

Q1 2012 Earnings Call

Company Participants

- Carlos Fadigas, CEO
- Guilherme Melega, IR, Corporate Controlling
- Marcela Drehmer, CFO

Other Participants

- Chelsea Canso, Analyst
- Frank McGann, Analyst
- Luiz Carvalho, Analyst
- Paula Kovarsky, Analyst
- Pedro Medeiros, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, I would like to welcome everyone to Braskem's 1Q '12 Earnings Conference Call. Today with us we have Carlos Fadigas, CEO, Marcela Drehmer CFO, and Guilherme Melega, IRO and Corporate Controlling.

We would like to inform you that this event is being recorded, and all participants will be in a listen-only mode during the Company's presentation. After Braskem remarks are completed, there will be a question-and-answer section. At that time, further instructions will be given. (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, the 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 beliefs and assumptions of Braskem management and on information currently available to the Company. They involve risks and uncertainties 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 Guilherme Melega, IRO and Corporate Controlling. Mr. Melega, you may begin your conference.

Guilherme Melega {BIO 18255356 <GO>}

Good morning, ladies and gentlemen. Thank you for participating in yet another Braskem earnings conference call. Today, we will be commenting on our results for the First Quarter of 2012.

First we'd like to remind you that pursuant to federal law, 11,638 of 2007, the results presented in today's presentation reflect the adoption of International Financial Reporting Standards or IFRS. In addition, unless stated otherwise, for all periods presented, Braskem's consolidated results reflect.

The proportional consolidation of Refinaria de Petroleo Rio-Grandense, or RPR, the full consolidation of Cetrel as of the Second Quarter of 2011, retroactive to January 2011, and as of the Fourth Quarter of 2011, the polypropylene business acquired from The Dow chemical. The information in today's presentation was reviewed by the independent external auditor. Let's go to the next slide where we'll begin our conference.

On slide three, we will cover the highlights of the First Quarter of the year. Braskem's plant normalized their operations during the quarter with the cracker units operating at average capacity utilization of 93%, up 13percentage points from the Fourth Quarter of last year which was impacted by two scheduled maintenance shutdowns.

In this scenario, the Company set a new record for ethylene production of 306,000 tons. The previous record was set in the Fourth Quarter of 2010 with production of 303,000 tons. Another highlight was a record high polypropylene production of 151,000 that was also in the period.

The Brazilian market of thermoplastic resins grew by 3% in the period while Braskem's sales increased by 9% in line with the strategy to expand its market share with increases by 3percentage points from the previous quarter to 68% this quarter. Considering only the polyolefins market, company's market share expanded 5percentage points reaching 75%.

EBITDA was \$442 million or BRL787 million growing by 11% and 10% respectively from the Fourth Quarter. After excluding the nonrecurring pack of BRL236 million related to recognition of the compensation received for the early termination of one of the supply agreements for the Marcus Hook Plant whose capacity is 350,000 tons per year.

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The Company's EBITDA, was \$310 million, or BRL551 million. It is important to note that the plant has operated using other feedstock suppliers, and Braskem is already working to find long-term logistics and commercial solutions to ensure that the plant will continue to run at normal utilization levels.

Remember that Braskem has four other plants in the United States with combined polypropylene production capacity of 1.075 million tons that were not involved in any way with the supply conflict that was terminated.

Another highlight in this quarter was the confirmation of the expected synergies from the polypropylene assets acquired which totaled \$27.5 million in annual and recurring EBITDA to be fully captured by 2014.

For 2012, we estimate synergy gains of \$15 million. Considering the expansion projects of adding value to the existing streams, we can highlight the commissioning sales of the PVC plant which is expected to start up operations this month as well as the continued progress on the construction type A for the butadiene expansion project which should start up in July 2012.

For the Greenfield project in Mexico, we expect several construction to begin in May in line with the approved time table. In the project finance structure for the Mexico project, \$900 million in financing has already been approved with \$600 million for SACE and \$300 million in an A loan from the IBD which will be compensated by a B loan of up to \$800 million.

Despite the volatile global scenario, Standard & Poor's, Moody's and Fitch issued the reports during the quarter that reinforced the Company's solid long-term fundamentals all of the agencies reaffirmed their investment grade ratings and stable outlooks for Braskem.

And lastly, we raised \$500 million through the issue of bonds due in April 2022. We have a yield of 5.4% which is the lowest yield ever paid by Braskem for a debt issue with a similar term.

Let's go so slide four please. Here you can see the performance of the Brazilian market of thermoplastic resin and Braskem's sales as well as the government's action to stress the local industry. Despite this seasonally weaker quarter, Brazilian demand for thermoplastic resins reached 1.2 million tons, up 3% from the Fourth Quarter.

Meanwhile, Braskem sales grew by 9% in the period in line with its strategy to expand its sales in the domestic market. On the other hand, the volume of imports contracted by 10%. As a result, Braskem expanded its market share to 68% in the quarter, up 3percentage points from the previous quarter.

