

## Q3 2007 Earnings Call

### Company Participants

- Luiz Henrique Valverde, IR

### Other Participants

- Dennis Parisin, Analyst
- Hassan Ahmed, Analyst
- Joe Orlando, Analyst
- Sergio Torres, Analyst

### Presentation

#### Operator

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

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's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given.

(Operator Instructions.)

(inaudible). 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 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 on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and, therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Braskem and could cause results to differ materially from those expressed in such forward-looking statements.

FINAL

Bloomberg Transcript

Now, I'll turn the conference to Mr. Luiz Valverde, Braskem's IRO. Mr. Valverde, you may begin your conference.

## Luiz Henrique Valverde

Good morning, ladies and gentlemen. I'd like to thank everyone for participating in this quarterly Braskem conference call, this time to discuss the 3Q '07 results. First I'd like to remind you that in April, Braskem assumed the management of the petrochemical assets of Ipiranga Group, so now Braskem fully consolidates the results of the Company's Ipiranga Quimica, Ipiranga Petroquimica, and Copesul. As a result, consolidated shareholders' equity and net income no longer include minority interests.

Furthermore, as of the last quarter, Braskem decided to communicate to the market, based on consolidated financial statements, including the proportion of consolidation of its jointly controlled subsidiaries, Petroflex and Cetrel, in accordance with CVM Instruction 247. The information in the comparison periods are presented on a pro forma basis, assuming that the acquisition mentioned above and its effects on consolidated figures had occurred on January the 1st, 2006.

On slide number three, we show the main highlights of the Third Quarter of this year. All-time highs were set in the quarter in both domestic resin sales and Braskem production volumes. Investor units operated at high capacity levels. This high level of performance was the result of the competitiveness program implemented over the past three years with the aim of increasing capacity, efficiency, and the operating reliability of our in-Brazil units.

Already reflecting the cost-cutting efforts under the program (inaudible) to by Braskem and announced to the market in the second Q '07, general and administrative expenses amounted to \$169 million during (inaudible), down 80% in relation to the previous quarter. The main driver of this reduction was the decline in labor costs. The Company took (inaudible) sales revenue to minimize the negative effects of naphtha and energy prices at historical highs and the appreciation that was in the real against the U.S. dollar. Given this scenario, EBITDA margin in the quarter was 16.3% of net revenue, approximately unchanged from the previous quarter, excluding the non-recurring effects of the reversal of PIS/Cofins tax booked in the Second Quarter.

Consolidated net income after minority interest was \$132R million in the quarter and \$541R million in the first nine months, positively impacted by the solid operating performance and the improved financial results. In its strategic plan, Braskem concluded yet another phase of the consolidation of the Southern Complex, successfully selling shares in Copesul at a public auction to delist the Company. The financial settlement of \$1R.6 billion transaction was concluded on October the 10th, 2007. The auction (inaudible) is at yet another important step in consolidating Brazil's petrochemical industry and underscored Braskem's commitment to transparency and the creation of value for all shareholders.

With the outcome of the auction on October 18, '07, CVM delisted Copesul, canceling its registration as a publicly held company. On an obvious strategic front, the acquisition of

FINAL

the petrochemical assets of the Ipiranga Group advanced with tagalong tender offer of Distribuidora de Produtos de Petroleo Ipiranga, DPPI, and of Refinaria de Petroleo Ipiranga, RPI, which invoked a tender offer to acquire the shares of the two companies held on October 22, 2007. Also, the tender offer for CBPI, Companhia Brasileira de Petroleo Ipiranga, was held yesterday. After this phase, the preferred share in these three companies--DPPI, RPI, and CBPI--will be incorporated with the subsequent delivery of the assets by Ultrapar to Braskem and Petrobras.

As the first company in the world to produce polyethylene certified to be made from 100% renewable raw materials, Braskem is developing a (inaudible) at the new plant to produce polyethylene made from sugar cane ethanol with operational start-up expected in late 2009, with annual capacity of 200,000 tons, an estimated investment of \$150US million.

Going to the next slide, Slide Number Four shows the main indicators of industrial performance. Braskem's operating strategy stays on optimizing assets by maintaining high capacity utilization rates at all of the industrial units it manages, and prioritizing the sales of higher value-added products in more profitable markets and segments. In 3Q '07, considering the Braskem and Ipiranga Petroquimica units, PP plants operated at 95% capacity utilization rates. PE plants operated at 92%, and the PVC plants, despite the unscheduled maintenance stoppages at the MPC and PVC plants at Camacari, registered a capacity utilization rate of 89%. The ethylene capacity utilization rate at Braskem and Copesul was 94%, with Copesul, which experienced some operational problems in August, operating at 95% and the Camacari Basic Petrochemicals Units running at 92%.

