

Q4 2010 Earnings Call

Company Participants

- Carlos Fadigas, CEO
- Luciana Ferreira, IRO

Other Participants

- Denis Parisien, Analyst
- Gustavo Gattass, Analyst
- Hassan Ahmed, Analyst
- Rafael Elias, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Braskem's Fourth Quarter 2010 and Full Year 2010 Earnings Conference Call. Today with us we have Carlos Fadigas, CEO, Marcelo Drehmer, CFO, and Luciana Ferreira, IRO.

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) We have simultaneous webcasts that may be accessed through Braskem's IR website, www.braskem.com.br/ir.

The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call on the website. We remind you 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 Securities Litigation Reform Act of 1996 (sic). Forward-looking statements are based on the beliefs and assumptions of Braskem management and on information currently available to the Company. They involve risks and uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could 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 conference over to Luciana Ferreira, Braskem's IRO. Ms. Ferrara, you may begin.

Luciana Ferreira {BIO 15106436 <GO>}

Good morning, ladies and gentlemen. First of all, thank you for your participation in Braskem's Fourth Quarter 2010 results. We would like to inform you that, according to the Law 11638 of 2007, the results reported herein reflect the adoption of the International Financial Reporting Standards in 2010 and the 2009 results were restated for comparison purpose.

In addition, unless it's otherwise stated, for all reported periods, Braskem's consolidated results reflects the pro forma consolidation, including 100% of results of Quattor Participacoes and Sunoco Chemicals, assets acquired in April 2010. The information contained herein was audited by external independent auditors except Sunoco Chemicals in 2009 and First Quarter 2010.

Let's begin with slide number three. On the first slide, we present the Company's highlights. The lower seasonal demand in the last quarter of the year was partially offset by the higher prices, which followed the upward trend in international prices, leaving Braskem to reach EBITDA of BRL1.1 billion in the period, up 4% from the Third Quarter. EBITDA margin in the quarter was 14.9%, reflecting the recovery in revenue after spread. And EBITDA margin, excluding resales of naphtha and oil was 16.4%.

In 2010, EBITDA was BRL4.1 billion. We highlight the 11% growth from thermoplastic resin sales in the domestic market, which benefited from the recovery utilization rates at the Quattor assets, which posted BRL1 billion in annual EBITDA, a 78% increase. It's important to remember that this result was generated in the scenario market by the down cycle of the petrochemical industry and by a stronger Brazilian real.

Net income in the year was BRL1.9 billion. In addition to the solid operational performance in the period, with consolidated EBITDA growing by 27%, the Company's results were boosted by the booking of deferred income and social contribution taxes on Quattor's accrued loss and on other IFRS effects in the total amount of BRL405 million and by the booking of 2010 acquisitions at market value in accordance with IFRS standards, BRL869 million impact. The pre-payment of debt, and the raising of BRL1.2 billion in the capital markets in 2010, in line with the strategy to balance the Company's debt profile after the acquisition of Quattor, lessened Braskem's average debt turn to 12.5 years.

The indebtedness reduction, combined with the better operational results, reduced the net debt EBITDA ratio to 2.43 times, which is 8% lower than the leverage registered at the end of September. On February 23rd, 2011, Brazil's antitrust authority, CADE, gave its full approval for the acquisition of the Quattor assets. With the aim of increasing transparency in its commercial relations and boosting the competitiveness of the production chain, Braskem assumed before CADE, under a regime of confidentiality, a commitment to submit reports on its revenue imports, and on its future agreements that contain exclusivity clauses.

FINAL

Braskem remained focused on the synergies from the Quattor operations and new opportunities were identified, which led the estimate capture of annually recurring EBITDA in 2011 to increase from BRL235 million to BRL377 million, with total investments of BRL275 million, of which around half should be dispersed up until the end of 2011. The Company made progress in its expansion strategy and during 2010 regarding the Ethylene XXI Project, Braskem received from different financial institutions letters of interest to finance the project up to US\$5 billion.