Considering only polyethylene and polypropylene sales, Braskem increased its market share by 5percentage points to reach 75% market share in this period.

Part offering special incentives remained the main point of entry for imported goods in the period as part of the agenda to increase the competitiveness of local industry. On April 24, the Senate passed a measure to unify and reduce the rate of interstate VAT tax on imported goods, from 12% to 4% which will come into force in January 2013 and reduce the tax incentives granted by certain points in Brazil.

The state government of Santa Catarina also issued decreased revoking some of the benefits it granted for certain important goods aiming to attract new investments, develop the local industry in the state.

The federal government has played an important role in helping to strengthen local industry with measures to combat the over valuation of the Real and measures to boost the competitiveness of the manufacturing chain through reductions in payroll taxes, under the Brasil Maior industrial policy plan for 2012.

The Revitaliza program to make financing lines more competitive, and financing for indirect exports, reinforcing with these measures, the government's commitment to local manufacturers.

Let's go to slide five. This slide presents the factors that influence EBITDA in the First Quarter of 2012 compared to the Fourth Quarter of last year. Braskem's consolidate EBITDA in the First Quarter was BRL787 million, up 10% from the Fourth Quarter.

The higher sales volume with a positive impact of BRL33 million was absorbed by the negative impact of BRL141 million from the contribution margin which followed the international spreads of thermoplastic resins and basic petrochemicals which fell by around 11% and 6% respectively.

However, the recognition of compensation from one of the propylene supply agreements of one of our plants in the United States have positive impact on the result of BRL236 million.

Excluding these non-recurring effect, EBITDA was BRL551 million which on margin X re-sales of around 7%. The BRL16 million increased in fixed costs and SG&A expenses is explained by the increase in selling expenses driven by the higher volume in the period. Note that Braskem remains focused on improving its competitiveness, and continuous to work hard to reduce its fixed costs.

The 2% depreciation in the average dollar exchange rate generated a negative impact of BRL42 million which had a positive revenue impact of BRL104 million, and a negative impact on cost of BRL146 million.

Let's go to the next slide please. Slide six shows the change in EBITDA in the First Quarter compared to the same period of last year. Braskem's consolidated EBITDA was 14% lower compared to the First Quarter 2011.

Once again, the contribution margin had an important impact on this performance. The higher sales volume and stronger dollar were insufficient to offset the lower spreads in thermoplastic resins and basic petrochemicals which decreased 31% and 22% in the international market.

EBITDA between the two periods was also impacted by the increase of BRL64 million in cost and expense which was mainly due to higher sales volume in the period. The 6% depreciation in the Real between the periods, generated a positive impact of BRL135 million, with a positive revenue impact of BRL468 million and a negative cost impact of BRL333 million.

Let's go now to slide seven. Slide seven shows synergies from the merger of Quattor and the polypropylene assets acquired in 2011. Braskem remains focused on capturing the synergies identified from the acquisition of the Quattor assets. And during this year, we expect to increase the amount already capture by BRL95 million which will be included in this year's quarterly operating results.

Remember that by the end of 2011, the Company had captured BRL400 million in annual and recurring EBITDA which should reach BRL495 million by the end of this year.

The main gains continue to be on the industrial and logistic funds mainly due to a better planning of exports operations, the reduction in the number of grades, the integrated purchasing of feedstock, naphtha and propylene, the optimization of our integrated planning for the petrochemical complex and second generation plants, as well as other measures.

For the acquisition of the polypropylene assets, Braskem identified synergies of \$27.5 million in annual and recurring EBITDA which should be fully captured as of 2014. For this year, we expect gains of \$15 million. The main fronts are related to optimizing the product portfolio and feedstock purchasing, renegotiating logistics and supply contracts and maximizing the operating efficiency of the industrial plants.

Let's go to the next slide please. Slide eight shows Braskem debt on March 31st, 2012 when the Company presented gross debt of \$8.1 billion usually in line with the amount of December 31st which this amount including the total amount of the bridge loan for the Mexico project of \$32 million which would be repaid once the product finances is disbursed.

In Brazilian real, gross debt was BRL14.8 billion decreasing 3% due to exchange variation. Gross debt pegged to the dollar was 66%. Meanwhile, the balance of cash and investments increased 17% to around \$2 billion.

Braskem's consolidated net debt ended the First Quarter at \$6.1 billion down 4% from the end of last year. In real, this amount was BRL11.1 billion down 7% influenced by the dollar depreciation of 3% in the period. 82% of net debt was denominated in dollar.

In line with its strategy to maintain liquidity, Braskem's debt amortization coverage stood at 32 months. And considering the two standby credit lines totaling \$600 million, this coverage increased to 37 months.

Financial average in dollar measured by the net debt EBITDA ratio increased from 2.83 times to 2.87 times. In real, the ratio decreased 4% to 3.08 times due to real depreciation in the period.

