

Q2 2009 Earnings Call

Company Participants

- Bernardo Gradin, CEO
- Luciana Ferreira, IRO

Presentation

Operator

Good morning, ladies and gentlemen. At this time, I would like to welcome everyone to the Braskem Second Quarter 2009 Earnings Conference Call. Today with us we have Bernardo Gradin, CEO, Carlos Fadigas, CFO and Luciana Ferreira, IRO with Braskem. We would like to inform you that this event is being recorded, and all participants will be on listen-only mode during the Company's presentation. After Braskem's 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 the Braskem's IR website at www.braskem.com.br/ir. The slide presentation may be downloaded through the website. Please feel free to flip through the slides during the conference call. There will be a replay facility for the call 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 the 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 belief and assumption of Braskem's management and on the information currently available to the Company.

They involve risks and uncertainties and assumptions because they are related to future events and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that the 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 the forward-looking statements.

Now, I'll turn the call over to Luciana Ferreira, Braskem's IRO. Ms. Ferreira, you may begin your conference.

Luciana Ferreira {BIO 15106436 <GO>}

Good morning, ladies and gentleman. Thank you, all for participating in the Braskem Quarterly Earnings Conference Call. Today, we will be commenting on our results for the Second Quarter of 2009. First, I would like to remind you that if the merger of Petroquímica Triunfo's assets in May 2009, this conference call is based on pro forma

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consolidated information for all related periods. That includes 100% of the results of these new assets, in accordance with PPM instruction 247. Information presented in this call also includes the proportion of consolidation of the interest (inaudible; technical difficulty).

Let's go now to the next slide, slide number three, where we begin our comments. On the first slide, I would like to begin by commenting on the current global environment. The global scenario has been showing signs of economic recovery during (inaudible; technical difficulty) developing economies such as China, India and Brazil. Those are recovering (inaudible; technical difficulty) for the time being.

The market is developing (inaudible; technical difficulty) on the second half of the year gives us optimism, reflected in broad-based restocking. In the (brema) petrochemical industry, the Second Quarter fits market by higher raw material price and recovering resin in basic petrochemical price.

Increased demand from Asia has suffered from continued supply restrictions benefited our exports. In addition to supply and demand fundamentals, the financial market has also driven oil prices higher, and those are prices of petrochemical products in general.

Delays in the startup of new production capacity of operational and logistic issues in the Middle East and the closure of some competitive brands in the United States and Europe are providing scenarios with (restricted) supply, a reduction in 12 million tons in ethylene capacity in 2009 in the United States and Europe alone. However, additional supply is coming on line in the Middle East and Asia. It's expected to pressure industry margins starting with 2009, bringing down prices up to 2011.

Slide number four, we're talking about the regional scenarios. The Brazilian market which began showing positive signs in March, maintained a recovery in demand during the Second Quarter, enabling Braskem plants could operate at full capacity and even caused levels to normalize. Despite the higher consumption, inventories in the production (inaudible; technical difficulty) remained below revenue levels, with no building trends in service so far. This situation proves that the whole trend of Braskem is to work in a more efficient way.

In (effective) cost of manufacturing demand and (inaudible; technical difficulty) continue to do so in the coming quarter includes government incentives for the automotive and white (inaudible; technical difficulty). In the high (inaudible; technical difficulty) construction and agribusiness industry in the stronger markets in (inaudible; technical difficulty).

The contraction in revenue was in large part due to the total expenses (inaudible; technical difficulty) and at this price in accordance with trends in the international markets, also providing support domestic sales, supporting a gain of 70percentage points in markets there when compared to the previous quarter. Another part of the (inaudible; technical difficulty) was the recovering sales volume similar to three countries, such as Bolivia and Andean. While Braskem was able to take its (scratch) price above international levels, helping the company's portfolio.

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Let's move out to slide five, please. Slide five suggests the highlights of the Second Quarter this year. Net revenue was BRL3.7 billion in the Second Quarter, 13% more than in the previous quarter. This recovery in domestic sales volumes and the strong performance of exports, combined with higher rates on the petrochemical side.

