Q4 2006 Earnings Call

Company Participants

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

Other Participants

- Eric Ollom, Analyst
- Frank McGann, Analyst
- Gustavo Gattass, Analyst
- Ricardo Cavanagh, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Braskem's Fourth Quarter and 2006 earnings conference call. Today with us we have Mr. Jose Carlos Grubisich, CEO, Mr. Carlos Fadigas, CFO and Luiz Henrique Valverde, Investor Relations Officer 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 section. At that time, further instructions will be given. (Operator Instructions)

The slide presentation maybe 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 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 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 Mr. Luiz Valverde, the IRO at Braskem. Mr. Valverde you may begin your conference.

Luiz Henrique Valverde

Good morning, ladies and gentlemen. First of all I'd like to thank you for attending this conference call, hosted by Braskem, in which we'd like to discuss our Fourth Quarter '06 and 2006 results.

I just want to remind you that, the results discussed here have been adjusted to eliminate the effects of the proportional consolidation under The Brazilian Securities Commission CVM according to instruction 247. Thus, only those investments directly managed by Braskem were consolidated, while the Company's equity interests in Copesul and Petroflex were recognized on the equity method of accounting.

Let's now move to slide number three, where we will start our comments on Braskem's results in the period. On slide number 3, we see that in 2006 the Brazilian thermoplastic resin market grew by 9% confirming its historic elasticity to the GDP of around 3 times on average over the past 10 years. One of the highlights of '06 was the 12% growth in the polypropylene market, while the PE and PVC markets also posted a significant growth of 8%.

The striking difference in performance during the year, where the second half was much better than the first one, in particular, where profitability is concerned, suggest that those affects of the entry of the new domestic player in the polyethylene market have already been absorbed by the market.

The volume represented by this 9% growth is approximately 350,000 tons, giving us a picture of how much the demand increased in the period.

Moving forward, let's move to the slide number four. On slide number four, we show highlights of 4Q 2006. In 2006, the Company gross revenue in U.S. dollars, the reference currency of the petrochemical industry, increased by 8% compared to the prior year from $6.4 billion to $6.9b. The best result ever.

Net revenue increased by 10% in U.S. dollar terms from $4.9 billion to $5.4b, consolidating the compound growth rate of 23% per annum from 2002 until 2006.

Braskem also consolidated its leadership position in the polyethylene and polypropylene and PVC regional markets in 2006. The acquisitions of Politeno's controlling stake in April '06 re-enforced the Company's leadership in this market. It is also worth mentioning that the acquisition of Politeno improved Braskem's polyethylene and polypropylene [ph] products and customers. Politeno's operations have already been integrated to Braskem. And Braskem expects to capture more synergies than those previously identified, confirming innovation and technology as a strategic driver for Braskem.

So in 2006, Braskem announced the launching of the first Brazilian resin produced, using nanotechnology. But polypropylene resin expected to meet the demand of automobile, electronic and the home appliance industry. Also Braskem deposited 14 new patents in Brazil and abroad, and reached a 20% of resin net revenue from products developed in our technology and innovation center in last three years.

About Braskem +, the results of this program obtained by Braskem one year ahead, before its schedule, will allow the Company, as from 2007, to take full advantage of annual recurring gains of BRL437 million arising from several program initiatives.

About Formula Braskem, Braskem's implemented the new integrated management system, named Formula Braskem on October 1, 2006. Investments in the project, the second phase of which will be implemented in August 2007, amounts to BRL130 million of which BRL91 million were disbursed in 2006.

In slide number five, we have additional 4Q '06 and 2006 highlights. During 2006, the Company focused its efforts on extending the average maturity of its debts, which now reaches 16 years, thus ensuring the adequacy of the profile of its annual maturities. The current debt profile is comparable with the expected cash flow from operations of the Company.

Braskem was also selected as part of the Bovespa's Corporate Sustainability Index, ISE. This recommendation [ph] was received for the second consecutive year, and typifies Braskem's commitment with sustainable growth.

Braskem also received an international recognition as one of two Brazilian companies with the highest corporate governance rating according to GMI, GovernanceMetrics International.

The average global rating for emerging markets was 4.3, in a scale of one to ten. While Braskem had a global rating of 6.0, which is 40% above the emerging markets average. And 88% above the average of 3.2 of Brazilian companies included in the study.

Between May and October 2006, Braskem implemented a share buy-back program, and repurchased 13.1 million class A preferred shares. Upon completion of the program, the Company had 14.4 million PNA shares in treasury.

