

## Q4 2007 Earnings Call

### Company Participants

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

### Other Participants

- Denis Parisien, Analyst
- Hassan Ahmed, Analyst
- Sergio Torres, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Braskem's 4Q '07 and 2007 earnings conference call. Today with us we have Mr. Jose Carlos Grubisich, CEO, and Carlos Fadigas, CFO, and Luiz Henrique Valverde, IRO, for Braskem.

(Operator Instructions)

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, uncertainties and 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 Henrique Valverde, Braskem's IRO. Mr. Valverde, you may begin your conference.

#### Luiz Henrique Valverde

Good morning, ladies and gentlemen. I would like to thank everyone for participating in this quarterly Braskem conference call, this time to discuss Q4 2007 and 2007 results. Please note that with the acquisition of the petrochemical assets of Ipiranga Group by Braskem and Petrobras in the respective proportions of 60/40, Braskem took over the management of these assets as of April 18, '07.

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Accordingly, this conference call is based on consolidated information that includes 100% of the results of Ipiranga Quimica, Ipiranga Petroquimica and Copesul with the respective elimination of the minority interests at all these companies as well as the pro rata consolidation in accordance with CVM Instruction 247 of the interests in Petroflex, which is currently being divested and Cetrel, which is an environmental protection company located in Camacari, Bahia. To facilitate comparisons, data for fiscal year 2006 are stated on a pro forma basis, as if the above-mentioned acquisition and its effects on the consolidation had taken place on January 1, 2006.

Let's go now to the next slide, slide number three, where we'll begin our comments. Slide number three will present the highlights in 2007. Braskem recorded a series of strategic achievements in '07, a year in which it further confirmed its ability to lead important events in Brazil's petrochemical industry and report strong financial performance. The acquisition of the petrochemical assets of Ipiranga Group in partnership with Petrobras marked a decisive step in the consolidation of Brazil's petrochemical industry.

As part of the process we acquired these petrochemical assets in October 2007, Braskem concluded the delisting of Copesul with its registration on the stock exchange already cancelled. In a strategic move, Braskem announced an investment agreement with Petrobras that confronts [ph] the consolidation of Brazil's petrochemical industry through the incorporation by Braskem of 100% of the shares held directly or indirectly by Petrobras and Petroquisa, in Ipiranga Quimica, Ipiranga Petroquimica, Copesul, Petroquimica Paulinia as well as an option to acquire Petroquimica Triunfo.

With integration and consolidation of all these assets, Braskem has increased its competitive advantage over peers in terms of both production capacity and the scale of its business and now has annual production capacity of 2.5 million tons of ethylene and 3.3 million tons of thermoplastic resins. Meanwhile, the Brazilian thermoplastic resin market, which includes PE, PP and PVC, expanded by 10% in '07, led by the PVC market, which grew 15% and by the PP markets, which grew 10%.

The main drivers of this growth were the construction, automotive, packaging, consumer electronics and agribusiness sectors, among others. In the same comparison period, the PE market expanded by 7%. In this context, Braskem set an all-time high in the production of thermoplastic resins in '07 with output of 2.8 million tons. Domestic resin sales volumes also set a record, growing to 2.1 million tons, an increase of 8% in relation to 2006. Braskem gross revenue was \$23R.9 billion in the year, an increase of 11% from the \$21R.6 billion in '06. In dollar terms, gross revenue was \$12.3 billion, 24% higher than the \$9.9 billion posted in '06.

EBITDA in '07 was \$3R.2 billion, 5% higher than the EBITDA of \$3R billion in '06. EBITDA margin in the year was 16.9% compared to 17.8% margin in '06. In '07, Braskem reported net income before minority interests of approximately \$1R billion, and net income of \$568R million, up from \$117R million in '06. Based on these results, Braskem's management is presenting to the annual general meeting to be held on March 26, '08, a proposal for the payment of dividends in the amount of \$278R.5 million, which represents a payout of 61% [ph].

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Now moving to slide number four, some important highlights of the period. Braskem now stands one mark below investment grade by the three risk rating agencies. But for the first time Moody's has assigned Braskem a credit rating, which on a global scale was Ba1 with a stable outlook. Standard & Poor's upgraded Braskem's credit rating on a global scale to BB+ with a stable outlook. And Fitch rating upgraded its rating on a global scale to BB+ with a positive outlook.

