

## Q1 2011 Earnings Call

### Company Participants

- Carlos Fadigas, CEO
- Luciana Ferreira, IRO
- Marcela Drehmer, CFO

### Other Participants

- Denis Parisien, Analyst
- Frank McGann, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. at this time we would like to welcome everyone to Braskem's 1Q '11 Earnings Conference Call. Today with us we have Carlos Fadigas, CEO, Marcela Drehmer, CFO and Luciana Ferreira, IRO. We'd 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 session, at that time further instructions will be given. (Operator Instructions)

We have simultaneous webcasts that may be accessed through Braskem's IR website, [www.Braskem.com.br/ir](http://www.Braskem.com.br/ir). The slide presentation may be downloaded from this website. Please feel free to flip to the sites 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 information currently available to the Company. They involve risks and 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 cause actual results, future results for Braskem -- could cause results to differ materially from those expressed in such forward-looking statements. Now I'll turn the conference over to Luciana Ferreira, Braskem's IRO. Ms. Ferreira, you may begin.

**Luciana Ferreira** {BIO 15106436 <GO>}

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Good morning, ladies and gentlemen. I'd like to thank you for participating in yet another Braskem quarterly earnings conference call. Today we'll be commenting on our results for the First Quarter 2009. First, we'd like to remind you that pursuant to federal law 11,638 of 2007, the results presented herein reflect the adoption of international financial reporting standards, IFRS.

In addition, unless is stated otherwise, Braskem's consolidated results reflect for all periods stated the pro forma consolidation of 100% of the results of Quattor Participacoes and Sunoco Chemicals, which were acquired in April 2010. The information in today's presentation was reviewed by an independent external auditors. With the exception of Sunoco Chemicals for the First Quarter of 2010.

Let's begin the next slide, slide number three where we start the presentation. Braskem's net revenue in the quarter was \$4.4 billion, a growth of 8% from the previous quarter and of 22% from the First Quarter 2010. Which reflects the higher priced international markets. Braskem raise for EBITDA of BRL919 million, the result was basically affected by the fiscally weaker demand in the quarter due to seasonality, the limited availability of products resulting from the power blackout and the stronger Brazilian real in the period.

The availability of products which was affected by the power blackout that involved with all states in the northeast of Brazil and caused the casual shut down at the Company's plant in the region had a negative on the EBITDA of approximately BRL230 million. And the result of its strategy to optimize it that profile and increase its cash generation capacity, at the end of March Braskem received upgrades from Standard & Poor's and Moody's that put it -- the Company in the category of investment grade.

Braskem's net debt to EBITDA ratio stood at 2.37 times on March 31st, a decrease of 2% from the end of 2010 and of 24% from one year earlier. Which demonstrates the Company's aim to maintain flatter ratio below 2.5 times.

In spite of its continuous commitment to financial solidity in April, Braskem carried out a \$750 million, 10-year bond issue with the lowest interest coupon ever obtained by the Company, 5.75% per annum and with a yield of 6% per annum. The proceeds we used to repurchase around \$400 million in bonds mature in 2014, 2015, and 2017 with costs above 9% per annum in US dollar. The Company also called \$200 million in perpetual bonds with a cost of 9% per annum.

Regarding the synergies from the Quattor acquisition, of the BRL377 million were estimated to be captured in 2011, BRL75 million were captured in this First Quarter with the gains coming mainly from industrial and logistics funds.

And lastly, in line with growth plan, Braskem has made important advances in its expansion project. In March the board of directors approved the Butadiene project which will expand the (Coffins) capacity for this product in 100,000 tons. In investment of around BRL300 million and the startup expected till 2013.

The project will meet the growing world demand for this product for which strength have risen faster than for other based petrochemical products. In early April Braskem confirmed this strategic partnership with Technip to provide the cracker technology for the Mexico project. The project's next step for 2011 involves advancing engineering and the environmental impact study, as well as the project finance.

Let's go now to slide four please. On slide four you can see the performance from the Company's main segments in the First Quarter in relation to the same quarter in 2010. Despite the power blackout in the northeast that adversely affected the Company sales volume, revenue in the US dollar improved in all segments in relation to the same quarter last year.

