BRL838 million, 48% higher than in the Second Quarter.

The strengthening of the real and the uncertainty regarding international revenue and naphtha price[ph] will be the main challenges for the scenario in the last quarter of the year. However, Braskem reaffirms its commitment to maintain the quality of its business and the profitability of the petrochemical chain.

In line with its strategy of maintaining its costs and fixed expenses (inaudible), Braskem reduced its G&A expenses by BRL98 million in the first nine months of the year.

Moving to slide number five, we can see the performance of Brazil's resin industry as well as Braskem's share of this market. In the Third Quarter, domestic demand for thermoplastic resins showed signs of a strong recovery increasing by 9% in relation to the previous quarter.

In this scenario, Braskem's domestic revenue sales grew by 10% led by growth of 15% in polypropylene sales and up 17% in PVC sales. The stronger sales reflect the continued good performance of the Brazilian economy as well as the recovering factors such as agribusiness, which suffers from weak demand in the first half of the year.

Despite the strong local currency and the increase of 1percentage points in the market share of imports, Braskem was able to outperform the overall industry, maintaining market share stable at 53% in this quarter.

Moving to slide number six, we see the variation in EBITDA between the second and Third Quarters, with the growth of BRL272 million between the two periods. The increase in price for resins and basic petrochemicals, especially propylene, benzene, ethylene and gasoline accounted for the largest gains in EBITDA in the quarter, BRL745 million.

The growth of 10% in domestic resin sales volume in the periods as well as the higher volume of basic petrochemical sales generated an EBITDA gain of BRL110 million between the two quarters.

A negative impact of BRL252 million coming from higher raw material costs which is[ph] increase in the ARA naphtha price and high production volume in the quarter will partially offset the improvement in operating efficiency.

Other variable costs such as gas and electricity, ultimately is influenced by the higher sales volume in production with an impact of BRL117 million. The 10% appreciation gap at real/dollar exchange rates in the quarter generated a negative impact of BRL171 million. composed of a positive impact on costs of BRL274 million and a negative impact on revenue of BRL445 million.

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In slide number seven, we see the variation in EBITDA between the Third Quarter of 2008 and '09, which improves by BRL112 million. The reduction in raw material prices accounted for the biggest positive impact on EBITDA between the two quarters. The decline in the average ARA naphtha price of 31%, from \$969 per ton in the Third Quarter of last year to \$598 per ton in this quarter, had a positive impact of BRL1.3 billion.

Tier 1[ph] cost of goods sold (inaudible) variable costs that impact production, such as the lower costs of natural gas, fuel oil. And other items boosted EBITDA by BRL607 million, a 12% decline in the average real/dollar exchange rate between the two periods generated a gain of BRL148 million. Meanwhile, (inaudible) total sales volume of resins and basic petrochemicals in the quarter generated a gain of BRL142 million. The significantly lower price for revenue in basic petrochemicals when compared to last year generated a negative impact of BRL2.1 billion.

On slide number eight, we're going to see Braskem's debt amortization schedule as of September 30th of this year. On September 30th, Braskem's gross debt amounted to BRL9.8 billion, 7% lower than the level of June 30th, basically due to the depreciation in the dollar against real, since 65% of the Company's debt is pegged to the dollar.

Braskem continued to maintain a high level of liquidity in the quarter with cash and cash equivalents of BRL3.2 billion, which is sufficient to meet all debt obligations maturing within the next 24 months. As a result, net debt stood at BRL6.7 billion, down 9% in relation to June 30th.

Expressed in dollar terms, net debt remains virtually stable as a result of the change for the level of new investments[ph], with the net debt/EBITDA ratio remaining at around 3.2 times. The average debt term shortened from 10.1 years in June to 9.8 years in September.

Braskem believes that its annual payment profile is perfectly aligned with its level of cash flow.

On the last slide, we present the areas management is currently focusing. Management remains confident and committed to making Braskem a leader in global petrochemical industry.

On this front, the Company remains committed to sustainable growth and development to continuously strengthen its long-term relationship with clients and to preserve its financial solidity and liquidity, while maintaining operational profitability.

Braskem also remains committed to reducing its production costs and administrative expenses as already demonstrated by the figures reported this year. The current scenario remains caution regarding exports and import of resins. The dollar depreciation is attracting our exports competitiveness, therefore, Braskem is looking to alternatives to keep an export level that allows the Company to keep a high level utilization rate at expense[ph].

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Regarding imports, management is following it closely. Factors that could attract more important will be delivering[ph] value to market such as dollar depreciation. the recent import has increased delivery to[ph] China, USA, Europe for (inaudible). And the volatility of the U.S. economic recovery, which is currently oversupplied in the very competitive gas based industry.