Braskem also confirmed for March 2008 the startup of Petroquímica Paulinia facility, which will expand its annual polypropylene capacity to 350,000 tons. This project has been implemented within the projected cost and timetable. Braskem also made significant advances on other fronts of its expansion program, creating companies or joint ventures that will install two major projects in Venezuela in an equal basis partnership with Pequiven. One project is to build a polypropylene unit with capacity of 450,000 tons per year, while the other project involves a unit with annual ethylene capacity of 1.3 million tons from ethane from natural gas integrated with the production of 1.1 million tons of polyethylene each year -- on an annual basis, I mean.

In January 2008, Braskem's board of directors approved the initial investment of \$90 million for the first phase of its projects in Venezuela, including the creation of the two joint ventures. Innovation and technology, as you know, are important guiding principles in Braskem's strategy of value creation. So one of our lines of research and development involves the use of renewable raw materials to produce resins. And the highlight was the announcement in 2007 of the world's first 100% green polyethylene with an international certification. Another important initiative was the decision to convert MTBE units into ETBE units -- those are gasoline additives -- made from ethanol.

Moving to the next slide, number five, here we show the main indicators of our industrial performance. Braskem's operating strategy is based on optimizing assets by maintain high capacity utilization rates at all of these industrial units and prioritizing the sales of our value-added products in more profitable markets and segments. In 4Q '07, at the Braskem and Ipiranga Petroquímica units, PP plants operated at 96% capacity utilization rates, PE plants at 88%, due to maintenance stoppages at some units, while PVC plants operated a record capacity utilization rate of 94%. The ethylene capacity utilization rate was 87% at the Camacari unit as a result of some maintenance stoppages, while Copesul operated at 99% capacity utilization rate.

Braskem set an all-time high in the production of thermoplastic resins in '07 with output of 2.8 million tons. And this excellent performance was the result of the competitiveness programs implemented over the past three years aimed at increasing the capacity, efficiency and operational reliability of our plants.

On slide number six we show the growth in Brazil's resin market as well as Braskem market share. In 4Q '07, the domestic resin market, which consists of domestic sales plus imports, grew 3% from the previous quarter and 24% year on year.

In the company's polyolefin business, Braskem's year-on-year domestic sales volume growth in the quarter once again outpaced industry growth, led by an increase of 33% in

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PE sales compared with 21% sales growth in the PE market as a whole. The PE market used the quarter to rebuild inventories to normal levels. In the same period, Braskem's PP sales grew 23%, in line with sales growth in the market as a whole. These results reflect Braskem's commitment to prioritize profitability in its sales strategy without impacting its market share.

In the company's vinyl business, domestic PVC sales grew 40% in 4Q '07 compared with 4Q '06, exceeding the 31% sales growth recorded for the industry as a whole. This was the best quarter ever for PVC sales with these resins setting a record for quarterly sales. Braskem's domestic PVC sales grew 16% year on year in 2007, mainly driven by the growth of the construction industry where the product is used for parts and fittings mainly. Braskem also imported 12,000 tons of PVC in 4Q '07 in order to meet customers' needs and meanwhile is also accelerating the investments to expand production capacity for this product. In this scenario, Braskem once again confirmed its leadership position in the Brazilian market with a market share of 52% in the quarter.

On slide number seven, we present the main indicators showing Braskem's growth in '07 as compared to '06. Braskem's gross revenue was \$23R.9 billion in the year, an increase of 11% from the \$21R.6 billion in '06. In dollar terms, gross revenue was \$12.3 billion, 24% higher than the \$9.9 billion posted in '06. Net revenue was \$18R.8 billion, an increase of 11% in relation to the net revenue of \$17R billion posted in '06. The main drivers of this growth were the higher sales volumes as well as the 5% higher resin prices. The increase in exports revenue was supported by higher international prices and increased product pricing resulting from selling directly to clients through own distribution operations in Argentina, the United States and Europe.

Exports in 2007 totaled \$2.3 billion, an increase of 12% in relation to the \$2.1 billion in 2006. Braskem improved its cash generation capacity as shown by the EBITDA of \$3R.2 billion in the year, up 5% in relation to 2006. An EBITDA margin that remains stable at around 72%, which is one of the highest margins in the global petrochemical industry. Net income before the interest held by Petrobras in Ipiranga Quimica and Copesul was \$957R million in '07, an increase of 70% from the \$564R million posted in '06. This strong increase in net income reflects improved operating and financial results in the year. Net income after minority interests was four time higher than the \$117R million reported in 2006. It amounted to \$568R million in '07. Earnings per share, consequently, also grew significantly from \$0R.31 in '06 to \$1R.26 in 2007.