Let's move now to slide four, please. On slide four, we show the performance of Brazil's thermoplastic resin market and the performance of the Company's sales by sector. Influenced by the lower seasonal demand in the last quarter of the year, domestic demands for resins fell by 5% from the Third Quarter of 2010 to around 1.3 million tons. Braskem's sales decreased by 6% to 875,000 tons, impacted also by the scheduled maintenance shutdown on one of the lines at the cracker located in Bahia, which lasted 52 days.

In the year, the Brazilian thermoplastics resins market grew 15% to 4.9 million tons, reflecting the solid performance of the Brazilian economy, which expanded 7.5%, led by factors related to consumer goods and infrastructure, mainly. Imports market share was 26% in virtually all quarters of the year, impacted by the stronger Brazilian real, the solid growth in the PVC market, and the gains in polyethylene competitiveness in the US market as a result of the lower (same) costs in that country. 67% of products sent in Brazil came from the Americas.

Let's go now to slide five. Slide five shows the factors that impacted EBITDA in the Fourth Quarter, which increases 4% from the previous quarter. Fourth-quarter EBITDA came to BRL1.1 billion. The lowest seasonal demand, which had a negative impact of BRL134 million in sales volume was partially offset by the higher prices in local currency, which followed the upward trend in international price and more than offset feedstock cost increase. The appreciation in Brazilian real generated a negative impact of BRL64 million, composed of a negative impact on revenue of BRL191 million and a positive impact on costs of BRL127 million.

Expenses with fixed costs sales, general, and administrative expenses impacted EBITDA by BRL75 million, mainly due to expenses related to the collective labor agreements and salary adjustments in the quarter. Non-recurring expense related price expenses from the Third Quarter, as well as advertising and consulting services, impacted EBITDA by BRL29 million.

Moving to the next slide, on slide six we show the performance of EBITDA in 2010. EBITDA grew 27% from BRL3.2 billion posted in 2009 to BRL4.1 billion in 2010. Despite the down cycle of the petrochemical industry and the stronger real, the contribution margin, the difference between price and cost, had a negative -- positive impact of BRL2 billion. And we had a negative impact from exchange variation of BRL1.51 billion being BRL2.1 billion the positive impact on costs and BRL3.1 billion the negative impact on revenues.

FINAL

The main drivers were the higher sales volume in the Brazilian market, which followed the growth in domestic demand, a higher resin after spread than in 2009, the higher prices for basic petrochemicals, and the significant improvement in operational efficiency at the Quattor assets. Expenses of fixed cost sales, general, and administrative expenses had an impact of BRL441 million on EBITDA, reflecting the extraordinary expenses of BRL244 million with expenses related to an export contract from Riopol, technical consulting and other advisory services related to the Quattor and Braskem America acquisitions, the adjustment of Quattor's accounting standards and those used by Braskem, and the expenses with advertising and third-party services.

In addition to these non-recurring expenses, this increase mainly reflects the wage adjustments as well as the provision for profit sharing. In 2009, EBITDA was impacted by two positive non-recurring effects related to a suppliers fine and the recognition of tax creditors (fixed) fees, totaling BRL135 million.

Moving to slide seven, we have selected financial indicators for the Fourth Quarter and for the year. The lower seasonal demand was partially offset by higher prices in Brazilian real, which increased EBITDA by 4% in the Fourth Quarter, like we already said. EBITDA margin stood at 14.9% in the quarter, reflecting the recovery in the spread, in line with international market trends. Excluding the effects from naphtha, condensate, and (oil) resales, EBITDA margin was 16.4%.

In 2010, despite the down cycle of the petrochemical industry and the stronger Brazilian real, EBITDA grew by 27% and EBITDA margin was 14.6%, increasing by 0.6percentage points from the EBITDA margin of 14% recorded in 2009. Excluding the effects from naphtha, condensate, and oil resales, EBITDA margin was 15.6%.

In the Fourth Quarter, net financial results was an expense of BRL541 million versus net financial income of BRL183 million in the Third Quarter. The result was impacted by the lower depreciation in dollar against the real and the non-recurring expenses of around BRL250 million from the break funding costs -- from prepayment of debt from Quattor and the inclusion of charges applicable to the renegotiation of tax liabilities under the (price) to the (receives products).