On February 2, Petroquimica Paulinia launched its cornerstone for the construction of a polypropylene unit, with production capacity of up to 350,000 tons. Construction works have already started, confirming the start up of operations for the First Quarter of 2008.

Moving to slide number six, we see that Braskem's EBITDA in '06 reached BRL1.7b. When translated into U.S. dollars, the annual EBITDA reached approximately $764 million in '06. The main drivers for the reduced EBITDA were the significant increase in the price of naphtha, the Companies main raw material, following the upward trend in oil prices. And the 10.6% average appreciation of the real against the U.S. dollar during the year, as 100%

of the Company's revenue are denominated in U.S. dollars, while only 80% of the costs are expressed in this currency.

It is important to highlight that the results for '06 started to improve in the beginning of the second half of the year, driven by the recovery of resin prices and a reduction in naphtha prices. This (inaudible) was even a stronger in the Fourth Quarter with EBITDA of BRL530 million equal to one-third of annual (inaudible) sales. An EBITDA margin of 18% throughout the margin recorded in the Second Quarter of the year.

Going forward to slide number seven, we present some of the many economic effects occurring in 4Q '06. The Company's net revenue for 4Q '06 reached BRL3 billion a 9% drop when compared to 3Q '06, reflecting the normal seasonality of the period.

In line with 3Q '06 figures, exports reached $396 million in 4Q '06. Since 2005, Braskem has been consistently increasing its investments, aiming at strengthening its international footprint. In this sense, the company opened commercial and distribution operations in Europe, in the U.S. and in Argentina. As a result, revenue from exports significantly rose by 34% in 2006 to reach $1.4b, 26% of net revenue compared to $1 billion in 2005, 22% (sic -- see press release) of net revenue.

Braskem's EBITDA in 4Q '06 reached BRL530m, the best result in the year, corresponding to a 15% increase over the BRL461 million reported in 3Q '06. When translated into U.S. dollars, EBITDA reached $246m, against $212 million registered in the previous quarter. EBITDA margin reached 17.8% in 4Q '06 representing a 3.7percentage point's growth over the 14.1% posted in the 3Q '06. This result primarily derives from higher resin prices and lower naphtha costs in the 4Q '06.

Braskem's net profit in 4Q '06 was BRL78m, compared to a loss of BRL65 million in 3Q '06. The improved performance was driven by both a strong recovery -- recovery in operating results and a better financial result in the period.

Braskem's financial leverage ratio measured by the ratio net debt to EBITDA dropped from 2.96 times in September '06 to 2.72 times in December 2006. This ratio is quite (inaudible) than the average debt maturity which is 16 years. This result reflects improved cash generation in 4Q '06.

On the next slide, number 8, we point out the reasons that led to a variation in EBITDA when comparing 4Q '06 and 3Q '06. The reduction in naphtha costs in 4Q '06 giving a 13% reduction in ARA naphtha prices was the main reason for the improved EBITDA posted in the quarter, having contributed to BRL215m. Braskem's efforts to realign its price according to international prices also provided a positive impact of BRL34 million in the 4Q '06 EBITDA.

The reduction in total sales volume, boosted by revenue prices which dropped by 12% negatively, affected the EBITDA in BRL97m. As far as other expenses are concerned, the increase in selling expenses caused an impact of BRL75 million in EBITDA. The foreign exchange rate variation, 3% [ph] of appreciation of Brazilian real over 3Q '06, had a slight impact on the EBITDA variation over the quarters. As a result, Braskem's EBITDA in the Fourth Quarter '06 reached BRL530 million or $246m, when translated into this currency.

Moving slide number nine. We present the factors that affecting selling, general and administrative expenses in the 4Q '06 in comparison to the previous quarter. In 4Q '06 Braskem's SG&A totaled BRL275m, BRL60 million higher than 3Q '06 SG&A. Selling expenses increased by BRL38m, primarily due to the following factors.

First, increased export expenses, which amounted to BRL12m. Second, higher distribution logistic expenses, which amounted to BRL9m, and third, higher logistic expenses in the domestic market, as a result of the adequacy of Politeno accounting standards which reached BRL16m.

General and administrative expenses on the other hand, were BRL22 million higher primarily due to increased expenses with consulting, auditing and legal services, the impact of which was BRL18m.