Moving to slide number eight, we show the main factors impacting EBITDA in the Fourth Quarter of '07 versus the Fourth Quarter of a year earlier. Braskem EBITDA was \$648R million in 4Q '07, down 14% from the EBTIDA of \$755R million recorded in 3Q '07. Respective [ph] of the sales strategy, which aims to keep prices in the domestic market aligned with those passed [ph] in international markets, generated a positive impact of \$412R million. The appreciation of 9% in the average price of naphtha in dollar terms was the main factor in the negative impact of \$355R million on raw material costs. Another factor contributing to these negative results was energy costs, which includes electricity, fuel oil and natural gas.

The variation in average exchange rate between the periods with the Brazilian real appreciating by 4% against the U.S. dollar, had a negative impact of \$119R million as shown on this slide. Fixed costs with selling, general and administrative expenses rose by \$34R million, impacted by higher costs with personnel and outsourcing services related to the shareholder restructuring carried out on 4Q '07. The contraction in Braskem sales volume of roughly 3% had a negative impact of EUR28 million.

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Moving to slide number nine, we show the evolution, the main lines of Braskem results in comparison periods. Basically, we have already commented on the performance in the Fourth Quarter, however, I'd like to highlight here the following. Net revenue was \$18R.8 billion, an increase of 11% in relation to the net revenue of \$17R billion in '06 and this result was mainly driven by higher sales volumes, in particular the increases of 6% in thermoplastic resins, EP, PP and PVC, led by growth of 60% in PVC. Also by a 7% increase in ethylene and propylene sales and also because of the 10% in the sales of aromatics -- benzene, toluene and xylenes.

The 5% increase in resin prices, aligned with international price increases also contributed to this increase in the net revenue. Braskem EBITDA in 2007 was \$3R.2 billion, 5% higher than the EBITDA of \$3R billion in '06. This result was due to the company's improved operating performance, which reflects the effectiveness of its operating and sales strategies within a challenging scenario, given the 20% higher naphtha price in dollar terms that occurred in 2007 as compared to 2006, combined with the appreciation in Brazilian real against the dollar, 17%. Another important factor was the improvement in the net financial results in all periods analyzed, the main drivers of which were, number one, the positive impact of continued appreciation of the real against the dollar between periods, the reduction in the average cost of debt in dollar terms of 9.4% per annum in 4Q '06 to 7.4% per annum at the end of 2007.

As a result, net income before minority interest, which consists of Petrobras interest in the petrochemical assets of the Ipiranga Group, rose to roughly \$1R billion, a historic mark for Braskem that sets a new benchmark for the company. And lastly, net income was \$568R million, approximately four times higher than in 2006. Earnings per share grew significantly from \$0R.31 to \$1R.26. Also important to highlight that net income was impacted by a nonrecurring reversion of deferred income tax in the amount of \$108R million on Ipiranga Petrochemicals. This is related to the ongoing acquisitions. Excluding this effect, net income is \$676R million and earnings per share is \$1R.56.

Now moving to slide number ten, we show the Braskem -- we show Braskem's debt amortization schedule, its allocation by currency and the cash balance as of December 31, 2007. So at the end of 2007, Braskem's gross debt was \$8R.4 billion, 23% greater than its gross debt as of September 30, 2007. This increase stems mainly from the conclusion of the process to the list Copesul which impacted gross debt by \$1R.4 billion. Consolidated cash and cash equivalents, on the other hand, increased 24% to \$2R.3 billion compared with \$1R.8 billion in the previous quarter. This increase resulted from improvement in operating cash flow generation in the Fourth Quarter that amounted to \$908R million.

The average loan period fell from 13 years as of September 30, 2007 to 11 years as of year end 2007, mainly due to the use of a bridge loan maturing in 2009 in the transaction

to acquire the petrochemical assets of the Ipiranga Group. Braskem plans to replace this bridge loan with structured operations that will increase its average maturity of its investments to better suit the profile of its annual debt repayment schedule. As of year end 2007, U.S. dollar-denominated debt had grown to 71% from 64% at the end of 3Q '07.