In the first nine months of the year, Braskem produced 2.1 million tons of resin, 3.5% more than in the same period of 2006. Braskem set an all-time high in quarterly production of thermoplastic resin in the Third Quarter, with the output of 740,000 tons of thermoplastic resin.

Going to the next slide, Number 5, we show the growth in Brazil's resin market and Braskem's share of this market. In the Third Quarter, the indicators for the level of resin purchased by the market, meaning domestic sales plus export-driven sales plus imports, increased by 1% against the previous quarter, falling short of demand growth which was supplied by inventory reductions and production changes, especially home purchase in the third generation.

In the polyolefins business, Braskem and Ipiranga Petroquimica included, growth in domestic sales volume and quarter updates in industry growth in comparison with the Second Quarter, led by growth of 12% in PE sales versus industry PE sales of only 2%. Braskem polyolefin sales in the domestic market grew by 2% versus the previous quarter, whereas the market indicator fell 4%. These positive results reflect Braskem's commitment to prioritize for stability when selling its products without jeopardizing its market share or long-term relationships with customers.

In the vinyls business, domestic PVC sales in 3Q '07 grew by 6% in the quarter against 2Q '07, in line with growth in the overall industry, leading market share to remain steady at

56%. The main driver of this growth was the strong performances in construction-related sectors. In this scenario, Braskem once again confirmed its leadership position in the Brazilian market, increasing its market from 51% in the Second Quarter to 54% this quarter.

Going to the next slide, Number 6, we show the main slices of variation in EBITDA in the Third Quarter of 2007 versus the same quarter last year. Braskem's EBITDA declined by 5%, from \$795R million in the Third Quarter of '06 to \$755R million in the same quarter this year. The various drivers for this performance were the successes of the commercial policy of keeping prices in the domestic market aligned with those effects in the international market, which made a positive contribution of \$387R million; higher sales volume at Braskem, which constituted with \$61R million; the 6% increase in naphtha costs in dollar terms, which generated a negative impact of \$182R million; the variations in average foreign exchange rate within the period, with the Brazilian real appreciating by 11.7% against the U.S. dollar, which had a negative impact of \$222R million; and the cost increase of \$56R million between the two quarters, mainly due to higher maintenance costs. Selling expenses were \$6R million higher, driven by higher costs of aromatics in the quarter, while general and administrative expenses declined by \$4R million, mainly due to lower expenses with outsourced services.

As a result, in the Third Quarter of 2007, Braskem recorded EBITDA of \$755R million, equivalent to \$394US million, which was 8% higher than the \$366US million posted in the same quarter of 2006.

Moving to Slide Number 7, we show the main drivers of the valuation in EBITDA in the Third Quarter of 2007 versus the Second Quarter of this year. Braskem's EBITDA in the Third Quarter was \$755R million, as we mentioned before, representing a decline of 7% in relation to the EBITDA of \$810R million registered in the Second Quarter of 2007, then thus excluding the non-recurring revenue of \$111R million related to the reversal of PIS/Cofins tax in that quarter.

Also, the success of the selling strategy in that seeking price into the domestic market aligned with those prices in the international market, contributed with a positive impact of \$167R million. Between the two quarters, we will obtain a reduction in fixed costs and selling, general, and administrative expenses that amounted to \$27R million generated by cuts in personnel expenses, lower expenses with outsourcing, and the lower export volumes, in addition to \$10R million in non-recurring expenses that have then occurred in the Second Quarter of 2007.

Three percent increase in naphtha costs, and 16% increase in higher energy costs, consisting of electricity, fuel oil, and natural gas, generated a negative impact of \$138R million. The variation in the average exchange rate between the periods, with the Brazilian real appreciating by 5% against the U.S. dollar, had a negative impact in the net of \$85R million, as shown also on this slide, and a contraction in sales volume at Braskem of roughly 2%, which had a negative impact of \$24R million.