In the case of polyolefins total sales rose by 2%, supported by the higher supply of polypropylene which suffered from unscheduled shut downs in the First Quarter 2010. Revenue in US dollar rose by 17% supported by the higher price (packs) from the period following the airport trend in international price.

Another important factor was the continued strong performance of the agricultural food and infrastructure segment for which demand grew by over 10%. The vinyl segment was the most impacted by the power blackout as its plants are located at the Camacari complex and in the state of Alagoas. Nevertheless, higher sales price partially offset the impact on sales volume, which decreased by 10%.

The higher oil prices and scheduled and unscheduled maintenance should now combine with the higher use of natural gas instead of naphtha have pressured the price of ethylene in various cracker core product with positive impact from the good performance of basic petrochemicals. International business segment which is represented by Braskem America posted revenue growth of over 20% supported mainly by the higher polypropylene prices.

Moving to slides number five, we see the performance of Brazil's thermoplastic resin market as well as Braskem's sales performance by sector. Domestic demand in the First Quarter 2011 was in line with that in the same period of 2010, reaching around 1.2 million tons with the market in the First Quarter last year already having presented a strong performance, reflecting the economic recovery after the crisis in 2009, especially in agricultural sector.

Meanwhile, Braskem's sales were 763,000 tons, down 5% from the First Quarter last year, impacted by the (linked) product with supply in the period as mentioned in the previous slides. We highlight the infrastructure and manufacturing factors which in contrasts with the rest of the market grew by more than 20% in the period.

The share of import remain irrelevant with market share of 27% influenced by the length of availability of the Company's products with production effected by the power blackout, in addition to already low inventory levels due to schedule maintenance showed now at the end of the Fourth Quarter. The stronger Brazilian real in the period, the greater competitiveness of polyethylene produce in the United States and the import through

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port supported by special tax incentives. The strategy for this year includes recovering a portion of this market share all in the First Quarter.

Slide six presents the factors that influenced EBITDA in the First Quarter of 2011 when comparing to Fourth Quarter 2010. EBITDA in the period was BRL919 million, down 14% from the previous quarter. Contribution margin had a negative impact of BRL81 million. Higher prices for resins and basic petrochemicals were insufficient to offset the higher raw material prices. Although our margin reduction was lower than the international market.

This amount was also affected by the power blackout since a lower sales volume for copper products has a negative impact over ethylene costs. The blackout also generated a negative impact in the period related to additional losses and costs in the amount of BRL78 million. The local currency appreciation generated a negative impact of BRL25 million, composed of a negative impact on revenue of BRL87 million and a positive impact on costs of BRL62 million.

Lower sales volume is basically explained by the power blackout in the northeast that affected Braskem's production at plants located in the states of Bahia and Alagoas by around 100,000 tons. The impact was BRL35 million and that was largely because Fourth Quarter 2010 volume was lower due to schedule maintenance shut down in that period. The expenses of fixed costs and selling general and administrative generated a positive EBITDA impact of BRL71 million.

Moving to slide number seven, we have EBITDA in the First Quarter 2011 compared to the First Quarter 2010. Despite the higher raw material prices, a contribution margin has a positive impact of BRL244 million, influenced primarily by the better price for resins and basic petrochemicals which followed the upward trend in price in the international market. The foreign exchange generated a negative impact of BRL117 million, composed of a positive impact on cost of BRL284 million and a negative impact on revenue of BRL401 million, resulting from the appreciation of 7% in the real against the US dollar between the two periods.

The power blackout negatively impacted EBITDA in BRL78 million related to loss and additional maintenance costs. Lower sales volume led to a BRL29 million reduction in first Q 2011 EBITDA. The expenses of fixed costs and sale and general and administrative expenses had a negative EBITDA impact of BRL15 million affected mainly by the restructuring of Braskem America following the acquisition of the polypropylene assets sales costs or accounted for Sunoco Chemicals. Until the First Quarter 2010, the wage increases under the collective bargaining agreement and the payment of recurring order to services which last year were accounted for in the Second Quarter.