Slide number 11 shows Braskem's financial leverage and risk rating. Braskem's financial leverage as measured by the ratio of net debt to EBITDA went from 2.72 times in 4Q '06 prior to the acquisition of the petrochemical assets to 1.44 times at the end of 3Q '07 then already incorporating the disbursements with the acquisition up to the 3Q '07 and also the consolidated EBITDA for the last 12 months. So it went from 1.44 to 1.93 times at year end 2007. The main impact in the Fourth Quarter was a disbursement related to the delisting of Copesul.

So with the conclusion of the acquisition of Ipiranga, that will occur with an additional disbursement of \$633R million, which is scheduled to occur in the 1Q '08, the company's financial leverage is expected to stand at approximately 2.2 times. As a result of the assessments of the company's liquidity, capital structure and operating cash flow, Braskem now stands just one notch below invest grade at the three risk rating agencies.

Now moving to slide number 12, we show Braskem's capital expenditures in 2007 that totaled \$1R.3 billion. These funds were invested in operations in the occupational health and safety and environmental areas and also information technology and provided benefits for all the of the company's business units. Of the \$351R million invested in the critical part during the year, \$302Rmillion was for the construction of Petroquímica Paulinia. The cost of the project is within the original budget and the plant is expected to start up in March 2008. The company also invested \$263R million on scheduled maintenance stoppages, in order to ensure that all of its plants operate at high levels of reliability.

In fiscal year 2008, Braskem plans to invest a total of roughly \$1R.3 billion, which includes scheduled maintenance stoppages. Know that in 2008, Braskem's two main petrochemical plants will undergo scheduled maintenance downtime with a stoppage at Copesul expected to occur in April and the one at the basic petrochemicals facility at Camacari expected to occur in May. The cost of these stoppages is estimated at \$355R million, another highlight to the conclusion of the investment in Paulinia, which should receive disbursements of approximately \$150R million in 2008. In addition to these amounts, the (inaudible) for the project in Venezuela will require investments over the next two years estimated at \$90 million.

Now moving to slide number 13, we present details of the company's new share buyback program. The start of this program depends on obtaining approval to cancel the shares currently held in treasury worth \$244R million at the extraordinary general meeting to be held on March 6 of this year. The program will last 12 months with investment for its full implementation estimated at \$252R million or \$150 million and consists basically of liquidating up to 19.9 million preferred class A shares, which represent 10% of this class of shares in circulation in the market.

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The shares repurchased will initially be held in treasury for subsequent sale or cancellation with no reduction in company's capital stock. This transaction is yet another initiative by Braskem to create value for the company and for all of its shareholders. We believe that Braskem's strategic advances and the new scale of this operation are still not reflected in the price of its shares at this point in time.

So now moving to the last slide, we present the outlook for 2008. Braskem is working with a scenario of Brazil GDP growth of 4.5% in '08, supported by domestic demand. Under this assumption, the Brazilian for thermoplastic resins should grow between 8% and 10% in '08, with significant demands from the construction, automotive and agribusiness sectors among others. Braskem expects to benefit from this environment, drawing on its market leadership and unique range of products and services based on innovation technology, maintaining its strong commitment to the profitability of its operations.

Braskem focuses on maintaining its fixed costs and expenses within perimeters that ensure its global competitiveness. To this end, in '07 the company launched a program to reduce fixed costs and expenses, the results of which are expected to be fully captured in 2008. Construction of the Petroquímica Paulinia is advancing on schedule, with the plant expected to come on line by end March. Among the expansion projects designed to increase our competitiveness, Braskem is also working on two joint ventures in Venezuela in partnership with Pequiven. In 2008, these two joint ventures will work to structure the project finance and Braskem and Pequiven through their respective board of directors will make the final investment decision, which is expected to occur in the second half of 2008 for the polypropylene project.

On the innovation front, Braskem is developing a project of a new plant with production capacity of 200,000 tons of green polyethylene per year from sugarcane ethanol which is scheduled to come on line in 2010. In the area of strategic transactions, the conclusion of the acquisition of Ipiranga Group's petrochemical assets is expected to be concluded in the First Quarter of this year.

The agreement within Petrobras, Petroquisa and Odebrecht to incorporate at Braskem, the petrochemical assets they acquired jointly is scheduled to be concluded in the first half of 2008. And after the transaction, Petrobras and Petroquisa will own 25% of Braskem's total capital and 30% of Braskem's voting capital. This integration process will generate synergies worth \$1.1 billion in net present value. The company expects to capture approximately \$200R million in EBITDA on an annualized and recurring basis, \$100R million of which already in 2008.