Now moving to next Slide Number 8, we show Braskem's debt and amortization schedule, its allocation by currency, and the cash balance as of September the 30th, 2007. On

FINAL

September the 30th, '07, Braskem's gross debt stood at \$6R.8 billion, down 7% from the \$7R.3 billion of June 30, 2007. The reduction in debt was driven by two main factors--first, the decline in debt linked to consolidated working capital; and two, appreciation of 5% in the Brazilian real against the dollar, affecting US-denominated debt with an impact of approximately \$182R million in the quarter.

Consolidated cash and cash equivalents rose to \$1R.8 billion, down 13% from the \$2R.1 billion in the Second Quarter. This reduction was generated by use of a portion of cash to amortize working capital debt, which does not adversely affect fulfillment of the amortization and investment schedule of Braskem.

The average term of debt is 13 years, which ensures the adequacy of the annual maturity profile and greater flexibility for the efficient management of operating working capital. At the end of September, the percentage of US dollar-linked debt remained at 64%.

The Company's financial leverage as measured by the ratio of net debt to EBITDA in the previous 12 months, which stood at 1.49 times at the close of the Second Quarter, declined to 1.44 times at the close of the Third Quarter. Over the upcoming phases of the process to acquire the petrochemical assets of the Ipiranga Group and delist Copesul, we expect Braskem's financial leverage as measured by net debt to EBITDA to rise to approximately 2.3 times.

Now moving to Slide Number 9, which shows the simplified income statement and evolution in the main lines of Braskem Brazil in comparison to the comparison period. Basically, we have already commented on performance in the Third Quarter. However, I would like to highlight here the following aspects.

Net revenue in the period from January to September '07 was \$14R billion, which represented an increase of 10% in relation to the net revenue of \$12R.7 billion in the same nine-month period of '06. In those terms, Braskem's net revenue over the same comparative period rose from \$5US.8 billion in nine months '06 to \$7US.0 billion in the nine months of '07. In the last 12 months, consolidated net revenue was \$80R.20 billion, equivalent to \$9US billion.

The consistency of Braskem's operating performance is demonstrated by the evolution of EBITDA over the periods analyzed, especially the growth of 21% from \$2R.1 billion in the first nine months of 2006 to \$2R.5 billion in the nine months of 2007. Also, in the past 12 months its consolidated EBITDA was \$3R.5 billion, equivalent to \$1US.7 billion, with an EBITDA margin of 90%.

A non-reported factor was the improvement in the main financial results in all periods analyzed, the main drivers of which were, number one, the cost and effects of the appreciation of the Brazilian real against the U.S. dollar maximized the exchange rate in the comparison periods. And number two, the reduction in the average cost of debt in dollar terms of 9.4% per annum in the Third Quarter of 2006 to 8.6% per annum at the close of the Third Quarter of this year. And lastly, we'd like to highlight the evolution of Braskem's net income, which rose from \$38R million in the first nine months of 2006 to

\$541R million in the same period of 2007, for (inaudible) control, which represented a significant growth of \$503R million, mainly driven by improved operating and financial performance of the Company in 2007.

Moving to Slide Number 10, here we show the potential for value creation through synergies to be captured in the consolidation of the Southern Petrochemical Complex in Triunfo. In this process, a series of opportunities were identified to capture synergy and create value.

In addition, Braskem has already implemented a new corporate governance model at Copesul and Ipiranga Quimica and at Ipiranga Petroquimica in line with the respective states, with Braskem as controlling shareholder and Petrobras as a relevant minority shareholder. The important task of identifying opportunities for synergies was concluded by the integration teams, and \$1US.1 billion in synergies in net present value are expected to be captured over the next two years. This amount comprises opportunities on various different fronts, in particular in the industrial and commercial areas, which represent almost half of this projected amount, and in the financial area, with gains of some \$400US million, the capture of which is related with the evolution of business processes and many evolving incorporations of the assets going forward. This gain will be started to be captured--sorry, will start to be captured in the Fourth Quarter as a result of various initiatives already implemented.

In addition, some investments are necessary to achieve the synergies, and we estimate them in the amount of approximately \$250R million. Also, it's important to mention that on an annual and recurring basis, Braskem expects to capture up to \$200R million in EBITDA, being \$100R million in 2006.

So this concludes our presentation, and we will now start the question-and-answer session. Thank you very much.

## Questions And Answers

### Operator

(Operator Instructions.)

Your first question is coming from Joe Orlando of UBS.

### Q - Joe Orlando {BIO 1460816 <GO>}

Hello. Can you tell me how much will the recent rise on asset price the Company has been able to pass to the price on this Fourth Quarter?