These effects also adds to EBITDA of BRL566 million in the Second Quarter, up 24% on the prior quarter. Thus in the quarter net income is up BRL1.2 billion in the quarter, representing an increase of more than BRL1 million compared to the First Quarter. In addition to the better operating performance in this period involved depreciation had a positive impact on the net financial results.

In terms of strategic developments and (inaudible; technical difficulty), Petroquímica Triunfo was more (inaudible; technical difficulty) concerning the cost basis in the Camacari Petrochemical Complex. At the end of June, we (inaudible; technical difficulty) Camacari Petrochemical Complex (inaudible; technical difficulty) in accordance with established (inaudible; technical difficulty).

The brand had selection capacity of 207,000 tons, which when combined with capacity from which Camacari Petrochemical Complex dropped Braskem's annual (inaudible; technical difficulty) tons. It would be easy to take the (inaudible; technical difficulty) gasoline total (inaudible; technical difficulty) premium of \$200 to \$300 per ton over this quarter.

For some of Braskem's (inaudible; technical difficulty) doing a variety of (inaudible; technical difficulty) scenarios. In July, the company raised BRL150 million through a receivables-backed investment fund. Of this, over (27 million) is the new shares and BRL23 million for the new shares, as a way to (calculate) CDI was 1.85% per year. In line with this strategy of maintaining costs (inaudible; technical difficulty) global competitiveness, Braskem reduced its SG&A by BRL50 million in the first six months of the year when compared to the same period last year.

Moving to slide six, (inaudible; technical difficulty) the market performance in the quarter. This Second Quarter, domestic demand for (plastic) and resins are recovered with growth of 18% in relation to previous quarter. In the scenario of stronger demand, combined with lower invoice in the quarter, Braskem increased its domestic revenue sales by 27%. We increased our 16% in polyethylene, 29% in polypropylene and 55% in PVC. The cost of corn substitutes reflect higher demand from the automotive and (inaudible; technical difficulty) segment, which was supported by the federal government's tax incentives as has been said.

In the case of polyethylene, space was fueled by the (inaudible; technical difficulty) balance of factors, linked to consumption, such as core cosmetics, personal hygiene and cleaning products. Meanwhile, the 55% increase in PVC sales was driven by the recovery in the (inaudible; technical difficulty) segment and the continuous strong performance of consumer goods related factors.

In this context, Braskem's market share in the Second Quarter was 53%, expanding by 7percentage points relative to the prior quarter. On the other hand, the share of imports in the market fell by 6percentage points during the period.

On slide number seven, we see the evolution between First Quarter and Second Quarter EBITDA, with an increase of BRL109 million. In the US for our clients (inaudible; technical difficulty) historical revenues, especially the revenue (inaudible; technical difficulty) accounted for the largest part the EBITDA in the quarter, in the amount of BRL539 million.

The growth of 27% in resin sales volume in the domestic market, as well as the higher sales volume on a basis (inaudible; technical difficulty) and stability for volumes generated an EBITDA gain of BRL65 million. These (inaudible; technical difficulty) supply and higher production volumes in the Second Quarter led to higher raw material costs, with an impact on of BRL232 million.

Lower shipped costs in cost of goods sold was offset by higher selling, general and administrative expenses, for a negative impact of BRL24 million. The decision to expense the (inaudible; technical difficulty) higher export volumes and to the reversal of BRL75 million (inaudible; technical difficulty) for the First Quarter for reasons of (inaudible; technical difficulty) from 2008.

The local currency fluctuation of approximately 10% in the quarter generated a negative impact of BRL87 million, on both the (inaudible; technical difficulty) impact on cost of BRL247 million and a negative impact on revenue of BRL344 million. Other variable costs (inaudible; technical difficulty) activity increased again for higher production qualities, negative impact in EBITDA is (\$67 million).