Progress on all these strategic fronts contribute to the goal of making Braskem one of the ten largest petrochemical companies in the world in terms of enterprise value, generating value for all of its shareholders. Well thank you, ladies and gentlemen. We will now move onto the Q&A session.

## Questions And Answers

## Operator

(Operator Instructions)

Your first question is coming from Denis Parisien from Santander. Please go ahead.

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

Thanks very much for the call. I have two questions. One is a technical detail on the press release. I see on page 18 in the discussion of liquidity and capital structure, in the chart on top of page 18 you have your cash level stated in the chart at \$2R,259 million, which is different from the number that you have in the tables on page 25. You have \$2R,139 million. I'm wondering if you could explain that difference.

**A - Carlos Fadigas**

Do you want to ask the second question?

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

Yes. The second question is if you can give us any color on the timing and what your options, what you're thinking on the refinancing of the bridge loan.

**A - Carlos Fadigas**

Okay, Denis. Thanks for the question. It's Carlos Fadigas speaking. First of all, the total cash we had in our hands by the end of last year was the information you have on page 18, \$2R,259 million. The information you have on page 25, because of technical reasons, does not consider what would be classified as long-term investments. If you buy long-term papers, even though you have some liquidity in the secondary markets, for accounting reasons you have to account in longer term and therefore you end up showing a number that is a little bit lower than you actually have as total liquidity. Is that okay for you?

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

So would I be correct then if -- I mean, being a debt guy rather than an equity guy, adopting a conservative accounting approach, I'm probably better off with the lower number, really. If --

**A - Carlos Fadigas**

No.

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

-- it's a long-term investment, it's not liquid enough probably in U.S. GAAP or, I guess, the rating agencies would probably not consider it a cash equivalent if it's a long-term investment.

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## A - Carlos Fadigas

Not really. The definition comes from Brazilian GAAP and then to be conservative in the sense that it's classified as long-term investment is to have long-term papers, for instance. If you buy, let's say, a ten-year T bill, it's a long-term paper, but you know better than -- you know that it's a very liquid instrument that we can sell in the market. So we do have access to the company liquidity invested. We can use that to repay debt. And the more precise number and that's why we use this one on page 18, is the \$2R,259 million. We can't change the way we have to classify things in terms of balance sheet. We have to follow the Brazilian GAAPs, although we don't agree with the criteria figures. Because in the end of the day, even being a long-term, in a certain sense, investment, it's very liquid and be sold in the market at any time.

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

Are you confirming for me here that that exact amount that makes up the difference is, in fact, invested in ten-year U.S. treasury bills?

## A - Carlos Fadigas

No. I used the ten-year treasury bill as an example. What I'm telling you is that the difference is invested in the instrument that has a liquidity of longer than 60 days and therefore it has to be -- it has to be accounted separately.

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

Okay. Thanks.

## A - Carlos Fadigas

Okay?

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

Yes.

## A - Carlos Fadigas

Regarding the refinancing options. First of all, I'd like to mention again that the bridge loan we borrowed last year was a two-year bridge loan and on top of that we have two years to refinance each drawing, meaning that we have two years from April '07 to refinance the first portion of the bridge loan. We have two years, counting from October '07 and we haven't even drawn the balance of the bridge loan and therefore we will have two years from February '08 to repay the last portion of the bridge loan. So it gives us plenty of time to not only structure the transactions, but also wait for the best moment in the market to issue new debt.

We are considering mainly two different instruments. We are considering issuing an export prepayment in something around \$600 million to \$800 million, taking advantage of the appetite from banks to finance trade from Brazil and taking advantage of the \$2.3 billion in exports that Braskem has annually. Although spreads have widened a little bit, in the end

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of the day with the reduction of the LIBOR, we have a total final cost very similar to the one we had prior to the crisis or, depending on the case and how you structure the transaction, you can have even lower cost because of the reduction in the LIBOR.

A second instrument we are considering is the issuance of a bond. We've been following what is happening in the market quite closely. We wanted to wait for the '07 results to come because we wanted to show the markets the figures of Braskem fully consolidated, both Copesul and Ipiranga, and once we feel the market conditions are right, we may go to the market and issue a bond that may vary between \$300 million and \$500 million. So these are the two main transactions we are considering right now and if you add them up, you come up with something around \$1 billion. The remaining balance of the acquisition that would be an additional \$300 million is something that we are going to consider closer to the end of the year because, as I said, we have until February 2010 to refinance this final portion.