On slide number 10, we see that 4Q '06 net financial result was an expense of BRL239m, representing a 28% reduction against the expense of BRL330 million posted in 3Q '06. The main positive impact on the result was driven by the 1.7% appreciation of the real in 4Q '06 against a 0.5% evaluation accrued in 3Q '06, leading to a difference of BRL85 million over the periods.

Excluding the effect of foreign exchange and monetary variations, the financial result was an expense of BRL218m, corresponding to a reduction of 4% when compared to 3Q '06 result of BRL227m. The main effects of these variations were the following.

First, lower interest and vendor expenses reached total BRL11m. Second, reduced tax expenses, CPMF and IOF, which means taxes on banking transactions, and lower interests on operating working capital, with the impact of BRL13m. Third, expenses with interest on tax provision BRL10 million lower. And last, BRL25 million primarily resulting from hedging losses, which basically offset non-recurring expenses related to structured operations amounting to BRL29 million incurred in 3Q '06 which were related to transactions that took place in 3Q '06.

Moving to the next slide, which is slide number 11, we show Braskem's debt amortizations schedule, debt allocation per currency and cash balance on December 31, '06. It is important to highlight the cash and cash equivalent balance, which increased from BRL1.6 billion in September '06 to BRL1.8 billion at end of December. This increase is primarily due to a better operating cash generation occurring -- occurred in 4Q '06.

Average debt maturity was 16 years at the end of 4Q '06, while net debt to EBITDA ratio was 2.72 times, showing and confirming the compatibility of Braskem's debt amortization schedule with its operating cash -- with its cash flow from operations. At the end of 4Q '06, U.S. dollar denominated debt was 49% of total debt against 54% at the end of 2005.

Let's now move to slide number 12 in order to discuss our investments and capital expenditures. So in '06 the Company's capital expenditures total BRL719m, compared to BRL717 million in '05. The resources were invested in projects providing attractive returns such as capacity additions or debottlenecking at plants. Business competitiveness programs, such as Braskem + and Formula Braskem. And also technology upgrades. Furthermore, significant investments were made in heath, safety and environment.

The major investments in product capacity increases during '06 were number one, BRL80 million in the basic petrochemicals unit expansion of the production capacity of isoprene, which started up in November '06 with an additional 8,000 tons or 48% of the existing production capacity. Second, a BRL10m, debottleneck of a PE plant with capacity of additional 30,000 tons of higher value added Polyethylene, in particular in the production line of Braskem Flexus, with startup in September 2006.

Additionally, investments in information systems and in Formula Braskem program amounted to BRL97m. Furthermore the Company disbursed BRL150 million for its scheduled maintenance stoppages, to ensure the operation of its plants at high level of reliability.

As part of the consolidation process underway in the Brazilian petrochemical industry, in April 2006, Braskem acquired the control of Politeno, and now holds 100% of the voting, and 96.2% of total capital of the company. The initial purchase price is equal to $111m. The final amount to be paid will be defined within the next 18 months, which is as of April 2006. And will be based on polyethylene spreads in the domestic market.

Now, let's move to our last slide, the number 13, in which we discuss our outlook for 2007. Braskem expects that the sharp global economic performance seen lately will be sustained over the next few years, with growth in the key world economies. Such scenario favors the petrochemical industry on account of the elasticity between the demand for petrochemical products and the economic growth rates.

The prospects are the capacity utilization rates remain at high levels over the next years, as a result of the projected equilibrium between the demand for thermoplastic resins in the international market, and the expected delays of new production capacity additions.

As far as naphtha is concerned, prices are highly correlated to oil quotations in the worked market. It is expected that the tight ratio of global supply to demand will keep oil prices at high levels, although at amounts on average below those seen in 2006. The combination of sustained revenue prices and naphtha costs below 2006 level -- levels points to potentially increased business profitability in 2007.

On the domestic front, Braskem works with a scenario of sustained economic growth, curbed inflation and potential for additional interest rate cuts, all stimulating the growth in the economy and consumption. The anticipated improvement in disposable income, credit expansion and increased level of activity in the civil construction industry, among other factors, point to an 8 to 10% increase in the Brazilian market for thermoplastic resins.

With the conclusion of Braskem + and Formula Braskem, associated with the implementation of some of our debottlenecking programs, Braskem will continue to pursue projects in net value creations with investments estimated at BRL550 million in 2007.

Additionally Braskem is expected to increase its production capacity by implementing new projects, while preserving its capital discipline in new ventures, capable of generating returns above its cost of capital.