Moving to slide eight -- moving to slide eight we have Braskem's debt position on March 31st, 2011 with only 11% of total debt coming due in 2011. At the end of the First Quarter, Braskem gross debt was \$7.7 billion, in line with the level registered at the end of 2010 in Brazilian reais the debt to the BRL12.5 billion with a reduction of 2% in the period. The portion of dollar-denominated debt remains stable at 64%. The balance of dollar denominated cash and financial investments increased slightly by 2% to \$1.8 billion.

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In Brazilian reais, this figure remains stable at BRL2.9 billion. This cash position represents the coverage of debt amortization for 23 months, and also including the standby credit line of \$350 million, this coverage increased to 26 months and the result, Braskem's consolidated net debt closes the quarter at \$5.9 billion in line with the amount registered at the end of the Fourth Quarter last year. When measured in Brazilian reais, net debt was BRL9.6 billion, down 2% from the close of December, influenced by the local currency appreciation in the same amount in the period.

This ability in the 12 months EBITDA combined with the reduction in net debt led to a decrease in financial leverage as measured by the net debt to EBITDA ratio. And measured in reais, this ratio which is 2.43 times in the Fourth Quarter last year, declined to 2.37 times in the First Quarter this year, aligned with Braskem's objective of maintaining its leverage around 2.5 times. When expressed in US dollars, the leverage ratio stood at 2.52 times, a decline of 2%.

In late March the risk rating agency Standard & Poor's and Moody's assigned Braskem investment grades rating. This achievement reflects improvement in its result, the optimization of its debt and its continuous commitment to growth and financial health. The average debt term in the quarter was 12.4 years, close to the 12.5 years registered in the Fourth Quarter. In April 2011 drawing on part of the proceeds from its \$450 million perpetual bond issues, Braskem exercised the call of its perpetual bond issue carried out in 2006 in the amount of \$200 million at a cost of 9% per annum.

In the same period, Braskem made a \$750 million bond issue during 2011 and used the proceeds to buy back around \$400 million in securities issued by the Company with (less attractive) costs which mature in 2014 with a coupon of 11.75% per annum, 2015 with a coupon of 9.375% per annum and in 2017 with a coupon of 8% per annum.

Let's go now to slide number nine, please we'll then see the synergies from the quarter operation. The capture of synergies in the quarter came to BRL75 million, with gains mainly on the industrial and logistics front, resulting from the high operation efficiency highlighting the optimization of the cracker production with higher production of gasoline and butadiene in the Sao Paulo cracker, the renegotiation of contracts and the reduction of storage expenses. In 2011 the Company expects to capture BRL377 million in annual amount of EBITDA with this figure rising to BRL495 million in 2012.

Industrial and logistics fronts have the highest concentration of synergies identified. On the industrial front, we highlight the refining of the planning for the production and sales of cracker products which is aromatics and butadiene. Improvement in the sales mix at second generation plants, with a reduction in the number of grades per plant, the centralization of the planning of asset maintenance by optimizing teams and scheduling the shut downs.

On the logistic front, the gains are in large part just the better planning of sales, distribution in storage (inaudible). And in supply front, the highlights are the integrated purchase of inputs and the renegotiation of third party contracts. On the financial front where the expected capture of synergies represent net present value of BRL490 million,

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gains are being captured each quarter led by fiscal gains in the lower carrying costs of that.

Our last slide, slide number 10, represents the main areas management is currently focusing on. For 2011 the world outlook remains positive, however the sustainability of the recovery in the US, the deterioration of the sovereign debt issues in the Euro Zone and the potential implementation of measures in China to control inflation are factors that warrant attention.

As for the commodities market, the political distress in countries in the Arab world and in North Africa which hold some of the largest oil reserves in the world continue to cause volatility in oil prices driving naphtha prices higher. On the other hand, the recent depreciation of the US dollar and signs of weaker demand for commodities are factors that mitigated the scenario of higher naphtha prices.

In the short term, the rise in raw material price has negatively impacted resin after spreads. On the other hand, for the Second Quarter 2011 factors such as strong world demand, higher pricing for resins and basic petrochemicals, scheduled maintenance shut downs in Europe and Asia, and operation and restructuring stability at the plants in the Middle East could minimize this impact. In the medium long terms the outlook for the petrochemical industry scenario remains very positive.