The rating agencies, Standard & Poor's Moody's and Fitch issued the reports during the quarter that reaffirmed the Company's strong long-term fundamentals, and high short-term liquidity. All of the agencies reaffirmed their investment grade ratings and stable outlooks for Braskem.

On March 31st the average debt term was 15 years considering only the portion denominated in dollar, the average debt term was around 21 years. The longer debt profile was achieved by pre-paying short term debt with higher cost and raising \$500 million by reopening the issues of the 2021 bonds, and the perpetual bonds with both placed at more favorable conditions than the original issue. The Company's average debt cost was 6.17% in dollar, and 8.92% in Real.

Let's go to slide nine please. Slide nine shows CapEx in the First Quarter of 2012 maintaining its commitment to making investments with the returns above the cost of capital, in 2011, Braskem made operation investment totaling BRL700 million. Close to 50% of this amount or BRL349 million was allocated to the capacity expansion projects. The expansion of the PVC plant in Alagoas which is scheduled to be commissioned by the end of this month and is in its commission phase received and investment of BRL238 million.

The new Butadiene plant which should start operating in June this year received investments of BRL95 million. The project in Mexico received investments of BRL34 million in the period. The project finance structure for the Mexico project remains on schedule and should be concluded by July.

The project has already received the approval for \$300 million from SACE and an A loan of \$300 million from the IDB which will be complemented by a B loan of up to \$800 million. The negotiations with the BNDES, BANCOMEX and IFC are in the approval phase. For 2012, Braskem's total investment is estimated at approximately BRL1.7 billion which 40% go into capacity expansion projects.

Let's go to the next slide please. Slide 10 presents the outlook for the petrochemical industry for 2012. The fourth term scenario remains volatile, however, the recent oil price decreased and is seasonally better demand in the Second Quarter are factors that could mitigate the weak performance of the world economy.

The risk factors remain associated with the management of measures to simulate economy growth in the Euro zone and the potential for slower growth in the Chinese economy.

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In Brazil, despite the uncertainty related to the global scenario, the reduction of an employment level and the continued improvement in household income are expected to sustain the growth of the domestic economy which should lead to stronger demand and potentially higher plastic consumption.

The federal government has worked actively to ensure the country's growth adopting measures to simulate credit and make the local industry more competitive as mentioned earlier. The expectation is that these measures will lead to higher GDP growth in Brazil.

Let's go to slide 11 please. Slide 11 presents the main highlights of the conference hosted by the IHS, the former CMAI on the outlook for the 2012/2016 cycle of the petrochemical industry. In the median and the long term, the industry's outlook remains positive. The growth in additional capacity expected in the period should lag demand supporting high utilization rates at crackers and consequently a recovering spreads.

The discovery shale gas in US lead the industry to regain competitiveness in the world petrochemical industry and the expectations point to new investments in the region. However, the capacity coming online during the 2012/2016 cycle is not expected to be enough to destabilize the global market. US producers are already operating at a high utilization rates and expectations are for margins gains over players in the other regions.

New investments in the Middle East which use gas as it main feedstock are also dependent on additional discoveries and some future projects hybrid crackers, also using naphtha as feedstock. As a result of the higher number of investments in gas based projects, some cracker co-products such as butadiene should continue to enjoy higher prices which will have a positively influence on after -- players.

Let's go slide 12 please. This slide shows the expectation for the global ethylene balance. Slide 12 reinforce some of the points previously highlighted. Assuming world GDP growth of 3.5%, the forecasts call for ethylene demand to out play supply leading to higher utilization rates that crackers can consequently see improvement in industry spreads and profitability.

The new investments in the US petrochemical industry which has become competitive once again with the shale gas discoveries, as mentioned earlier, should not affect this cycle. New Greenfield projects are expected to come on stream starting in 2012.

Let's go to slide 13 please. On this last slide, we present the main areas management is currently focusing on. Braskem, in line with its strategy to strengthen its business and increase its competitiveness and remain focused on its relationship with clients and consequently expanding its market share on fully capturing the synergies from the acquisition of the Quattor assets and polypropylene business besides its permanent effort to reduced fixed costs.

On its continuous pursuit of operational efficiency and higher capacity utilization rates in line with those present in this quarter, on concluding the expansion of projects to add value to existing streams with the commissioning of the PVC and butadiene projects.

On concluding the project finance, and advancing construction of the Greenfield project in Mexico, in order to ensure its commissioning by 2015. On the studies for the construction of the new petrochemical complex in Rio de Janeiro known as Comperj which will be based on gas feedstock.

On expanding the use of renewable feedstock, and all these without losing sight of maintaining its financial solidity.

The Company also remains committed to building an industrial policy in Brazil that strengthens the petro chemical and plastics chain. The government has worked to stimulate the local economy, but it's important for the government to continue acting as the main driver of growth by creating structural conditions that improve the competitiveness of the local industry in order to ensure the sustainable growth of Brazil's economy.

That concludes today's presentation. So let's move on now to the question-and-answer section.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) The first question is from Frank McGann from Bank of America. Please go ahead.