### A - Luiz Henrique Valverde

Joe, we do not have the policy of passing through the naphtha across through the (inaudible) price, because our strategy as far as commercial business that is done is to

align the Brazilian domestic price level to the international price, taking into consideration all the transaction costs to import products into Brazil--duties, freight costs, and on top of what is called the import (inaudible), we can charge a premium which can derive from 8% to 15%, depending on the product, the grade. So we do not have a, our increase in costs. That's to assure the selling price as a methodology. So our policy is to price in Brazil in order to give the Brazilian production chain of plastic and manufactured products as competitive as any other company on a global basis.

**Q - Joe Orlando** {BIO 1460816 <GO>}

Okay. Thank you. Just one more quick question.

**A - Luiz Henrique Valverde**

As the global petrochemical industry is running at very high capacity utilization rates, and demand has outpaced supply in terms of growth in 2007 and 2008 and 2009, we do anticipate that any increase in fixed costs will impact the prices on a global basis, and Brazil will be fully aligned with this international trend.

**Q - Joe Orlando** {BIO 1460816 <GO>}

Okay. Thank you. Just one more question, please. The example naphtha price, (inaudible) VAT naphtha? Do you have any news about that?

**A - Luiz Henrique Valverde**

As you know, we have long, ongoing discussions with Petrobras to define a new relationship after the acquisition of Copesul and the assets of the Ipiranga Group. Braskem is now the largest purchaser of naphtha in the free market. On a global basis, we are buying around 9 million tons a year of naphtha end condensate, so we are the largest buyer. And no need to grade it, and of course we are one of the largest customers on Petrobras here in Brazil. So that's an ideal position we have to play in this naphtha cost negotiation. But I don't have any additional information to disclose at this point in time.

**Q - Joe Orlando** {BIO 1460816 <GO>}

Okay. Thank you. Just one more question, please. What is the market share you had in petro this quarter? Do you think it is up?

**A - Luiz Henrique Valverde**

Can you start again, because we had a kind of problem with the line here?

**Q - Joe Orlando** {BIO 1460816 <GO>}

Okay, sorry. You had a market share gain this quarter with Petrobras? Do you think it is only a result of company efforts? Or do you think it's a problem over Suzano and this whole thing about it?

**A - Luiz Henrique Valverde**

FINAL

No. I think that's, we have invested a lot of time and resources to launch new products, to develop new applications, and any time we develop a different relationship with the customers, this is going to translate into a better market share in terms of volume, but also in terms of profitability. So I think that in this quarter, Braskem took all the opportunities of a growing market in Brazil with a better product portfolio. And we are growing with products that are positioned in very selected market segments which are growing more than the average market growth. So that's very positive, because we have been able to increase our market share, keep, set prices at a very positive level, and improving our global profitability.

**Q - Joe Orlando** {BIO 1460816 <GO>}

Okay. Thanks very much.

**Operator**

(Operator Instructions.) Your next question is coming from Dennis Parisin from Santander.

**Q - Dennis Parisin**

Good morning. Thanks for the call. Two questions. One, when, and give you us any color on your financing plans for the Ipiranga acquisition? Any idea about timing, what market, what form, what structure? And the second question I have is, your volume of sales and shipments looked a little bit uneven across sectors. I know there was some maintenance stoppages and what-not, but relative to the strength of Brazilian industrial production and a couple of other very strong economic indicators in Brazil, I guess I expected to see stronger growth numbers in terms of the elasticity of thermoplastic usage relative to GDP and relative to industrial production. Is that because the strength of the real is causing imports to take a larger share of the market? Thanks very much.

**A - Luiz Henrique Valverde**

Hi, Dennis. This is Carlos Fadigas speaking. I'll answer the first part of the question regarding the refinancing of the acquisition of Ipiranga Petroquimica and the delisting of Copesul. Just to go through the numbers again, the acquisition of the Ipiranga Petroquimica assets represents an effort of around \$700US million. And the delisting of Copesul represents the same effort to (inaudible) and now, as planned, is that is going to be repaid by Copesul itself. So at the end of the day, we have \$1US.4 billion in total to be refinanced. Of the addition, we have reversed so far something around \$400US million, so we have more, \$300US million to \$400US million to be disbursed. As is set on the third pages of the acquisition of the Ipiranga assets, chemical assets, unfolds.