Braskem believes that Brazil's thermoplastic resin market will grow by between 9% and 10% in 2011 and given the scenario, the Company remains focused on strengthening its business by promoting the sustainability of the Brazilian petrochemical chain by improving its operation efficiency, cutting costs, working together with clients to regain market share and capturing synergies.

Despite the lower results in the First Quarter, Braskem believes in its potential cash generation for 2011 with a greater emphasis on the second half of the year. Also in 2011, Braskem's planning two major scheduled maintenance shut downs at its cracker. In Jul, operations at the cracker in Rio de Janeiro unit, the former Riopol, will be halted for 30 days.

In October one of the lines of the Triunfo petrochemical complex is scheduled to stop for around 40 days. The expectation is that production planning for the year will partially offset the months while maintenance shut downs are carried out. Bear in mind, that the average utilization rate in the First Quarter was negatively impacted by the power blackout in the northeast, but that the utilization rate in the full year should be slightly higher than in 2010, thanks due to operation improvements at Quattor assets.

Seeking to ensure its tradership in the Americas and the vision of becoming the leader in sustainable chemicals, Braskem maintains in its growth pipeline the expansion of its product offering in Brazil. Projects in Latin America that take advantage of competitive raw materials, the growing use of renewable raw materials and the definition of the raw material configuration for the Comperj product with Petrobras. That concludes today's presentation. So let's go now to the Q&A session. Thank you.

## Questions And Answers

### Operator

Thank you, the floor is now opened for questions. (Operator Instructions) The first question is from Frank McGann from Bank of America/Merrill Lynch. Please go ahead.

### Q - Frank McGann {BIO 1499014 <GO>}

Yes, hello. Just was wondering if you could comment perhaps on the strength of the market that you saw in the first quarter and it seemed as if -- that the overall Brazilian demand was a little bit perhaps softer than we might have seen in past quarters and then we would be expecting going forward. I was wondering if you could comment on the reasons for that and also, imports seems to be a little bit higher than we might have expected. I was wondering if that's a worrying trend and how you're viewing that.

### A - Carlos Fadigas

Hi. Good morning, Frank. Two very interesting questions. The first one on demand. Yes. We had a market that was pretty much in line with the market we had in the First Quarter of 2010. We have to take into consideration the fact that 2010 we had a very strong First Quarter coming from a weak 2009. So the comparison is with a very strong quarter.

We had spoken with several of our customers to better understand the dynamics that they are also seeing in the market and there is an important factor related with the increase in oil and naphtha prices. Most of our customers have reported to us that they saw resistance in the markets to accept increase in prices for plastic coming from the fact that the market -- their customers were expecting to better understand the dynamic in price to better understand whether the increase in prices of plastic would be here to stay or after the volatility of the First Quarter with the crisis in the Arab countries and so on, things will reverse back to the previous level of price.

So that's a factor that has led to the use of product throughout the value chain and therefore a lower level of inventories in our customers and also in our customers' customers as well. So some of the demand we were expecting to have in the First Quarter we do believe we're going to have that in the next quarters. The demand from the final consumer has not changed and what we have seen was a change in demand from retail and also from our customers because of the price fluctuation.

On top of that, some soft demand could have come also from the fact that the economic activity in Brazil really picks up after carnival, it's a very local thing, and carnival is almost a one week vacation in some place, one week holiday in some place and happens very late in the year. It varies from the date from one year to another, typically happens in February. In this case we had this year in the beginning of March and that has led to increase in consumptions later on.

So when we add the fact that we had an import -- a stronger quarter in the First Quarter of last year coupled with the increase in prices and also some delaying consumption, we

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do believe we're going to get back the growth of the market we didn't have in the First Quarter. We are going to have that growth back throughout the next quarters and we still believe we're going to have growth in plastic demand in Brazil around 9% year-over-year.

In terms of imports, your second question, we saw an increase in imports in the First Quarter, Braskem had production -- a production stoppage in the northeast of the country because of a blackout, it was a very big blackout in the sense that it covered -- it left several states of the northeast of Brazil without energy and with the lack of energy, we had to stop the cracker, the naphtha cracker we have in the northeast is one of the largest naphtha crackers we have.

And because of the nature of the process, it took us several I would say weeks, close to three months to have the cracker running back at full speed again. So the average utilization rate for this cracker was 55% for the First Quarter and without ethylene we also had lower availability of PVC and also polyethylene so we had less volume of sales of these two resins because of shortage of products due to the blackout and that has opened some space for imports in the First Quarter of the year.