Q - Frank McGann {BIO 1499014 <GO>}

Hi. Good afternoon. Just a couple of questions, one, just in terms of the level of competition that you're seeing from imports, obviously your share grew, so one would expect that competitively, things have improved a bit anyways, but I was just wondering from a pricing standpoint, are you seeing any improvement? Or is it basically pricing competition and the way that this is being fought at this point, and the competitive environment is as fierce as it was say a couple of quarters ago and how do you see that playing out over the next couple of quarters?

Secondly, the CapEx number that you showed for the rest of the year would suggest, I think based on what you spent in the First Quarter that the numbers are going to come off sharply. I just wanted to confirm that that's the case in terms of cash usage over the next couple of quarters.

Then lastly, in terms of the supply agreement in the US. So I was just wondering, are there any other payments from that agreement that would be received over the next couple of -- in the future at whatever time?

A - Carlos Fadigas

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Hi Frank, it's Carlos Fadigas. Let me start by addressing your first question. First of all, competition in the First Quarter of the year was -- as you said, it was in other parts, so it didn't change much.

We didn't see a change in the competition landscape, I would say. What has happened is that Braskem actually is keeping a very -- keeping track very closely of its market share position and the market share of Braskem is we see that the concept meant of how aggressive we want to play in terms of margins in Brazil, in terms of prices in Brazil and so on.

So throughout the year of 2011, we have fold our price policy and commercial policy of realigning prices in Brazil of international prices.

And actually, we can be more or less aggressive on that. And as a consequence of how aggressive we are, the numbers of market share can go up and down. We felt we wanted to recuperate the market share, and that's how we move it from 65% to 68% of market share.

And so therefore, it's the consequence of our commercial strategy I would say in a certain way. Having said that, we do believe that although competition will not change in terms of how tough it is, I think it will improve in terms of price point.

With the solution of the tax credits driven to imports, and that has been over at least in one state of Brazil. I'm not sure how familiar you are with that. But several Brazilian state has been given tax incentives to imports, and we found two solutions to that.

In April one of these states, the one that has the most efficient port, and accounts for roughly half of the imports have decided to stop providing extensions to import that's the state of Santa Catarina. So that's one of the solutions. And the second one is that the Brazilian Senate has passes the resolution that says that starting January 2013, other states won't be able to give incentives the way they are given right now.

So I think competition will remain a tough one especially in the current economic environment with the developed economies not growing as fast as they should and some of them in recession. But I think the price point at which this competition will happen, I think it will improve in Brazil, as some importers won't have going forward, the 9% tax discount, tax benefit that they have so far. So I think that's the good news in terms of competition and level of imports. I'll answer your third question and Marcela Drehmer will address the CapEx question you have asked.

In terms of supply agreement in the US, it was -- exactly when we signed the acquisition of the assets from Sonoco, we bought three plants from Sonoco, we paid \$350 million, and we include this penalty of (\$430 million) if they at any point shutdown the refinery supplying one of our three plants.

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So that's what is registered already in our books for the First Quarter. So there is no additional payment to be made by Sonoco to Braskem going forward. And we do believe that this number more than properly cover for what we thought at this point would end up resulting in the plant shutdown.

Right now, we are trying to, as we have mentioned before, we are trying to work with the best of both scenarios, we see the penalty fee from Sonoco, and at the same time keep the plant running. And we are quite confident we're going to be able to do that.

A - Marcela Drehmer {BIO 16721570 <GO>}

Okay, Frank, regarding CapEx, what we had is some concentration in the First Quarter, and also in the Second Quarter probably because we finalize the two plants, the butadiene one and the PVC. PVC, we will start up the plan this month and butadiene on July. So we will see some concentration, the first half of this year and then a slowdown in the second semester.

So we still have the same expectation regarding CapEx which is BRL1.7 billion a year for the full year, okay?

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Great. Thank you.

A - Marcela Drehmer {BIO 16721570 <GO>}

Thank you.

Operator

Thank you. And the next question is from Paula Kovarsky from Itau BBA. Please go ahead.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Hi guys. Good afternoon. Two questions here. The first one is a little bit more general. Fadigas, could you just share with us a little bit of your views looking at spreads in the next couple of quarters? We've observed some easing of oil prices in the absence of main use coming from the Middle east with probably allowed the market to realize that you know, (125) was probably too much for the current level of global economy.

But what we've been observing is that resin prices started to go down as well same for coal products. So what's your view in terms of current level of spreads? Shall we expect them to compress? Is this is a sustainable level? How do we see this evolving until the end of the year assuming oil prices stay more or less where they are?

Then the second question and a little bit more specific to -- regarding the benefit of Reintegra which was approximately BRL50 million in this quarter. Is this the level of recurring benefits of Reintegra that we should assume going forward? Or how long will

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you be getting those benefits, just if you could you know, give us a little bit of color on how to forecast that going forward.