In the year, excluding the effects from foreign exchange and monetary variation, the net financial result was an expense of BRL1.7 billion, declining by BRL336 million from 2009 results, reflecting the lower debt and the adjustment to the debt profile after the acquisitions made in the First Quarter of the year.

Moving to slide eight, slide eight shows Braskem's debt amortization schedule as of December 31st, 2010, with only 13% of the total debt coming due in 2011. At the end of 2010, Braskem reported gross debt of \$7.6 billion, down 4% from September 30th, 2010, and 22% from year end 2009. Brazilian real, gross debt stood at BRL12.7 billion, a reduction of 5%. The balance of dollars and (net) cash and financial investments decreased by 16% to end the year at \$1.7 billion. This reduction is part of the strategy to optimize cash carrying costs for immediate access to a standby loan of \$350 million. This loan enabled Braskem to reach a debt amortization coverage over 24 months. As a result,

the Company's consolidated net debt totaled \$5.9 billion, in line with the Third Quarter and 6% lower than in the same period of 2009.

In Brazilian real, net debt stood at BRL9.8 billion, down 1% from September 2010, and was also affected by the devaluation of the US dollar of 2% in the period. The growth in EBITDA in the year, which totaled BRL4.1 billion, combined with the reduction in net debt reduced financial leverage as measured by the ratio of net debt to EBITDA. In local currency terms, this ratio stood at 2.43 times in the Fourth Quarter, down from 3.59 times in the Fourth Quarter 2009, in line with the Company's objective of reducing leverage around 2.5 times.

In US dollar terms, financial leverage in the last quarter stood at 2.56 times. The average debt terms increased from 8.7 years in the Third Quarter to 12.5 years in the Fourth Quarter, mainly due to the issue of \$450 million in perpetual bonds. A portion of these proceeds were used to exercise the call in December 2010 of \$150 million in perpetual bonds issued in 2005. And a portion will be used to pay in April 2011 the call of the \$200 million in perpetual bonds issued in 2006.

Let's go to slide nine. Slide nine shows the synergies already implemented referring to Quattor's consolidation. The synergies identified were reviewed to BRL495 million in annual and recurring EBITDA to be fully captured in 2012, a growth of nearly BRL100 million in relation to our previous announcement. These synergies were split into segments according to their nature and until December 2010, measures have already been implemented to capture BRL377 million in 2011.

In the industrial segment, which records the highest gain of BRL234 million, we point out the refined production in sales plans for several cracker streams such as, for instance, aromatics, butadiene, and gasoline, better product mix at the plants on the second generation by reducing grades, besides centralizing the asset maintenance plan strategy with better schedules and staff optimization. In the logistics segments, our second half gain we highlight freight distribution and warehousing gains. Referring to supplies, we mentioned gains resulting from the integrated purchase of materials and third party agreements renegotiation.

In addition, Braskem expects to capture additional synergies in the amount of BRL490 million in net present value, related mainly to fiscal and financial gains. Actions have already been implemented, leading to a gain of BRL150 million in 2010. In order to capture synergies, we need to invest BRL275 million. 20% have already been dispersed in 2010, and we estimate another BRL100 million to be dispersed in 2011 with the outstanding amounts in 2012.

Let's go to slide ten. Slide ten presents the investments planned for 2011, which amount to BRL1.6 billion, with BRL391 million to be allocated to scheduled maintenance shutdowns and the approximately BRL500 million to be allocated to capacity expansion.

One of the highlights of Braskem's plans to expand its operations while remaining competitive and diversifying its access to raw materials is the Ethylene XXI Project in

Mexico. The project, which is expected to start operations in January 2015 provides for the construction under a joint venture controlled by Braskem of a cracker with annual ethylene production of one million tons, which will be integrated with the production of one million tons of polyethylene.

Total investment is estimated at \$2.5 billion, which will be financed for projects financed with 70% debt and 30% equity. Bear in mind that we received the interest letters from different financial institutions interest in financing the project, the combined value of which exceeds \$5 billion. The joint venture has already announced the partnerships with the news in Lyondell Basell for the use of their technologies in the high and low density polyethylene plants, respectively.