Out of this total \$1US.4 billion, we have planned to issue a new bond. So it's been following very closely there with development, developments in the debt capital markets, the issue of bonds from Brazilian companies, recently right after crisis, but it's our feeling that the level in the use hasn't returned yet to the levels we had before the crash in August. For a company of a rate of DD+, that's our rate, we do have something around 80 to 100 basis points of additional costs in comparison to what we had before the crisis. So we have prepared ourselves to issue a new bond. We have, mostly what is happening in the market in terms of new issues of bonds and the levels of use. And we may come to



the market to issue this bond by the end of this year, but it's more likely that they're going to do that in the beginning of '08.

Another part of the big loan to that issue will be refinanced through trade-related financing, mainly an export payment that could be done by Copesul itself, but Copesul is going to have the debt (inaudible) of share to Copesul. They have a significant volume of exports that can be used to, as a basis for the export repayment. So we are considering doing the next quarter payment, Copesul at the level of \$500US million to \$700US million. So with the bond and with the export repayment, we add up something around \$1US billion. And we are still shooting to better alternatives to refinance the remaining \$400US million in debt (inaudible). It's going to be sold and done at some point in the next year.

It's also very important to always remember that we have negotiated a very good bridge loan with a very small set of reliable, only 35 basis points. Our bridge loan gives us two years to refinance, so we are in a very comfortable position. We have more than one year and a half at least to refinance this debt, and we have heard people say bridge loans. So we can afford to wait for the better moment to go to the market to refinance the acquisition.

And Luis is speaking. As far as market is concerned, we do see a very strong domestic market for all our products. If you look at the numbers of the automotive industry in Brazil, if you look at everything related to the housing industry, infrastructure, the market is growing very fast, and we see a very strong sustainability for this very nice growth rate. It's a combination of the very low inflation rate, which means that all the salaries that increased are translated into more purchasing power, which is combined with more credit lines, longer credit lines, with lower interest rates on those credit lines. So the market is growing, and with market growth we did see a reduction in inventory levels, not only at our level in the industry, but also, all our clients decided to reduce their own inventory level. That's why you don't see the huge increase in market growth.

But let me give you some examples. At PVC, the market is growing very fast. We are completely sold out. We are running close to capacity, and our stocks and the inventories of our plant (inaudible) are very low. And polypropylene, we are running close to capacity at our polypropylene plant, and thank God we are going to add this new polyolefin plant coming onstream next April, because everything has been sold in the Brazilian market, and the market is really very strong.

Polyethylene, that's where we have kind of a weaker growth rate because our clients decided to reduce their inventory level because prices are very high at this point in time. So they do not have all the flexibility to increase their own working capital, so they decided to reduce the volumes they normally carry on their balance sheet.

We do expect market growth to be double digit next year. The companies will try to recover at some point in time next year their inventory levels because they are, in our assessment, beyond what could be acceptable in terms of inventory levels in the Brazilian supply chain as we see it.

And next year we have plant shutdowns for plant maintenance in one of our olefin production sites in both Camacari Bahia. Copesul's plant, it may have to shut down next April or May, and Petroquimica now with the cracker in Brazil and might also go into a plant shutdown in the second half of next year.

We feel that the market will be very tight in Latin America. The only thing that Braskem will play in commercial strategy of allocation is from (inaudible) to the international market, to the Brazilian market in order to keep all our customers with a local supply. So we do not want to use our market share and the volumes we sell in the Brazilian market. We are going to keep our position in Latin America and Europe, and we are going to reduce marginal exports to the Asian market, mainly.

So I think that's good news for us, and combined with this very strong (inaudible) group, we have decided also a fixed cost reduction program which is going to translate into \$100R million to \$120R million, and cost reduction is starting in 2008 on an annual and recurring basis. And you may have seen that we have also included the level of synergies we do expect to get from the consolidation of the industry after the acquisition of Ipiranga and Copesul, and we are confirming more than \$1US billion in terms of synergies.

### **Q - Dennis Parisin**

Thanks for those very complete answers on both questions. Could you just give us a little bit of color on imports, and are they making any gains on the back of the stronger real? Thanks very much.

### **A - Luiz Henrique Valverde**

Well not really, Dennis. Imports have increased in 2007 in relation to 2006. That's, of course, there is a relation with the overvaluation of the local currency, and it's also part of our commercial strategy to keep our domestic prices absolutely in line with (inaudible) a premium and to pay the services we deliver to our customers.