A - Carlos Fadigas

Hi, Paula. One very interesting question, the first one. The second one is more specific. But let me start with the spreads. I will address that in two different pieces. First of all, the international spreads, and then the Braskem margin in Brazil.

We saw, to mention what we saw this year up to now, we saw spreads recovering from the level they were in December and January. And they were at the very low level in some markets. We saw negative margins, prices of polymers trading below price of the monomer. It doesn't make any sense. We saw that during a certain period of time.

December and January were very tough months, and that's why as you remember, we have anticipated to maintain its stoppage in our cracker by year through December because it is -- the international scenario in December was a very tough one.

Margins improved throughout the First Quarter of the year, we saw February a better month than January, and therefore, and also in March, we had a better month. In April, things kind of stabilized in a much better margin level than they were before.

Going forward Paula, first of all, I have to say that the levels seen in March and April, they are much better than what we had in December, but not at the level we believe the industry should be trading in the medium term.

So there is a few, some improvement to happen on the margin. We have -- as you said, we have seen the sharp reduction in price of oil, a sharp reduction in price of naphtha, it's now trading around \$900,000 per ton, naphtha. And right now, the resins and the core products are having declines in price they are smaller than the decline in raw material indicating that we should have better margins.

I am skeptical about the fact that this will stay this way, the fact that the raw material is going down with the consequence of an economic environment that is not a favorable one. And in this conditions, although raw material declining sharper, faster at least, than the final product in this scenario through the margins don't increase. They actually get reduced.

So it stopped from here, we made -- forecast exactly what's going to happen. But I think that for the next month, we want to have similar margins than what we have in March and April. I don't think it will be better, although right now, mathematically, they are better. I don't think they will be much better.

I do expect that we have positive news in the second half of the year, not only the volumes side, but also on the spread side as we see improvement in the economic environment. Right now, I am conservative about that.

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Bringing all that information and bringing these spreads to Brazil, I think that you're going to benefit from two different things in Brazil. Regardless of what happened outside the county, international spreads, you're going to have to benefits in Brazil. The first one is exchange rate. We had an average exchange rate of BRL1.77 in the First Quarter of the year. It's hard to say if the exchange rate would stay around BRL1.95 what it is right now, but at least, it's reasonable to expect it's going to stay above on average, above BRL1.77.

So we're going to have a better exchange rate and that translates into better results for Braskem. I do hope it stabilize somewhere around BRL1.90 to BRL2 per dollar. On top of that, we also have the benefit that we no longer have imports from Santa Catarina being benefited from the tax rebates, the tax incentives that we're being provided originally.

And actually, the other states as fuel provide in the same types of credits. But Santa Catarina was as critical one, and that's why we rushed it to strike -- of alignment with the state of Santa Catarina in the sense that we have to actually strengthen the Brazilian industry and the plastic converters that operate in the state of Santa Catarina instead of just being -- of subsidizing imports.

So when you combine the effect of the Santa Catarina -- in fact they are no longer incentivizing imports. With the exchange rate, I do hope we have -- we're going to have better margins in Brazil, ideally on top of stable margins externally.

Moving to your second question. Go ahead.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Just a quick follow up on that one Fadigas, you mentioned in the previous answer that at the end of the day, regaining market share is a function of margins, right? So in terms of the premium between domestic and international prices, how do we compare say third and Fourth Quarter 2011 with First Quarter 2012? And do you perhaps see a risk in that front?

A - Carlos Fadigas

Paula, first I have to share with you the fact that it's not really easy to set the -- the prices in Brazilian reais at the beginning of the month and see throughout the months huge movements both in terms of international prices in exchange rate.

So what I'm trying to say is that it's not really a hard science, it's not really hard mathematics, it's more an exercise of feeling perception because it's a moving target in a certain way.

For instance in the First Quarter of the year, what we had with prices increasing externally, they end up leaving us with a price difference between Brazil and the markets lower than we expected because the price externally moved it up quickly, faster than we move with our prices and therefore the difference, the translation of this international price to the Brazilian reais were different than we originally expected.

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Right now we are seeing the opposite, exchange rate went up throughout the months of April and May while external prices are coming down. So a quick comment on the fact that it's not really just a mathematic issue. I mean it's easy to set the price and mathematically, you know the difference between your prices here, international prices, it is a moving target.

Having said that, when I compare the price with the First Quarter, with the price of the two previous quarter, I would say the difference, I would say the translation of international prices through the Brazilian prices were not that different from what they were before.

But I think that the market has seen the fact that first of all, no longer do you have the constant pool of imports coming to the country at the current price because of the tax incentives, a lot of our discussion were held in the First Quarter of the year about the extension of this benefit and so on. And that created an environment in which an alignment with the local producer became more relevant again.

So that has helped, and actually we did our piece here in terms of accessing the whole market regaining and strengthening relationship with them, and the fact that the price externally moved it up faster, and we ended up with a price that were not as high as it could have been, has helped as well.