In this context, Braskem will be focused on the following projects in 2007. Firstly, Petroquimica Paulinia, which is a joint venture with Petroquisa for the production of up to 350,000 tons of polypropylene, with a scheduled startup in the First Quarter of 2008. Braskem's investments in this project are expected to reach BRL80 million in 2007.

Second the investment propositions of the projects in Venezuela can be submitted for approval before the end of 2007. The projects are a 400,000 ton polypropylene unit in Venezuela in partnership with Paequiven, scheduled to start up operations in late 2009.

And also the second project which is the Jose Olefins Complex that will entail the construction of an ethylene production unit from natural gas, with 1.2 million ton capacity, and that will be integrated with polyethylene plants and other second generation units. These plants are scheduled to become operational in late 2011.

Well this concludes our preparatory remarks for today and I would then to start the Q&A session. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions.

(Operator Instructions)

Our first question is coming from Frank McGann with Merrill Lynch. Please go ahead.

Q - Frank McGann {BIO 1499014 <GO>}

Good morning. Just a couple of questions, one just in terms of pricing trends, both in the domestic and in the international markets. October increases I think had a good effect early in the quarter. The understanding I have is that as you got later in the quarter some of those prices softened a bit. Maybe you could comment on that?

Secondly, in terms of other operating income, could you explain -- just tell us what was included in that number, because it seems relatively high in the quarter?

Then lastly, in terms of Venezuela, would you move forward with these projects if you had a minority stake, and were not the controller of the project?

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

Good morning, Frank, Grubisich speaking. Thank you for your question.

So as far as pricing -- our pricing are concerned, as you mentioned we had very a good price realignment in the Brazilian market in relation to the international price levels. And in the Fourth Quarter, what we see is that we had disclosed our average selling prices, which were comparable [ph] at a very good price level in October, when we restated fixed pricing in the Brazilian market. And in November and December, prices were a little bit below the October level.

What we think is going to happen in the First Quarter '07 is that, in average, we are going to keep the same selling price as in the last quarter, the First Quarter 2007, for our three top products, polyethylene, polypropylene and PVC.

We do expect volumes to increase in this First Quarter, because as you may have noticed, we made a clear option for price realignment in the Fourth Quarter and we did prioritize profitability. So volumes went down more than what could be expected from that period of time. And we think that we are going to see the good recovery, in terms of volumes for polyethylene, polypropylene and PVC in this First Quarter, because GDP is growing.

Inventories are relatively low when we compare to the average of this time of the year. And we think that, the income available is much better now then it was a year ago. And we do expect this income to grow to consumer goods, food and personal care, home care, which are very let's say, important drivers in terms of plastic consumption in Brazil.

So as far as raw material costs, we do expect to have raw material naphtha costs in line with -- at the level we had in the Fourth Quarter. Of course, we need to wait to see what's going to happen in the remaining part of February and March, as a result of this very cold winter in the U.S. and in Europe. But overall we do not expect to see the average of the pit [ph] stock to be much higher than what we reduced it in the Fourth Quarter.

As far as other operating income, I'm going to ask Fadigas to give the details to you.

And as far as Venezuela is concerned, we are discussing with Pequiven to have a 50/50 joint venture. So everything's going in that direction. Of course, we do not have all the corporate side, but we do understand that this particular decision has already been agreed. And we are now working in the details of the supply agreement for propylene on one side and for natural gas on the other side.

And the basic concept is the cost of the pit [ph] stock should be inline with the competitive costs of comparable production facilities in the Middle East to make this project robust enough to compete on a global scale. Because our target is one, supply the growing market in Venezuela and in the neighboring countries (inaudible). And a big chunk of the volume will be exported, either as resin or cross former [ph] converted materials to North America and to Europe.

We have also agreed on the corporate governance model, how we're going to operate those joint ventures. Braskem will have the responsibility for the operations, and we think that we can have all the commercial responsibilities outside of Venezuela in line without internationalization strategy.

Of course, we would make naturally a different decision if we were asked to be in a minority position. But that's a kind of conceptual question. What we have in the discussions right now is a 50/50 joint venture. So Fadigas?

A - Carlos Jose Fadigas

Good morning, Frank. This is Carlos Fadigas. Regarding the other non [ph] operational profit, we have -- decline is actually the result of several smaller items added up to that number. The main one, or the premium ones, we could go through which are more relevant, would be the sale of some scrap and some old equipment, together with the sale of some equipment. They are still good equipment but not -- no longer compatible with the technology we use. If -- this number would account for approximately 60% of the total number.