So in some cases, local customers try to enforce, to force us to review our commercial policies, but we do not have a sense that this is a formula of sufficient (inaudible) to change our commercial policy as it is today. We have an increase in imports of several plastic resins, but we do perceive that it is completely marginal in relation to the total size of the market, and we do see some additional imports of manufactured products, end products, but it's not yet enough to make us change our commercial policy.

So we have increased profitability, we are increasing market share, we are increasing volumes into Brazilian market, and we have been able to increase market share and volumes, keeping selling prices at a very good level and increasing our profitability. And if you see our EBITDA margin in the Third Quarter, even if the naphtha costs did increase, we were able to keep our margins at a very good level in relation to other companies in the international markets.

### **Q - Dennis Parisin**

Thank you very much.

## Operator

Thank you. The next question is coming from Hassan Ahmed of HSBC.

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

Good morning, guys. This is an industry question. Mainly you guys are naphtha-based producers, right, and nowadays with ethylene co-products supply/demand fundamentals pretty, pretty tight, despite sort of really high crude oil and naphtha prices, the naphtha-based guys seem to be at an advantage over ethane-based producers. Now, taking this to sort of the near to medium term, we obviously know that there's a fair base of Middle Eastern capacity coming online. We also know that most of this capacity is ethane-based. So you could make a case that at least the propylene side of the market would remain fairly tight.

So I guess my question really is that do you actually see naphtha-based producers going forward at an advantage relative to ethane-based ones? And let me sort of slightly differently ask this. Let's say that you guys out in Brazil who are naphtha-based producers, do you see yourselves over the near to medium term at an advantage over U.S.-based, ethane-based producers?

### A - Luiz Henrique Valverde

Hassan, thanks for your question. If you look at our production during the Third Quarter, that's exactly what happened. We decided to run our crackers with less capacity of ethylene and more production of propylene.

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

Right.

### A - Luiz Henrique Valverde

So we did change the operational positions of our crackers in order to favor the production of propylene because we do think that propylene will be tight. And we are trying to produce as much as we can.

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

Right.

### A - Luiz Henrique Valverde

In propylene and polypropylene, and we did reduce the production of ethylene because that's where we get the best profitability. And we do anticipate that this is not going to change in the short term. So we are planning for 2008 and 2009 to run our crackers to produce more propylene. As you may know, we are going to start a new 350,000-ton capacity of polypropylene next March. It's going to be in operation at the end of March or the beginning of April, so we do think that we can get a very good profitability by

FINAL

Bloomberg Transcript

producing as much as we can in propylene and utilize all our capacity available to produce polypropylene for the Brazilian market and also for the export business.

And we do also anticipate that the market for aromatics might be very profitable during the driving season in the U.S. next year. So you know that at the end of the year, the market for aromatics are a little bit soft.

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

Right.

**A - Luiz Henrique Valverde**

But we do anticipate the market might be very good next year during the U.S. driving season.

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

So let me just carry on with that part as well. I mean, another, I think, interesting phenomena that's brought up over the last, just year or so, is how, at least here in the U.S., you've seen ethane prices completely decouple from natural gas prices. So at least on the surface, when people look at the class, they sort of, "Where's the gas ratio?" You know, it would appear that natural gas prices are ridiculously low, and the crude or naphtha-based producers are getting hurt. Right? But then, once you sort of dig a little deeper into it, what you see is that actually ethane prices have skyrocketed almost to the same extent as naphtha prices. Right? Do you see this trend continuing as well?

**A - Luiz Henrique Valverde**

So that's right. The natural gas producers, again, most of the value of the natural gas (inaudible) to produce petrochemicals. So (inaudible) translate into ethane or to the ethane from natural gas, the difference in price naphtha to natural gas.

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

Right.

**A - Luiz Henrique Valverde**

So the natural gas producer gets most of the benefits of the technology, because ethane price, as you mentioned, did increase a lot through ethane to the equivalent of naphtha.

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

Absolutely. Right.

**A - Luiz Henrique Valverde**

So the guys that are running in the U.S. based on natural gas, this isn't getting us any additional advantage in relation to the naphtha crackers.

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

And obviously, they didn't also have the benefit of higher co-product credits as well, right?

**A - Luiz Henrique Valverde**

Yes. That's right. Only the guys in the Middle East, they have a kind of fixed ended price, the natural gas price.

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

Sure.