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

Sorry -- thanks very much for that level of detail. Can you detail the amount of the portions in each of the buckets? You've got a bucket -- the two years starts in October -- in April '07. You've got a bucket that the starting gun in October '07. Then another bucket in February '07, if I understood you correctly. Can you give us the amounts for the time periods?

**A - Carlos Fadigas**

Yes. I can give you the approximate amount of each one. The first one was drawn to make the first payments to Uta [ph] group. It was something around \$300 million. The second one was used at Tingotania [ph] to pay the second portion of the payments to the Uta group and also to help on the delisting of Copesul. And the second portion was something around \$550 million. So we still have something around \$300 million, \$350 million to be drawn from the facility and that's the final portion we have on a draw to make the payment next week when we actually receive the shares of Ipiranga Quimica and Ipiranga Petroquimica.

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

Thank you very much for that level of detail. I appreciate it very much.

**Operator**

(Operator Instructions)

Your next question is coming from Sergio Torres with Bear, Stearns. Please go ahead.

**Q - Sergio Torres** {BIO 7078415 <GO>}

Good morning, everybody. My question has to do with the pricing strategy for 2008, especially in the case of plastic resins. And if you could also touch upon the pricing strategy for basic petrochemicals. According to my estimate, your -- both polyethylene

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resin in the domestic market and polypropylene resin in the domestic market are already at a substantial premium to import parity and I wonder if you think -- I mean, when facing future cost pressures in the First Quarter you can have some price hikes going forward or do you see them as being capped because of this misalignment against international parity. Maybe you disagree with that calculation and I'd like to hear about that, your opinion on that. Thanks.

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

Okay, Sergio, Jose Grubisich speaking. Our commercial policy is quite simple. We align our selling prices in the Brazilian market to the international market price on a monthly basis. So we try to anticipate what prices will be before the month in the benchmark price, either the Asian market price or the U.S. contract price. We try to anticipate exchange rates and on top of the -- what is the calculated import priority taking into consideration the expected international market price and the expected exchange rate we require. The imported part in reals and, on top of that, we do charge a premium, which is to pay for the services we provide to our customers, look at it.

Product development, new applications, technical assistance, supply chain -- the fact that we do invoice them in reals with no exposure to exchange rate risks. And up to now we have been able to combine a kind of optimization of our price in Brazil with the sustainability and even with a growth of our market share. We are by far the market leaders. We have a very complete product portfolio. You know that most of the Brazilian conversion industry is very fragmented and they need to buy many different product grades, either for polyethylene and polypropylene.

And they do not have the flexibility to import all the products they need for their monthly production. So of course, we need to build up some complexity in our industrial operation to deliver such a broad and very customer designed portfolio, but that's also a protection against polyethylene or polypropylene which will be imported on a more commoditized base from Middle East or any other region.

Of course, if we feel that the level of imported material is growing beyond what we think acceptable, we might review our position. But up to now, we have decided to increase as much as we can our local selling prices to maximize profitability even if we have to give up some marginal volumes in the Brazilian market. So the drive is maximize profitability. And First Quarter '08 we think that average First Quarter versus average Fourth Quarter last year, we might have 2% to 4% price increase in reals in the Brazilian market. And as you may know, the international market prices are growing much higher than that, but the depreciation of the local currency somehow compensates the price increase in U.S. dollars.

## **Q - Sergio Torres** {BIO 7078415 <GO>}

Thank you. If I could make a follow-up on -- you have been quite successful at shifting volumes from the export market to the domestic market and increasing your average realizations by doing that. However, you also have a commercial policy of developing markets in the United States, in Argentina, as you mentioned in your press release and my question has to do with what is your minimum level of export? Maybe you can talk by

product or just on an aggregate basis by talking resins. I see that your average exports, in terms of volume, in '07 was 12%. I don't know if you see if you can still have some room for shifting volumes into the domestic market or you see -- or you think that 12% is already a good level in which you cannot reduce exports anymore.

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

Yes. No. We have two plant shutdowns, our crackers in 2008, which is going to represent 80,000 tons less of ethylene compared to our total production of 2.5 million tons a year, which is very marginal, volume-wise. And we have already a plan to build up stocks of resins before the shutdown to make sure that we can supply our regional market -- I mean, Brazil and Argentina -- where we have the best profitability.