For 2011, the plants include defining the technology for the cracker, concluding the engineering and construction agreement for the project and structuring the project financing. In Brazil, we highlight the expansion of 200,000 tons in PVC capacity at the plant in Alagoas, with startup expected in May 2012 with the goal of meeting the growing demand for PVC in Brazil. With investments estimated at \$470 million, a total of BRL380 million should be dispersed in 2011. The project has already received approval for a credit line from the BNDES of up to BRL525 million and for a credit line from BNB of BRL200 million, both of which were contracted at very competitive conditions.

In the last slide, slide number 12, we present the main areas management is currently focusing on. Global scenarios for 2011 is very positive. The main drivers of world economic growth should be the stronger economic activity in the United States, resulting from the new economic stimulus policies adopted by the government and a continued positive outlook for emerging market countries. For commodity markets in the short-term, the political stability in Arab countries, where some of the world's largest oil reserves are located, have increased the volatility in oil prices, which has led to hikes in naphtha and petrochemical's price worldwide.

The market should still present oversupply in 2011, due to the pickup of the new capacity started up in 2010. However, the global petrochemical industry should continue to be marked by recovery, driven by certain mitigating factors such as continued operations and structural problems at plants located in the Middle East, which use mainly associated gas. In this scenario, Braskem continues to focus on supply in the Brazilian market, working side by side with clients to strengthen the Brazilian petrochemicals and plastics production chain, as well as to meet the growth in Brazilian demand, which like other developing countries has demonstrated consistent growth and continues to offer a very favorable outlook, with demand growth forecasted around 9% to 10% in 2011.

Another priority is to capture synergies and to continue to add value to the recent acquisitions, like the 2010 operational achievements in Quattor and Braskem America. In the First Quarter of 2011, which is a seasonal period of low demand, the Company is expected to maintain its cash flow generation in line with the Fourth Quarter of last year, partially offsetting the lower volumes and higher prices following the upward trend in international markets.

Seeking to ensure its leadership in the Americas and its vision to become a leader in sustainable chemicals, Braskem maintains, in its pipeline growth, projects in Brazil and in Latin America that take advantage of raw materials at competitive conditions, its intentions to expand the use of renewable raw materials, and to potentially participate in Comperj. That concludes our presentation, so let's go now to the questions-and-answers session. Thank you.

FINAL

Questions And Answers

Operator

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

Q - Denis Parisien {BIO 20333702 <GO>}

Good morning. Thank you very much for the call and for taking my question. Obviously, we all can look at charts -- and what has happened to international naphtha prices in the past few months. The -- even though oil and naphtha prices have come off in the past couple of days, the likelihood is that -- well, it's -- even if they stay down a little bit for the rest of the quarter, already the average of the quarter would be significantly higher than the average in the Fourth Quarter of last year.

How much of that do you think you can pass through to your clients, given that imports take up a much larger share of the domestic market than they historically have done, that there's still a pretty strong real and that the central bank nowadays is in the business of slowing down the Brazilian economy? What kind of condition are your clients' inventories in and what about your inventories of naphtha and the average costs of those inventories? Obviously, all this being directed toward trying to figure out where your margins are going. Thanks very much.

A - Carlos Fadigas

Thank you, Denis, for your question. It is definitely a very good question, a very important point for us to discuss here. Well first of all, let's put in perspective the fact that the naphtha increase in cost and the risk associated with import happens mainly in polyethylene. Naturally, the dynamic in polypropylene is different, so let me start with the easier part of saying that the US has a huge charge right now with the prices of propylene, and therefore we don't see any threats of import of PP coming from the US. They may come from Asia, but most of that is naphtha-based anyway. So in terms of polypropylene, the challenge is not coming from the fact that we have a rising price in naphtha.

The same thing somehow applies, to a certain extent, applies to PVC, where the ethylene content is roughly 45% depending on the process. But anyway, it's not in the same situation of polyethylene. In the case of polyethylene, you are right. We saw increase in imports last year and I believe we have to carefully adjust price in Brazil following the trend of international price that we've seen going up, but bearing in mind that US still

holds a very competitive position coming from ethane, and therefore they will keep targeting more profitable markets and South America is the case.