So it's always a balance between what we call service margin and market share. Service margin was likely lower than it was in previous quarter also because of the speed of that price change externally, but that was not the only factor. Other factors played a role as well, like the extension or the forecasted extension of the tax benefits. I hope I have provided more color on that.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Yes. Thank you.

A - Carlos Fadigas

Okay, your second question is a more objective one. BRL50 million of Reintegra in the First Quarter of the year is somehow a good indication of the level of Reintegra we should be having at the next quarters. Naturally it's the function of the level of exports, we don't see a lot of change in the level of exports going from a party to another one, therefore Reintegra should be pretty much the same.

What the industry is working right now, is -- the industry is in discussions with the government, specifically with the Ministry of Development and with the Ministry of Finance because Reintegra is forecasted to end at the end of 2012, and we don't believe it's the appropriate thing to do.

The government has the space to keep, provide incentive through the industry, they have the financial capacity to do so. The industry still needs that very much, and we are working as hard as we can to show the government that keeping Reintegra in 2013 would be a wise thing to do to the benefit of the Brazilian industry.

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Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you. Thank you very much.

A - Carlos Fadigas

Thank you, too.

Operator

(Operator Instructions) And the next question is from Luiz Carvalho from BTG Pactual. Please go ahead.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Hello Fadigas, hello Marcela. Actually, I have two questions here. The first one is kind of a follow up with Frank's question. Actually we saw a growth of 3% in the Brazilian market versus 9% of Braskem in growth in the period.

Could we understand that -- there's this behavior with lead by I'll say objective to regain market share with margin deterioration in the period? And when do you think that you'll be able to revert this, I would say, this trend kind of keeping your actual or your historical market share but with a trend different from a margin point of view.

And the second one, it's with regards to the PRS 72 that you already mentioned comes live on January 13. Would you have any study that indicates what will be your new market share or what will be the behavior with the margins with regards these -- I would say, not in state reports that is being modified by this PRS?

A - Carlos Fadigas

Two great questions with Mr. Carvalho, thank you for that. The first one is a more sensitive one. You're asking about the core of Braskem commercial strategy right? And how we play with the two levers we have to main tools we have that we call service margins versus market share. The first important think to mention is that we have always seen the level of imports as a direct consequence of our decision in terms of the level of service margins we wanted to charge with the market.

So it's rather a question of the imports doing whatever they want, the importers doing whatever they want in Brazil, and more operation of what the price maker Braskem wanted to do in terms of service margin and market share.

We felt it was appropriate to recuperate market share in the first half of the year, coming from 65% to 68% of market share. But what we're going to do going forward is a little bit more sensitive, but naturally, that's exactly what the traders are trying to get. So if you allow me to not expand too much my answering in that point. I believe you're going to understand me.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Sure. Just a follow up, are you comfortable with 70%? That 70% on market share, 68%, is that what your -- I don't know what your target is, but are you comfortable with this number?

A - Carlos Fadigas

Okay, I would say that if you think about 70%, we do have another player in the region in Brazil, specifically Solvay that has a local production of PVC and they have a market share of roughly 6%, that leaves the imported product with roughly 24% of the market. So I think that 70% in the hand of Braskem with imports 25%, seems to be a reasonable number.

It doesn't mean that we are going to leave with that, and that's going to be exactly stable around that number. I think that gives us the position of the leader mark, the position of price maker. As we evolve for instance in the case of PVC specifically, we want more market share as a mathematical consequence of effect you're going to have a bigger production share in Brazil with 200,000 plants and that will have an impact of the overall market share.

But if you think about these numbers around 70%, eventually a little bit higher as a consequence of PVC, I think they seem more reasonable than 65% that we had one quarter ago.

The goal is not a mathematical goal on market share. It's much more to maximize the result to the Company. So you're going to -- you will see over time, that's fluctuating going up and down as we adjust for what we believe should be the better level to get the best result for the Company.

But I think that's a reasonable number. The Brazil market as we all know and as we all have seen is an open market, 20%, 25% is a reasonable level of imports. I believe it's a reasonable level of imports. And actually we do hope that you're going to have the competition between Braskem and then the other local player and the imports, and also the players in Marcus Hook happening at the better price point than what we have right now.

And that leads me to this -- to your second question about PRS 72, the decision of the Brazilian Senate. It's a very interesting question, the one you have asked. There is no way to provide the mathematical answer to that, but if we look at the fundamentals, let's say we -- the information we had, the data we have actually shows that about two-thirds of the inputs in Brazil were coming to the country through the what you call incentivized ports, through these ports with tax incentives.

On average, they have 8% to 9% of tax credit. So I don't think we're going to see prices changing that dramatically specially because some of these benefit of this tax credit were kept by the trader, and not given to the final customer, to the plastic converter. In these cases, it's likely that plastic will gain more market share rather than a better price.

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So to be honest with you, I don't have a mathematic answer to your question. I do hope you're going to keep gaining market share as a consequence of the fact that the traders no longer have this slight advantage, but also, I do expect to have some change in terms of price and therefore in terms of EBITDA margin.