On top of that, we had a very strong Brazilian reais, a very weak US dollar that has made the imported material more competitive. We do not expect the strength to remain the same and we are going to work the Second Quarter of the year and the next quarters to recover some of this market share that we lost as a consequence of the blackout.

**Q - Frank McGann** {BIO 1499014 <GO>}

Okay. Great. Thank you, (Rick) for your complete answer. That's great.

**Operator**

(Operator Instructions) The next question is from Denis Parisien from Deutsche Bank. Please go ahead.

**Q - Denis Parisien** {BIO 20333702 <GO>}

Pardon me, sorry. Thanks for the call and congratulations on the results despite having the adversity of the cracker in the north which obviously it made already negative seasonality in the First Quarter that much more challenging. I was wondering if you have any -- come any closer to defining the financing plan for the roll out in Mexico. Will we see you in the market again after your successful liability management transaction? Could you maybe talk a little bit about your financing plans as we go forward? Thank you.

**A - Marcela Drehmer** {BIO 16721570 <GO>}

Hi, Dennis, this is Marcela. Thank you for your question. Regarding the project finance in Mexico, our idea is to finalize the whole process until the end of the year. So for instance, we are going into details for the project to get more details about this project and also to define the source of equipment and the service as well that we will help to define the source of funds in this project finance. So probably until the end of this year we're going to have a more clear answer for your questions. Okay? But we are not expecting any



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negative approach, is the opposite actually. We have received more than \$6 billion in net of interest to finance this project. So we are very positive about that.

Regarding our plans for the year, we don't have much debt. We'll be doing in this year, only 11% of the total debt. So we don't have like a clear need to refinance, but of course that we are continuing to follow in the market and if we see a new opportunities like we did in the last month, to do the liability management, to do another thing, very similar, we could consider two type of the markets again. Okay? But it's not that we're expecting right now but we will continue to follow the market. It would depend the conditions of this market.

**Q - Denis Parisien** {BIO 20333702 <GO>}

Thanks for that. Did you; would that suggest that if you were to do some more liability management it would be a retap of the new bond?

**A - Marcela Drehmer** {BIO 16721570 <GO>}

Probably not. We understand that the size of this bond for instance its appropriated so we are not considered to increase the size of that, but we can consider different things like (loan stander) maybe or even the bonding in euro that is still something that is in our plans.

**Q - Denis Parisien** {BIO 20333702 <GO>}

Interesting. Thank you very much.

**A - Marcela Drehmer** {BIO 16721570 <GO>}

You're very welcome.

**Operator**

(Operator Instructions) And we'll now turn the call over to Mr. Carlos Fadigas for closing remarks.

**A - Carlos Fadigas**

Well I'd like to thank you for joining us for this call. I'd like to thank you on your -- on the opportunity to discuss about Braskem's performance and Braskem's strategy. As we spoke about the blackout effect, in fact, in the First Quarter of the year, I'd like to finish the call with a positive word about the future. First of all, we're going to see a market that will grow, hopefully close to 10%, but in any case we'll grow demand in Brazil that will help Braskem move product that has been exported overseas to be sold in the market and therefore contributing to the profitability.

We are planning to raise price of both at the coke products, the aromatic products, they are growing in price internationally as we are also going to keep realigning the prices in Brazil's international price, and that means increasing prices in Brazil roughly between

three and 4% in Brazilian reais, and that should add to the profitability of the company as well. And we are going o t keep working on the growth projects we have.

We are building a 200,000 ton PVC plant in the state of Alagoas in the northeast of Brazil. We are building a butadiene plant in the Rio Grande do Sul in Brazil. The project in Mexico is moving forward quite well. We are about to finalize -- we plan to finalize this year the engineering phase as well as the financial package for this project. So Braskem remains committed with profitability, remains committed with growth, we paid this week BRL667 million in dividends to our shareholders and that's our commitment.

Thank you, again for joining us, looking forward to talking to you again as we have the call to discuss the Second Quarter of the year later and I wish you all have a nice day and a nice weekend. Thanks.

## Operator

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

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