So we will keep the international trend of increasing prices of polyethylene that we have seen. And as we do that, based on the national trend, we believe that we will not be reinforcing or giving additional pricing power to imports coming from the US. On the side of our cost, naphtha cost, first of all, we don't have a large inventory of naphtha. On average, we have something around eight days. But the main way we have to mitigate this volatility is through the naphtha contracts we have.

So we buy naphtha using an average price of -- naphtha price over a certain period of months. So therefore, we have somehow a more stable price of naphtha. Naturally, the impact will come over time and will happen over time. But we don't have the flexibility to mitigate that factor by buying more naphtha and storing more naphtha. It's done in a different way.

So basically, we have to -- we will adjust price. We will grow price in polyethylene over the next quarter. Over this quarter, then in the Second Quarter following international trends, the price of naphtha, the recent increase in naphtha will be translated into increasing price of naphtha to Braskem, over time as well. And that will, for the certain period of -- the end of the First Quarter and the Second Quarter of this year, represent a certain reduction in spreads for polyethylene.

We believe that over time we'll be able to compensate that with other factors and we have been working in term of these other factors. And as for the -- your comments about the central bank that, yes, they have been dealing with inflation and therefore raising interest rates in Brazil, but bear in mind that they are doing that exactly because we have a growth in demand in Brazil. So we expect to have a 10% growth of volumes, of resin demand in Brazil. And that's very different from what we see in developed economies.

So the fact that we have raising interest rates, is exactly should be with the fact that we have a very robust market and we expect to catch most of the growth in demand and hopefully that will compensate together with synergies and other efforts we have, the compression we may have in polyethylene margins over the Second Quarter.

Q - Denis Parisien {BIO 20333702 <GO>}

Can I follow-up? Could you repeat -- I think, during the presentation, Luciana mentioned the growth rate of the polyethylene's market in Brazil in 2010. I didn't quite catch the number and if you could give me that number. Then, by segment, PE, PP, and PVC, and other -- and then give us the number that you expect the market to grow in 2011, please.

A - Carlos Fadigas

Okay. The number you are talking about is the growth of the Brazilian demand for the three main resins in 2010, right? That's the number you're looking for?

Q - Denis Parisien {BIO 20333702 <GO>}

Correct. Then your expectation for 2011.

A - Carlos Fadigas

Okay. The demand grew 15% last year and our expectation for 2011 is that it grows around 10%. We said between 9% and 10% in the release. Hopefully, 10% and we do expect to capture most of this growth to Braskem.

Q - Denis Parisien {BIO 20333702 <GO>}

And you don't break that down by product?

A - Carlos Fadigas

We have the data -- we can supply you the data by product. It's an industry number. It's an association number. Roughly, we had 17% for polyethylene, 11% for polypropylene, and 18% for PVC. So that averages 15%. That's the previous number I gave to you. We don't have yet a more precise number for 2011 when it comes to breaking down the 9% to 10%. It's an estimate and therefore breaking it down more specifically in terms of months or resin, it's something that you have to do over time. Right now the idea -- the estimate based on GDP and elasticity of demand is around 9% to 10%.

Q - Denis Parisien {BIO 20333702 <GO>}

Great. Thank you very much.

A - Carlos Fadigas

You're welcome.

Operator

Thank you. The next question is from Hassan Ahmed from Alembic Global. Please go ahead.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Good morning, guys.

A - Carlos Fadigas

Good morning.

Q - Hassan Ahmed {BIO 7430123 <GO>}

A near-term question as well as a long-term question. I think the debate, at least as I sort of meet with investors, the two things that most people seem to be sort of raising questions about is what we should expect from 2011, first of all. Then what, eventually, if and when the peak in cycle happens, what the peak is going to look like? So as far as 2011

FINAL

Bloomberg Transcript

goes -- and I'd obviously love to hear your views about both these factors -- at least the confusion that I come across as it pertains to 2011 is that, obviously, there is a volatile sort of energy price environment we're heading into.