If you compare the EBITDA margin we had, with the EBITDA margin we had, a few quarters ago, four, five quarters ago, next we did several other facts involved but I do hope we can gain some percentage points, 2percentage points or 3percentage points in terms of EBITDA margin. It's hard to guess, Luiz as you know, but we do hope to gain both sides volume and in terms of margins as well.

Q - Luiz Carvalho {BIO 18040760 <GO>}

That's clear. Thank you very much.

Operator

(Operator Instructions) And the next question is from Pedro Medeiros from Citigroup. Please go ahead.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Hi good morning Fadigas and Marcela. I actually have three questions. First one is, in the First Quarter, we have seen a significant improvement quarter-over-quarter, and actually relative to the overall reported lasted year on your international results business contribution.

Can you comment exactly what drove an improvement? Was it related primarily to your US business, or the green ethylene project in Brazil. And is there any more detail that you can provide here whether there was a price or cost for volumes related?

The second question is -- during the First Quarter as well, we have seen a significant improvement on your working capital and this is probably the third consecutive quarter with improvements here.

They seem to have been primarily driven by conditions from their suppliers and (inaudible) for Brazil. Can you comment a little further if -- is that recurrent? Is there a new policy in place negotiated with Eletrobras, and if -- were there any new conditions besides the payment terms negotiated with Eletrobras?

And my last question is actually, in early April, we have seen the federal government -- granting some specific -- selective -- temporary incentive measures for taxes and labor cost that involved the chemical industry as well, do you have any estimate of whether should that provide a direct impact to your expenses, or should it be mainly dedicated to improve the overall conditions of the supplier chain in Brazil?

A - Carlos Fadigas

FINAL

Pedro, I will answer your first and your third question, and then I'll pass to Marcela to address your question on working capital. In terms of international results, if you're talking about the last process, there are two effect that have helped improve the results, the absolute numbers of results for international business.

First of all, we have improved in margins externally. The last related with the polymer and more related with the supplies strategy of Braskem North America. We do have the flexibility to buy different types of propylene, we find a great polymer grade, ken grade propylene. And as we saw its spreads between these types of monomers, these types of propylene, our supply team in the US worked true benefit from that and improved the results.

So it's rather dynamic on the polypropylene side, and it's more than on the propylene side on the raw material side of our business in the US and we do have things dedicated through different sides of the business. And we are actually right now working to improve our capacity and our flexibility in terms of purchase and raw material in the US because that has been an interesting source of result.

There's another effect added in terms of absolute numbers to our international results, that was the acquisition of the assets from Dow chemical that started being consolidated and added to our international results in the last quarter of 2011 starting at the beginning of October.

And that's where the absolute numbers have changed because of that. Regarding the -- go ahead.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Sorry Fadigas. Just one follow up on this please. So is it fair to say that improvement on the sourcing of polypropylene was opportunistic during the First Quarter? Or were there any changes on your industrial side and you allowed that, in other words it should be recurring in that sense?

A - Carlos Fadigas

Let me see how can I answer that. That can be recurring in the sense that we still retain the capacity to manager raw material. It's hard to see it will be because that will depend on the conditions provided by the market.

So in other words, we feel and we have and we will still have the flexibility to purchase different types of raw material, it's an intrinsic part of the business, we have the splitter, splitters to upgrade, raw material, we do have contracts that tie our cost of raw material to other types of propylene.

Actually we have one contract is tie the price of propylene to the price of naphtha and so on. So we do have the flexibility both in the contracts side, and also on the industrial side as we have the capacity to upgrade ken grade and refinery grade propylene to polymer grade propylene.

So the capacity -- in that sense, it is recurring. The market conditions should play and benefit on the market from debt, debt are not really recurring, that depends on the scenario. And these margins go up and down as a consequence. So it's hard for me to tell you that we're going to be able to do the same thing. Yes. We think it's more likely.

We won't be able to do that every single quarter. I'll move to your question regarding the grants. What we have seen -- to try to give you a broader answer is that, the government naturally is doing its share of efforts to incentivize the industry and so on. That is a very important piece of that, more specifically as you mentioned in April, the government has reduced the -- how should I call it, the social taxation on top of payroll for the plastic converters.

So it does not apply to Braskem, it does not apply to the petrochemical industry, specially because the petrochemical industry is not intensive in labor, so it doesn't make much sense, it doesn't -- it's not effective, it should provide incentives related to labor to an industry that is not intensive in terms of labor.

But it makes a lot of sense to do that to our customers. The 11,000 plus converters we do have in Brazil and they employ much more than we do. When the government announced the incentive, they said they were providing an annual benefit of roughly BRL530 million through the segment, through the whole segment of plastic converters. The date from the plastic converters association pointed in the direction that this benefit was actually not BRL530 million, it was roughly around BRL400 million.