In the Green polyethylene project, construction works advancing in schedule and roughly over 60% of construction services have already been concluded. Braskem is currently in the final phase of negotiations for the supply of approximately 70% of the ethanol feedstock required, assuring the plant's startup by the end of 2010.

For the projects in Venezuela, in the Third Quarter the financing structure (inaudible) as well as financing entities with development banks in the U.S. are also being realized. For the polyethylene project, negotiations will be concluded for license agreement, the (inaudible) agreement. And the EPC based conditions for the cracker plant. The construction of the plant is scheduled to begin in 2011, with operational startup expected for 2013 and 2014 respectively.

Braskem's leadership maintains its commitment to identifying the best ways to create value for its shareholders. The economic recession has weakened the petrochemical industry in North America, which could represent an opportunity for Braskem to acquire assets in world's largest resin markets.

That concludes our presentation. Let's go now to the questions-and-answer session. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Your first question comes from Ricardo Cavanagh.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Yes. Well. Good morning Buchanan[ph] and everybody. Well first of all congratulations on the results of the quarter, particularly on the EBITDA margin that was impressive. And my question is if you can provide some -- you are mentioning that the Fourth Quarter was (inaudible).

My question would be, in terms of EBITDA margin, how should this level be seen as a level that we are not going back to the mid-teen as in the previous or you could go back to those levels in the coming quarters for the factor that you are mentioning on the press release.

And second, regarding the potential investment in North America, my question would be, what would be the rationale in term for Braskem -- what would be -- what Braskem would

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be providing in terms of competitive advantage to that idea or vice versa. Thank you.

A - Bernardo Gradin

Yes. Thank you Ricardo, this is Bernardo speaking. In regards to the margins that we are forecasting for the current quarter and next quarter, if naphtha keeps rising price. And the volume here. And the Brazilian consumption keeps rising as we expect. We can see the good margins that we saw in the First Quarter.

October was not as good as September. And I'm afraid that due to seasonality not only in Brazil but in international market, we won't see on the Fourth Quarter the same results that we saw on the Third Quarter.

In respect to North America, we see the strategy of consolidating the Americas into being present in whatever we have, raw materials availability at competitive cost and we saw that in opportunities in Venezuela, Peru and Bolivia so far. We are expecting more. And the idea here is that Braskem must be present in greenfield projects that will offer gas competitiveness not only for the future up cycle but also thinking in the balance of raw material naphtha gas in the future.

Regarding North America, the American market is the most competitive and also the largest market and we think that we are passing through a distract movement in which we will be able to look for potential acquisitions in which a catch position will make the asset more competitive with a potential growth that may not be there with the current shareholders. So the way we are seeing the America there is a natural growth path to Braskem is similarity in culture, a strategy of consolidating the Americas and the good movement that we see on the distress market that is reality in the states. So this is basically how we are considering our strategy so far.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay so you could be -- for instance considering on feeling the event only not North American plants we have cheap feed stock from the rest of the region. How it will work from a cross perspective?

A - Bernardo Gradin

That will be complementary. Whatever we are seeing in the United States today, of course, there will be some complementary strategy on (inaudible) in exit from not only Brazil but from other regions in Latin America. But our goal is that would be asset in the US must be self-sustainable, in competitiveness, being well positioned in the market and being in a good profile, first profile maximum second profile in productivity. And what we see as an opportunity to make a platform of growth in the west, more like the same way that we did in Brazil. So our idea is that the US assets that we potentially buy and hopefully the future will be the first of others of many.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay. Bernardo and Luciana, thank you so much.

A - Bernardo Gradin

Thank you.

A - Luciana Ferreira {BIO 15106436 <GO>}

Thank you, Ricardo.

Operator

(Operator Instructions) Your next question comes from (inaudible).

Q - Frank McGann {BIO 1499014 <GO>}

Hi this is Frank McGann from Bank of America-Merrill Lynch. Just a quick question in terms of -- two questions. In terms of what you are seeing related to the competitive environment heating up that you referred to both in the press release and your comments today. What actual signs have you seen and are you seeing this in prices or greater product trying to come in to the market either in your overseas operations or in Brazil?

Then secondly in terms of looking for acquisitions. Financing those given the balance sheet I would guess is fairly slow in terms of debt at this point. Would you look to finance those potentially with additional equity or would it be a combination of a little bit of debt and equity, just how do you think about that right now?

A - Bernardo Gradin

Let me start with the second question. The capital structure of the potential acquisition shall not harm Braskem's balance sheet today. So you are right if we pursue the acquisition, we'll probably have a balance affect[ph] see in debt and we are quite optimistic that with the market to make it happen for other projects. So we'll be very disciplined on keeping the right structure of capital for seeing a trough[ph] next year and the year following.