But alongside that, there is a fear in the marketplace that, first and foremost, there were a high number of plant outages in 2010 and the cycle bears essentially come out and say that those outages will not be repeated in 2011. So that's one element. The other element, essentially, is that some of the Middle Eastern facilities were running at reduced utilization rates in 2010. And they will ramp up in 2011. And finally, it's this whole element of more Middle Eastern capacity coming on line in 2011, which may put downward pressure on near-term margins.

So any directional, sort of 2011 guidance you could give would be helpful. Then, finally, on the long-term side of things, do you think that there's going to be a typical peak whenever it happens or are you a believer of a, call it, a stronger for longer sort of peak or a long, high amplitude peak which some people are looking for?

A - Carlos Fadigas

Hi, Hassan. Thank you very much for your question. Well we -- naturally, we all have been paying a very close attention to the capacity additions in the Middle East, the delays, and the difficulties in ramping up production, as you said. First of all, let me tell that, for the short term, we do believe we're going to have a better balance in terms of demand supply. We know there is still capacity to ramp up, but the numbers we have for addition of capacity of ethylene last year is actually the double that we expect to have this year.

So roughly 10 million tons of capacity; a new capacity of ethylene entered the market in 2010 and the number we have is exactly half of that -- well, somehow half of that -- 5.7 million tons of capacity entering the market. We still have to deal with the ramp up of the capacity that entered last year. So as the players learn to better operate their plants, get rid of initial commissioning problems, but I don't think that that will be enough to cope with the growth in demand that we expect to see from one year to the other. And hopefully, that will provide us with a better balance. At least, worst case scenario, a seamless supply/demand balance that we had in 2010.

When we talk about long term, I believe that what we will see in the next years and, again, the capacity coming on stream next year is they look a lot -- they look more like 2011 and less like 2010. So the numbers we have right now, they are roughly around four million tons, in the range of four to five million tons per year. We have a year like 2013 when we have a forecast of 3.8 million tons. So as we expect, on one side, demand to pick up as the world recovered from the crisis of '08, '09 and we have the developed economies joining the club of the economies that are growing faster, so one side we expect better demand over these years.

But most important, on the other side, I believe that you're going to have several years with low capacity coming to the market. If we remember -- if you do the math -- if we do the math, most of the capacity coming to the market now, they come from investments decided at the end of the last decade when we had two important factors. First of all, we

FINAL

had a huge expectation of new capacity coming on stream. So new projects were being either postponed or shelved at the end of years like '06, '07. Everybody was afraid of new capacity coming on stream in the Middle East. So these were the projects that nobody -- the people didn't start and these are the projects that we will not see coming to the market over the next years.

And on top of that, we had the crisis in '08 that also prevented a lot of people from investing in additional ethylene. These two factors should provide us with a longer, better peak or -- upturn to the petrochemical market. So we do expect to have, throughout the years of '13, '14, '15, a longer, healthier, period for the petrochemical sector with better margins. And I think it's going to look different from the other peaks in which we had one year maximum with good -- very good margins and other years with reasonable margins, but not as good as specific peaks.

So we are not only optimistic about the short term. We have an at least balanced year for 2011. But more than that, we are very optimistic about the longer term because we do believe that several factors have prevented new projects at the end of the last decade and therefore we're going to have very good and profitable years when we talk about the period of -- coming from 2012 and mainly '13 throughout 2015.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Very helpful, Carlos. Thank you, so much.

Operator

Thank you. The next question is from Rafael Elias from Credit Agricole. Please go ahead.

Q - Rafael Elias {BIO 20331714 <GO>}

Good morning, and thank you. Just a quick question. What do you think is going to be your effective tax rate in 2011?

A - Carlos Fadigas

Rafael, a very interesting question. It's a very technical one. Let me comment before I pass the word to Marcelo Drehmer. Let me comment on a few things that affect the effective tax rate of Braskem. Well first of all, just to remember, we have a tax benefit on the northeast of the country. It's an area in which we have a tax incentive. It's the last developed area of Brazil and therefore there is a federal incentive for the plants that operate in this northeast of Brazil. And that's the case for the petrochemical complex we have, both in the state of Alagoas and the state of Bahia. We have a rebate of 75% of the income tax generated there.