You have to add to that some tax recovery we had, a much smaller number. And with that the reduce of the rent of some properties that we have. The three things combined would respond for approximately 80% of the total effect, and the other 20 now would have to go through several other smaller numbers. I hope this answered your question.

Q - Frank McGann {BIO 1499014 <GO>}

That's terrific. Thank you very much, all of you.

Operator

(Operator Instructions)

Our next question is coming from Gustavo Gattass from UBS. Please go ahead.

Q - Gustavo Gattass {BIO 1702868 <GO>}

I just had a quick follow-up on the comments you made on the market for '07. How much information do you already have as far as the January data has returned? Did we see any kind of pick up in demand from consumers in January itself or is that data still not available?

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

Gustavo, we have (inaudible) on -- the information we get from our commercial people. We tried that with our stock customers. In January volumes were already in line with our forecasts. So we did see the recovery in volume in January, that's actual information. And we got some feedback from some of our key customers that, they can see a trend towards more volume increase in February and March.

The inventory level in the beginning of January was very low as compared to the average level of inventory we normally see in the market. And our customers report that they see a more dynamic market in that all direct customers. And we are going to see more re-supply with additional purchase in this First Quarter. That's why we think that volumes will go up for polyethylene, polypropylene and PVC.

And as far as production is concerned, we also did anticipate some shutdowns in the late part of 2006, because we did expect the year to start in a more dynamic position. We were pushing for prices and profitability in the First Quarter, so we decided to make some shutdowns in our basic petrochemical unit and some polyethylene combined with the shutdown of the Olefins [ph] unit. And we also had a full capacity available for production in 2007. And we do expect to grow our position in the Brazilian market and to keep a very significant position in this core business.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you.

Operator

(Operator Instructions)

Our next question is coming from Ricardo Cavanagh with Raymond James. Please go ahead.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Yes. Hi. Good morning. My question is related to Copesul [ph] where last year we had the acquisition of control of Copesul [ph] it did not work out? And my question would be related, if that acquisition that is completely far gone or there might be some possibility of advancing on that direction some time in the future?

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

Ricardo, we do believe that the Brazilian petrochemical industry is still very fundamental. And that the petrochemical business has become a global business, which is more and more competitive and companies need to improve their position in terms of production skill, technology, a competitive cost position. And we do think that the Brazilian petrochemical industry will go through additional consolidation, including this tough petrochemical compass. And Braskem is working very much to be positioned as a potential consolidator of the industry in Brazil.

Of course, we cannot anticipate the timing, and how things would be implemented when the opportunity arises. But we think that this is going to happen at some point in time, and Braskem wants to be prepared to take an active role in that direction.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay. Thank you very much.

Operator

Thank you. Our next question is coming from Frank McGann with Merrill Lynch.

Q - Frank McGann {BIO 1499014 <GO>}

Yes. Just two follow-on questions, one is really just to your balance between exports in the domestic market. As you go forward, is it fair to say that you will likely go back to a more traditional balance, where the domestic market will be much stronger given the growth that you're seeing? Or do you think that your choice here to skew a little bit more price versus volume in the domestic market will continue, to keep the domestic market a little bit lower in terms of overall percentage?

And maybe I didn't hear you quantify the increase in the Politeno improvements in profitability or savings that you thought you could get efficiencies. Did you -- do you have a number for what you think the total efficiencies will be?

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

Okay. First, this quarter, the strategy, we did export more in 2006 for one very pragmatic reason. The polymers [ph] came to the market in the First Quarter of 2006, and we did export more for that reason in order not to put over pressure in the domestic market, because our priority was to recover selling prices and profitability.

The good news is that the Brazilian market is growing; it grew 9% on average in 2006. And we do expect the market to grow at a double-digit in 2007, which means growth to 130 to 150,000 tons of polyethylene in terms of volume growth. 130 to 150,000 tons in terms of polypropylene and close to 60 to 80,000 tons of PVC, which means that the additional capacity of new polymers will be in balance with the market in less than two years.

We think that the new polymers is already an attractive market. We've got the position. We will not produce at full capacity, because it feels that we are lacking some of pit [ph] stock and they can not work the 50 -- 540,000 tons. So we think that they are already imbalanced. And our strategy is to sell as much as we can in the Brazilian market without, of course, disturbing the balance in terms of price and profitability.