In terms of the strategy, our priority target in terms of market development outside Brazil and Argentina is Europe where we can take advantage of the euro exchange rate right now with higher prices and we can sell a portfolio with higher value-added products. And we have also a priority to reinforce our market presence in South America because we think that we can be very competitive. We do understand the market and we have set up a distribution network in Argentina. We are leveraging what Ipiranga had already in the Pacific Coast, the west coast of South America. And we have also set up a distribution system in Europe. There we can have a better portfolio, better profitability and we are not going to reduce our presence in those two markets -- South America and Europe -- for resins.

As far as the U.S. market is concerned, we do not export large volumes of resins. What we export to the U.S. is basically aromatics -- benzene, xylenes, some gasoline -- into the U.S. market. That's the byproducts of our cracker. And that's very much day to day market price. And there is no value to be added in the change of our strategy. And we think that we are going to supply the Brazilian and Argentinean market and we're going to keep and even increase our market share because we have many new products to be launched in '08, '09.

We still have the optimization of the industrial facilities as a result of the integration of Copesul, Braskem and Ipiranga, which is going to be -- which is going to add a lot of additional volumes by optimizing our portfolio and our industrial set up. And we have also productivity improvement in our existing facilities to deliver in 2008. So we do not see a dilemma between increasing the supply in the Brazilian market and keeping our presence in the market we selected to have a strong presence for Braskem in anticipation of our project in Venezuela.

### **Q - Sergio Torres** {BIO 7078415 <GO>}

Thank you, Jose Carlos. That was very clear. Last -- my last question would be, if you could discuss the timeline for the full merger of the several assets you acquired last year. It's -- according to your press release, you expect to complete the asset swap with Petrobras by -- before June. I wonder how long would it take you after completing that transaction -- the -- by issuing new shares to Petrobras and completing the full merger of those several assets into Braskem so you can take advantage of the tax savings?

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

Okay. So Sergio, we have next week the spinoff of the petrochemical assets of Ipiranga Group and starting next week, Braskem and Petrobras will own the petrochemical assets of Ipiranga Group, which means their equity position in Copesul, Ipiranga Petroquimica, Ipiranga Quimica and this is going to open the way for us to move ahead in the consolidation process.

The other date we have, which is already decided, is that starting March 1 we are going to implement our integrated management systems in Copesul and Ipiranga, which is a precondition to have legal consolidation into Braskem and to become one of only a little structure. And we are going to go onstream with this integrated information system in Copesul and Ipiranga in the end of September. That's when we are planning to have full incorporation of Copesul, Ipiranga Petroquimica and the assets which were owned by Ipiranga.

And this swap with Petrobras is going to be made in between next week and end of September and most likely this is going to happen in the Second Quarter of this year. But if you take apart the fiscal and some tax savings related to the incorporation of the assets, all the other synergies we are already starting to implement in the First Quarter of 2008, everything which is related to industrial organization, portfolio, simplification, innovation, et cetera, supply chain. That is already -- we have already met all the initiatives. The responsibilities have been assigned and we are always delivering a part of the synergies which we did disclose to the market in the second half of last year.

And as far as Petroquimica Paulinia is concerned, we are going to go live with our own integrated management system 1st of March and we are going to start up physical production in the end of March and Petroquimica Paulinia will be ready in March to be fully incorporated into Braskem.

## **Q - Sergio Torres** {BIO 7078415 <GO>}

Fantastic. Thank you very much Jose Carlos.

## **Operator**

Thank you. Your next question is coming from Hassan Ahmed with HSBC. Please go ahead.

## **Q - Hassan Ahmed** {BIO 7430123 <GO>}

Good morning. Quick question. I joined the call a bit late, so apologies if I'm sort of repeating this, but there is a sizeable [ph] polypropylene capacity you are bringing on line this year, around 300,000 tons. Question basically is how should we think about margins for polypropylene with all this new capacity coming on line through the course of this year? Clearly, obviously, the polypropylene operating risks that you saw were fairly high at 96% in Q4 will obviously dip down a bit, so just wanted to get a sense of the sort of margins that evolved through the course of this year.

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

Jose Grubisich speaking. Our 300,000 polypropylene capacity will go onstream in the end of March.

**Q - Hassan Ahmed** {BIO 7430123 <GO>}

Right.