**A - Luiz Henrique Valverde**

They take the full benefit, But if you compare, let's say, the Middle East apart, (inaudible), naphtha crackers, and ethane-based crackers in the U.S., I think that, as far as competitiveness is concerned, we are not in a difficult position.

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

Fair point. Thank you very much.

**A - Luiz Henrique Valverde**

So as far as the raw material strategy is concerned, our strategy for the short-midterm is to run all our crackers as close to capacity with local naphtha and imported naphtha, to run for propylene more than ethylene, and to optimize the aromatics production and try to transform all this flow of products into products with higher value added.

At the same time, we have registered or put together this project to produce 200,000 tons of polyethylene by the end of 2009 based on Brazilian ethanol, so this is going to be a breakthrough in terms of value proposition to our customers and also a good competitive price, competitive cost, because considering the present oil price, we can be very competitive, producing polyethane from ethanol.

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

Right.

**A - Luiz Henrique Valverde**

And for the long term, we have the projects in Venezuela, which are moving ahead on a very pragmatic and fast way, and that's going to be our strategy to have very low cost after that, in (inaudible) and propylene from natural gas in Venezuela for the export business, North America and the European market.

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

Right.

FINAL

Bloomberg Transcript

## A - Luiz Henrique Valverde

That's going to be a major breakthrough, because we are going to be as competitive as the guy in the Middle East because we are trying to get a fixed cost for our natural gas and ethane and propylene.

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

Fantastic. Thank you, so much again.

## A - Luiz Henrique Valverde

Thank you, Hassan.

## Operator

(Operator Instructions.)

Your next question is coming from Sergio Torres of Bear Stearns.

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

Gentlemen. Good afternoon. My question has to do with the updated estimate on the synergies. Your previous estimate had been, when you first announced the transaction, was about \$600US million on net present value. Now you've updated it to \$1US.1 billion in net present value. And in your release, you say that the incremental amount has more to do with the financial savings, and I'd like you to discuss what the nature of those savings. I'm suspecting it has to do more with tax savings, but I'd like to hear from you what are the components and whether you're on the operating side, you're still sticking to the old plan, and if you could remind us of what is your discount rate for the calculation? Thank you.

## A - Luiz Henrique Valverde

Sergio when the acquisition was announced, we didn't anticipate that, our expectation was a little more than \$500US million for the synergies in net present value. And that's taking into consideration a 10% discount rate for the calculation of the synergies.

Over the last three months, we did work very close with EPN and Copesul and our own teams within Braskem to map out all the best practices within Ipiranga Petroquímica, Copesul, and our own practices. We did confirm all our brand portfolios, procurement strategies. And what we got as a feedback is that we have more synergies in the financial area, commercial area, operations in general, than we had first anticipated, and it's all different areas.

We are going to increase the value of synergies in relation to what we had planned in our business gains for the acquisition of Ipiranga. And also, the thing in what you call the financial part of the synergies, which is financial costs, tax savings, that's going to be very significant and much beyond what we had first anticipated.

FINAL

So we are going to have \$400US million in synergies in this financial package, but it is going to be delivered when all the companies will be put together, at the moment of the incorporation of the companies. That's around \$200US million, but we have \$200US million synergies which will be implemented from now on, because we do not need to incorporate the companies to get at least 50% of the financial synergies. And that's \$400US million, which means that we have close to \$US700 million to \$750US million in total synergies coming from operations, industrial optimization, commercial, simplification of product portfolio, purchasing, supply chain. And all those synergies are, let's say, will be shared amongst Ipiranga Petroquimica, Copesul, and Braskem. Sixty percent of those synergies will be delivered by Braskem in sales alone, 25% Copesul, and 15% within Ipiranga Petroquimica. And we do expect that you'll have the full integration of all those assets should be done, that's in the first part of next year. So as far as valuation is concerned, you can anticipate that the full benefit of those synergies will be fully integrated into our cash flow generation in the years to come.

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

That's terrific. Thank you very much.

## Operator

(Operator Instructions.) There appear to be no more questions at this time. I will turn the floor over back to management for any closing remarks.

**A - Luiz Henrique Valverde**

Okay. Thank you very much for your attention and for your questions. And we are here to answer any additional questions you might have. And I wish you a very good Friday and a very nice weekend. Thank you very much.

## Operator

Thank you. This concludes today's Braskem Third Quarter 2007 earnings conference call. You may now disconnect.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*