The second priority is to grow our sales in South America, Argentina and the other countries, as we did increase very much our sales in the other countries in South America, which means better pricing, lower logistic costs. And that's already preparation for the rest of investment we want to make in Venezuela. And we do not think that we are going to grow this plant beyond the 24, 25% we did produce in 2006. So most likely, we are going to see a reduction, in percentage terms, of the participation of export in our own breakdown of sales.

As far as Politeno is concerned, when we made the acquisition, we disclosed that the synergies had already been identified, and we do expect to implement those synergies in 2007. And the net present value of the synergies, as they were announced in April 2006, was $110m.

We did reduce some operational products within Politeno in 2006. Just before the acquisition, Politeno had a production problem, which impacted production during two weeks. We had in the Third Quarter also a ten-day operational problem in the exclusion [ph] process. But we think now Politeno is in very good shape to deliver the 350,000 tons of polyethylene, and this is going to be a good source of profitability for Braskem in 2007.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much.

Operator

Thank you. Our next question is coming from Eric Ollom with ING. Please go ahead.

Q - Eric Ollom {BIO 4374335 <GO>}

Hi. Good morning, gentlemen. and congratulations for the great result. Just coming at it from the debt side, I know you've done this in the past, could you just reiterate for us what is your leverage goals for the near-term? What sort of leverage ratios you plan to maintain? Thanks.

A - Carlos Jose Fadigas

Hi, Eric. Good morning. This is Carlos Fadigas speaking. First of all, I'd like to comment on the increase on the net debt contributor in 2006.

This reinforced that this is not -- it was a consequence of a very well thought strategy that Braskem adopted in 2006. We had several good investment opportunities both internally and externally. We had the Formula Braskem. We had the Braskem +. This presented [ph] for us to further controls for Politeno. And therefore, we decided to invest and increase the level of debt on the Company.

We also took advantage of the Group's good momentum in the correct cycle, meaning that we found that the cost of capital was -- the cost of debt was low. And therefore, we, during the year 2006, leveraged the Company a little bit more but we also changed the debt profile increasing the debt maturity. So that was a consequence of a very well thought strategy in 2006.

Looking forward, what we see is that we already have forecasted for 2007 a level of investment that is likely smaller than the level of investments we had in 2006. And we're going to have also the benefit of all investments we have made in 2006, especially with Politeno, the Braskem + and the Formula Braskem. So the 2006 was a point of a lot of effort in terms of capital to make some of these investments, and are now capturing the benefits of these investments in 2007. So we expect the leverage of the Company to come down.

And as to the conversion of the correct to debt [ph] main shareholder has with the Company can help this leverage come down even faster. But even without that, we expect net debt should be roughly to come down quite quickly with the inflows of the investments we have made.

We feel that 2.7 is a very comfortable level, especially when we combine that information with the debt so far we have right now with an average life of 16 years.

And just to finalize, we got in 2006 two rating upgrades both (inaudible) and from Standard and Poors, which have reinforced that we are in the right frame in terms of managing the debt, and taking advantage of the good moment in the financial world.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Well just to follow-up on that, your 2.7 is a fine level for a BB credit rating. Do you have any sort of goals in the near term to try to achieve an investment grade rating, which would be a sustained leverage level below two times?

A - Carlos Jose Fadigas

Well we do have the target of becoming an investment grade in the medium-term. But we believe this is going to come as a consequence of both a good position in terms of debt, and a good position in terms of assets and the quality of assets we have. As we review improvements (inaudible) rating as well might help Braskem.

But on top of that, we've been doing a lot of efforts in terms of inter-rationalization of the Company, having a presence in other markets, both in terms of setting office and in terms of future plans, production unit. So we believe that as we grow as an international Company, with production days [ph] outside Brazil, and with improvement of Brazil, we are going to achieve an investment grade rating for Braskem.

We are going to see the debt coming down, as I mentioned. But we are not willing to stop investments only to get to a better rating. We believe this is going to come as a consequence of the quality of the investments we are making.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Fine, thank you.

A - Carlos Jose Fadigas

Thank you.

Operator

(Operator Instructions)

There appears to be no further questions. I would like to turn the floor back over to Mr. Grubisich for any final remarks.

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

Okay. Well thank you very much for your attention and for your questions. And of course, we are at your full disposal if you need any additional information. And have a nice weekend for you all.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day.