So I think that's a very important measure taken by the government. We saw that, and we still see that the plasma converters so need support from the government as well as you guys know at the level of currency we have and still have that is very expensive to manufacture in Brazil.

And labor in Brazil is very expensive because of the salaries and much more because of the lower productivity of the Brazilian labor force, and on top of that because of all taxation that is added on top of the payroll. So that's one effect directly, Braskem income statement that should benefit much more, and will benefit much more Braskem customers.

Having said that, we are at petrochemical industry working. Should try to get some incentives to all specific segments, most likely that we will not be associated with labor, we will be associated with investment, innovation and so on. But we are still working as we presented, as we had in the last slide of the presentation work in Brazilian -- policy so that we can keep the Brazilian industry growing.

A - Marcela Drehmer {BIO 16721570 <GO>}

Yes. And Pedro, I'll answer your question regarding works in (Petro). In the last couple of years, we haven't tried to negotiate with the (Petrobras) conditions of payment, some payment terms. And finally, we got a solution with Petrobras, and now, it seems the end of last year, we start to have payment term, and that was the main reason why in this quarter we could see an increase in the accounts payable.

This is a sustainable solution with inspector to keep this for the following months and following years. But in the following quarters, we are not seeing this variation anymore. So main impact happened in this quarter. We are not seeing, not expecting an additional impacting the main quarters.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay. And Marcela, besides that change, were there any changes on the policy for (falling) the naphtha into a three month moving average with Petrobras or any other change on the regular contract?

A - Marcela Drehmer {BIO 16721570 <GO>}

No. It's only the payment terms. It was the only think that was changed.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay, okay. Thank you.

A - Marcela Drehmer {BIO 16721570 <GO>}

Thank you.

A - Carlos Fadigas

Thank you.

Operator

Thank you. And the next question is from (Chelsea Canso) from (TR Craft). Please go ahead.

Q - Chelsea Canso

Hi. I just had a question on your Mexico project. Can you please clarify will that be fully consolidate into your results? And how -- and that's all I guess.

A - Carlos Fadigas

Okay Chelsea. I'll mention on the results side of that, and Marcela will mention also the debt and how it has been structured.

Braskem controls a JV called the Braskem Idesa. The other shareholder of this JV is a Mexican petrochemical company called Idesa, we do have the controlling stake, and therefore we are running this JV. And as a consequence of that, the results of the next project will be fully consolidate in Braskem. And that's where you will see the results of that in terms of revenues, EBITDA and so on, only starting in 2015 as the product is still under construction.

A - Marcela Drehmer {BIO 16721570 <GO>}

Chelsea, however, the negotiations we -- with the radiations and also with the other lenders of Braskem, this is going to be structure as a project finance limit recourse. And as a consequence, all of that has no regret against our balance, okay.

So in this sense, once we put in place the project finance which will occur in the following month, we started to release our results in our balance with the two ratios of net debt EBITDA with the project and without the Mexico project, okay, in order to be align with the criteria that we have agree with the radiation and with the other lenders.

Q - Chelsea Canso

okay, great. Thank you.

A - Marcela Drehmer {BIO 16721570 <GO>}

You're very welcome.

Operator

We have no further questions at this time. I'll turn it over to Mr. Carlos Fadigas for closing remarks.

A - Carlos Fadigas

First of all, we'd like to thank you for participating the call for the results of the First Quarter of 2012. Two quick comments, one of the long term of Braskem, we remain focus and committed to the investments we have approved and we are working on right now.

The main ones would be the two plants butadiene and PVC, in the long term, both the Mexican project and Comperj, are fundamental to Braskem. We remain also very optimistic about the Brazilian petrochemical industry with the availability of raw material from the pre-sale.

And actually in the short term, we just have to work hard to extract the better results from the business as we work also to improve the conditions around the business. As you will recall, we're working on fixed cost last year to reduce fixed cost, we kept to BRL400 million of synergies last year we expecting to capital BRL500 million of synergy with the consolidation of the Quattro business.

We work together with the Brazilian government to eliminate the tax incentives to the import that didn't make any sense.

And we are working right now with the government to help design an industrial policy that we'll provide the right incentives to the Brazilian industry to keep growing. Spreads have improved in the first half of this year, and we do believe that volumes will go up, the market should grow around 5% this year.

Seasonality will help us some more in the second and Third Quarter of the year and exchange rate has already moved, and that should benefit us in result as well.

Although these are positive change, we will remain very focus and concentrated on the short term because the economic environment is not a positive one yet. We are keeping track of what is happening in Europe, what is happening in China, and so on to better understand the forecast what will happen with margins.

Having said that, we remain confident that we are going to find a way to improve the EBITDA generation Braskem to guarantee we have a reasonable and a good result in 2012 as we keep working to strengthen the Company in the long term. Thank you, all again, and I wish you all have a very good weekend. Bye-bye.

Operator

Thank you, ladies and gentlemen. this concludes today's conference. Thank you for participating. You may now disconnect.

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