Regarding the flow of the potential excess capacity that we generated the trough[ph] next year and the year after, we haven't seen it yet. It didn't hit us yet. What we see is that our competitiveness is getting tough, partly because of the devaluation of the real. So we expect our exports and with all the announcements of the new capacity that being happened this year with a little delay comparing to what we forecasted last year and the balance between what's been hibernated or a closedown or shutdown, we've been in (inaudible) up to-date.

We're making viable that the margins from polyethylene to naphtha are being surprisingly good, maintaining the range over \$400 for most of the entire year. So we think that most of the new entrances will just delay. They will come next year and the year after and we are forecasting difficult times next year and the year after to compete internationally. With respect to the Brazilian market we are not comfortable, because of our relationship with the clients and the service built in aggregate to the entire value chain.

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Q - Frank McGann {BIO 1499014 <GO>}

Okay. Just a follow-up in terms of what you're seeing then for the Fourth Quarter, this competitive effect that we may see in 2010 and '11, you don't expect to see much impact on that and the results in the Fourth Quarter, the Fourth Quarter would be more affected by seasonality, I mean, perhaps a little bit raw materials as you have discussed earlier?

A - Bernardo Gradin

Exactly, that's how I see it.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Great. Thank you very much.

A - Bernardo Gradin

Thank you.

Operator

(Operator Instructions) Your next question comes from Sergio Torres.

Q - Sergio Torres {BIO 17585274 <GO>}

Good morning, Luciana. Good morning, everybody. I have a couple of also big picture questions regarding the optionality of your growth. From where you stand today, you have a very well advanced project to grow in Venezuela. And I'm talking about the Jose project. But also there is a -- I mean according to the statements you made on the previous call in Portuguese, you would like to join the COMPERJ project if you were invited.

So my question is, why wouldn't you be invited to participate in that project. And what's the optionality you see within those -- of these projects Venezuela, Peru, potentially COMPERJ, which ones is the priority and please correct my impression that not all of them would be or could be executed simultaneously.

A - Bernardo Gradin

I understand your question; let me try to give you a proper answer. First of all, we are very concerned about being and defending the region. So there is a complimentary strategy of defending and growing. So that's an opportunity come along. Venezuela is a project that has been there for a while; we think that the potential in Venezuela is fantastic.

The reserves that not only based on oil and gas in Venezuela will eventually make that country a new Middle East for the region. And we want to be there and want to be a preferred partner for typically for the big event. So the strategy is that we'll be like the preferred partner in Venezuela being in North Venezuela.

The Latin America strategy is certainly to be positioned in that and follow the same path, Peru and Bolivia. And COMPERJ is a project that will come eventually. We think that the

risks, a commitment already made by President Petrobras that the COMPERJ project will be standing out by 2016.

We think that there is an opportunity that this project may be phased out, the refining part of this and then if a chemical product is coming in two phases. But this is just a proposition that we've made to Petrobras. We're all concerned that the excess offering of products to the market, impacted the market as it could eventually.

So to answer you, I think that Braskem as being leader in the region, must be present in our major projects taking them and a complementary test[ph] for this strategy, waiting to grab an opportunity. So we sustained our intension to Petrobras to be an active partner in COMPERJ specifically on, for your reference and maybe some (inaudible) that can complement whatever we have today, not only for the domestic strategy or the domestic market but also the international market.

Q - Sergio Torres {BIO 17585274 <GO>}

And do you think that there is enough room for a large petrochemical complex of the size of Jose 1, one in Peru and one in Bolivia. They must be phased out as well right?

A - Bernardo Gradin

Right. We hope that we'll be able to influence the right phasing out by being part of all these projects at the same time, you understand what I mean.

Q - Sergio Torres {BIO 17585274 <GO>}

Right. And just as a follow up to a question that was maybe asked earlier. I really don't understand the fact that any asset in the US would make in the portfolio. If there is any asset in this -- under this stress, it's got to be for a reason and it looks to me that the north -- and some of the North American asset base is losing competitiveness versus the new capacity in the Middle East and eventually at least from the consultant's perspective, the US is going to be become a net importer of the most important resin that was polyethylene. So I really -- really appreciate if you could help us understand the -- how can that be different under your hands?

A - Bernardo Gradin

I understand. I understand your question is a fair question. First of all, we think that Braskem grew to be SI[ph] consultant, excuse me, that were becoming too big of a fish for a small pond and in this market, we believe that you either grow or go and there are two ways of growing.

We're already expanding in our case. Either expanding to all the markets or make global alliances and we are thinking in both ways. But the US although is losing competitiveness, it's still the largest market in the world and even reducing polyethylene demand from 25 million tons to 20 million tons or whatever it is, will be this year, it's clearly a 20 million tons market. Competitiveness will be there always. It's a market that our margins are tight but we think that this is the right moment to getting in these markets. Braskem cannot ignore

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if it wants to consolidate itself as a global company to enter the American market in the right moment and we think that there are distressed assets maybe not only financially speaking. But also assets that one has because of the shareholders choice today, room for much improvement in the debottlenecking or consolidating other companies that would improve their regional margins.