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

Which is going to be 300,000 ton capacity, so we need to make a -- let's say it's proportionally to, let's say, the period it's going to operate in 2008. You know that to start up a new production, we need to a few [ph] maybe one month to have it fully operational.

**Q - Hassan Ahmed** {BIO 7430123 <GO>}

Sure.

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

We have a ramp-up curve. And we ramped up the pitch stock [ph] in place to operate, let's say, starting already in the Second Quarter at full speed in this production facility. Up to now, we have been operating our existing production of 600,000 tons very close to capacity. If you look at our production performance, we are very close to 100% of the nominal capacity. And Brazil is importing right now at close to 150,000 to 170,000 tons of polypropylene.

And we have practically stopped all our exports in 2007 and part of 2006. So the market is there. We are going to have maintenance shutdowns in Brazilian crackers all over 2008 and we think that if you combined what has been taken by the imported material, the impact of the maintenance shutdown, of our cracker in Camacari, in Triunfo, and the other cracker in Brazil, we think that we can come up with new capacity without any negative impact in terms of margins.

**Q - Hassan Ahmed** {BIO 7430123 <GO>}

Super. Super. And if I could change gears slightly and talk a bit about the raw material side of things as well, obviously, we've seen a spike in naphtha prices as well, which is clearly not a surprise alongside crude oil prices. How are you thinking about naphtha prices through the course of this year and what sort of mechanisms do you have in place to rather rapidly implement any sort of swings in your pricing regime as well alongside sort of volatile naphtha prices?

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

Okay. So as far as price is concerned, the Brazilian market has been able, over the last two years, to realign selling prices in the Brazilian market almost on a monthly basis.

**Q - Hassan Ahmed** {BIO 7430123 <GO>}

Right. So similar to North America then.

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

Yes, similar to North America. If we have very high volatility, it can take one month in addition to that, but we have the ability to realign our prices to international market price on a very immediate way. We think that the global petrochemical industry will operate in 2008 with very high capacity utilization rates. Demand is growing beyond GDP. Supply is not going to increase very much. If you take the nominal capacity utilization rate is 92%, but many crackers will go into plant shutdowns in 2008, which means that the actual capacity utilization rates will be much higher than that.

**Q - Hassan Ahmed** {BIO 7430123 <GO>}

Right.

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

So I do see the capacity and ability of the industry to realign prices to give a very fair profitability in 2008. As far as flexibility in terms of raw materials, with the acquisition of Copesul, we've got more flexibility because Copesul has a better logistics and storage capacity. And they can operate on a 50/50 basis between naphtha and condensate.

**Q - Hassan Ahmed** {BIO 7430123 <GO>}

Right.

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

Which means that we have increased our storage capacity and we can play easily now between condensate and naphtha and around Copesul we have set up a kind of optimization structure with Petrobras refinery in the region. And with the small Ipiranga refinery and in this setup we can bring additional quantities of condensate to be processed in the refineries to get a very competitive naphtha for Copesul. Of course, this is marginal in relation to the actual oil and naphtha price --

**Q - Hassan Ahmed** {BIO 7430123 <GO>}

Right.

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

But that can give us additional flexibility ...

**Q - Hassan Ahmed** {BIO 7430123 <GO>}

Absolutely.

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

-- in relation to what we had up to now to play marginally with the cycle of the raw materials, the feedstock, in order to compensate for the cost pressure.

**Q - Hassan Ahmed** {BIO 7430123 <GO>}

Absolutely fair point.

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

The key message that we have been able to realign our prices and we thank that the Brazilian market will grow in 2008 in the range of 10% for the mix of the resins and, of course, this is going to represent good opportunity for us to improve our mix of sales, more domestic, less export business.

**Q - Hassan Ahmed** {BIO 7430123 <GO>}

Fantastic. Thank you, so much.

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

Thank you, Hassan.

**Operator**

(Operator Instructions)

There appears to be no further questions at this time. I'd like to turn the floor back over to Braskem management for closing comments.

**A - Luiz Henrique Valverde**

Thank you, all for attending this conference call. We are here at your disposal if you have any further questions and I wish you all a very nice weekend and I hope to see you again next quarter. Bye-bye. Take care.

**Operator**

Thank you. And this concludes today's Braskem Fourth Quarter '07 and 2007 earnings conference call. You may now disconnect your lines and have a pleasant afternoon.

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