Let's move to slide number eight. We're going to show EBITDA with the Second Quarter of 2008 and 2009 with an increase of BRL9 million. The reduction of raw material accounted for the biggest positive impact on EBITDA since the decline in the average (inaudible; technical difficulty) was 51%, going from \$995 per ton in the Second Quarter of 2008 to \$490 per ton in the Second Quarter.

This (inaudible; technical difficulty) impact of BRL1.7 billion. For the other variable costs that impact production, the low cost of natural gas and oil, as well as other items generated a positive impact of BRL407 million. We have a depreciation of BRL1 billion of 25%, right within BRL280 million, which consists of a gain in revenues of BRL1.2 billion and a loss in cost of BRL890 million.

Higher total volume with higher cost of revenues and basic (inaudible; technical difficulty) contributed with BRL111 million. The decline in fixed costs, mainly in cost of goods sold, made a positive contribution to the back, maybe around BRL23 million. The new (inaudible; technical difficulty) for resins and basic petrochemicals in the Second Quarter compared with the same quarter last year generated a negative impact of BRL2.5 billion, almost offsetting (inaudible; technical difficulty) in the quarter.

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Let's move go on to slide nine, where (inaudible; technical difficulty) on June 30th this year. So on June 30th, Braskem's gross debt amounted to BRL10.6 billion, 13% lower than the (inaudible; technical difficulty) March 31st, mainly due to depreciation of the dollar against the real and 67% of the constant (inaudible; technical difficulty).

Braskem once again maintained a high level of liquidity in the quarter, with cash invested difference of BRL3.2 billion, 8% higher than in March and sufficient from all debt (inaudible; technical difficulty) maturing within the next 25 months. As a result, net debt (inaudible; technical difficulty) BRL7.3 billion, about 20% in relation to March 31st. Braskem's net debt in US dollars is \$3.8 billion. The average turn of the debt shortened from 10.5 years in March to 10.1 years in June. Braskem believes that its annual payment requires (inaudible; technical difficulty) cash flows.

Let's start off the last slide, slide number 10, representing (inaudible; technical difficulty). Management remains confident and committed to making Braskem a leader in the global petrochemical industry, and the company continued working, discussing its long-term relationship requirements and preserving its financial solidity and (inaudible; technical difficulty) while maintaining operational profitability. Braskem also remains committed to reducing its production costs and strategic expenses as already demonstrated by the (inaudible; technical difficulty).

At the Green polyethylene plant, construction remains in line with the implementation timetable. Braskem is currently in the final phase of negotiations for approximately 60% of the ethanol feedstock required (inaudible) the plant starts up by the end of 2010. On the (inaudible) the base engineering and stock (inaudible; technical difficulty) engineering design for the (inaudible; technical difficulty) project will conclude during the quarter and in view of the financial scenario and the evolution of the project cost, a decision was made to alter the timetable with the plans for operational startup now moving to 2015.

For the polyethylene project, technology license agreements (inaudible; technical difficulty) for this plant with operational startup expected in 2014. The Company's management maintains its commitment to define the best ways to create value for its shareholders. The economic recession has weakened the petrochemical industry in North America, which could represent an opportunity for Braskem's fortified assets in the world's largest market for revenue.

In conclusion, in line with Braskem's growth strategy and given the retirement levels expected at the company, Braskem is expected to hire another 500 employees by 2011. That concludes our presentation. Thanks for listening, and let's go now to the questions and answer session.

Questions And Answers

Operator

Thank you. (Operator Instructions)

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I'll now turn the call over to Mr. Bernardo Gradin for final consideration. Mr. Bernardo, you may give your final consideration.

A - Bernardo Gradin

Well, I'd like to thank you. I'd like to thank you for following us, Braskem. We had a very positive Second Quarter. Our estimate that Third Quarter will be improving from Second Quarter, and we are very much optimistic on the level of consumption in Brazil, taking up sales to levels pre-crisis. So our estimate is that we'll be recuperating what we lost in the First Quarter around the second semester. Thank you, very much again. You have a good day.

Operator

Thank you. This concludes today's Braskem's Earnings Conference Call. You may now disconnect your line at this time.

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