So Braskem is hoping to make a smart buy and to make a platform of growth in the US. Seeing the US as the largest market in the region and we think that this move must be done targeting companies that would be in the first or Second Quarter in productivity not words. If there will be a threat of imports against U.S. producers, Fourth Quarter producers, the producers are not well positioned. They will eventually go away and then there will be some import barricades in the US and the recent limitation on what Middle-East can supply to the U.S. and what Middle East can supply even to China.

So we see the strategy as a long-term. We hope to make a smart buy. It will be well priced hopefully. We think and we see that most Africa forecasting difficulty times for 2010 and 2011. But 2012, 2013 the markets will recuperate itself, margins will be back and we hope we will be well positioned to grow and to make our positions consolidated from North to South America. So this is the rationale we have.

Q - Sergio Torres {BIO 17585274 <GO>}

Right. And thank you. That's a very complete answer. I appreciate that. And when it comes to the lines of product you mentioned something that what you say fully self-sustainable does that mean fully integrated?

A - Bernardo Gradin

Sorry no, it doesn't mean fully integrated, because a former question was, are you seeing the American market as just demand oriented. And if we saw the American market as the instance for the excess capacity that we may have in Latin America and my answer was it will come eventually as an opportunity because we think that producing such capacity in the Latin America will not come before 2013, 2014. So we want to have the American operation whenever it comes self-sustainable in terms of capital structure and being self-sustainable in margins with the whatever constructing raw materials or integration we have.

Q - Sergio Torres {BIO 17585274 <GO>}

Got it. And what about the product line, right now in Brazil you have focused to three resins only polyethylene, polypropylene and PVC but the holdout[ph] in North America also includes a large component of polyester, polyester staple, PET and polystyrene? Would you be willing to open up to -- or do you open for those possibilities?

A - Bernardo Gradin

Not in near future. We'll concentrate on our core business.

Q - Sergio Torres {BIO 17585274 <GO>}

Okay. Great, thank you very much.

A - Bernardo Gradin

Thank you.

Operator

(Operator Instructions) Your next question comes from (inaudible).

Q - Unidentified Participant

Hello, thank you very much. My question is regarding today, what is your strategy this regarding to the export of basic petrochemicals because -- please correct me if I am wrong. But most of the basic petrochemicals are used to the -- are used as a raw material for the production of other products?

A - Bernardo Gradin

I am sorry. What -- could you, Claudia[ph] could you please repeat your question, I am sorry.

Q - Unidentified Participant

Yes, no problem. What is your strategy regarding to the export of basic petrochemicals?

A - Bernardo Gradin

The basics petrochemicals is...

Q - Unidentified Participant

Because from -- if I am correct, you used this basic petrochemicals to, as a raw material for the production of other products?

A - Bernardo Gradin

You are right. The strategies we're following. The way that Braskem was formed, was merging the two crackers, right? The southern cracker and the northeast cracker. We -- it had structurally an excess capacity on aromatics and basic materials. So we are trying to attract investors and even housing companies to think of integrating the change or the value change in the Real. And so, we don't have a strategy to remain, naphtha exporter or exporter forever on raw materials, on basic materials in aromatics. But until it happens, the strategy is to maximize the exports through, they like trading. So we're focusing on our markets that are adapted -- they have adapted on the specific products that we have surpluses in Brazil.

Q - Unidentified Participant

Okay.

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A - Bernardo Gradin

So we swing the strategy on trading, selling either to the US Gulf[ph], Europe or China whenever we have the best price and the stretch has been 60% contracted, 40% on spot more or less.

Q - Unidentified Participant

Okay. Okay. Thank you very much.

Operator

Thank you. I will turn the call over to Mr. Bernardo Gradin for closing remarks. Mr. Bernardo. You may begin your final consideration.

A - Bernardo Gradin

Well thank you once again for your time and attention. We had a very good Third Quarter. We think it will be a challenge to make it happen again in the Fourth Quarter. But we certainly have a trend on the culture of cost reduction and the tangibility of having synergies happening faster and sounder each time.

We are focused on the internal operation's deficiency and margins in the domestic market. But we also concentrated on having the opportunities of the international markets that keep with the full operation rates that sustain good margins in Braskem.

Once again, thank you. And we affirm our commitment to the sustainable growth and development of the Company and we think that opportunities that initiated last year raising Braskem is a proof that the team is committed not only for the long-term value. But also the short-term value in operations and the capital structure. Thank you very much.

Operator

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

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