On top of that, we have the accumulated losses, historical losses of Quattor that we bought and with these accumulated loss comes the right to not pay income tax over the next years until we compensate for some of these losses. And on top of that, there is naturally the exchange rate effect on the debt. Brazil paid taxes based on its books -- accounting books. The accounting books are accounted in Brazilian reais. But naturally, we

FINAL

keep the debt in dollars because that's what makes sense in terms of matching the cash generation capacity and the debt we have. The fact that we have the books in reais and the debt in US dollars translates in some volatility in terms of the accounting result and the tax base for the Company.

And therefore, the final effective tax we're going to have, we will very much depend on the exchange rate we're going to have at the end of the year. Naturally, if we have a stronger real, we end up accounting for a gain on our debt because our debt translates into less Brazilian reais. If we have an increase in exchange rate with a weaker real, we are going to have losses coming from the debt we have and therefore less tax payment. So that's the general dynamic and that's why it's very difficult to give you the exact number. What I can tell you is that our financial team is fully dedicated to finding ways to reduce the final effective tax we have.

A - Luciana Ferreira {BIO 15106436 <GO>}

Just to add one comment to -- Fadigas first mention is that the effective tax rate is around 29%, considering all the benefits that he mentioned. And this number is not considered the deferred tax coming from Quattor that we just recognized in the last income statement as well.

A - Carlos Fadigas

The number you see, Rafael, in the income statement of Braskem for 2010 does not reflect the cash disbursement. That should give you information we did not disperse any income tax for 2010. So it's a more complex calculation because of this mismatch between the accounting books and the debt that we have. If you want to further explore this discussion, because it's a very technical one that would depend on OpEx change in some spread sheets and trends, feel free to contact Braskem later on and we will gladly help you understand this dynamic in more detail.

Q - Rafael Elias {BIO 20331714 <GO>}

Thank you very much. I appreciate the comprehensive response. Thank you.

Operator

Thank you. The next question is from Gustavo Gattass from BTG. Please go ahead.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Good afternoon, guys. I had a couple of questions here. The first one, Fadigas, is just a -- more of a strategic question from the point of view of how you guys are approaching, let's say, the thought process on investment and growth. It feels, at least, that with the rally in oil and, basically, the potential slowdown that that can take, there's a lot of interest on what happens if things slow down. At least that's the impression we get from most people that are asking you questions here on the calls.

Bloomberg Transcript

I just wanted to understand, historically, Braskem has actually had a posture of going around and trying to grow as much as it can. How are you guys thinking about it internally? Are you planning for very good times and effectively going to pull the trigger on stuff that could take you a bit farther on leverage or is the mindset now, okay, let's wait and see how things are going? How should we think about the use of crash (sic) on end growth at the moment?

A - Carlos Fadigas

Gustavo, it's a very strategic and a very good question and it gives us the chance to exactly detail how we see this thing. First of all, Braskem has opened several new avenues for growth, I would say, based on the moves that Braskem made over the last years. So to give a few examples, the fact we have a presence in Mexico right now, building the largest petrochemical complex ever built in Mexico, gives us the chance to explore other opportunities with not only Pemex Petrochemical, but also with the local petrochemical companies, namely Grupo Alfa, Mexican in Idesa, our partner at the Ethylene XXI Project.

The fact that we are in the United States, we've seen several opportunities. There is a lack of leadership, I would say, very few companies are really dedicated to petrochemicals. And the fact that the economy is still recovering, we believe there is still interesting assets to be analyzed. And as with the shale gas dynamic, is the one that has been a very good in close attention, and that should give you two examples in the internationalization front.

In the Brazilian front, the opportunities are even bigger. I'll start with the green platform. We are right now working on polypropylene and we are starting to -- the analysis, the deeper analysis on an integrated green polyethylene complex. When I mean integrated, is that for the first time we are considering building both the ethylene and the polyethylene capacity. And with that, naturally, we could locate this plant outside the regional areas where we already have a petrochemical complex.

In the past, you know we invested only the ethylene and we used the polymerization capacity we already had. And now, for the first time, we can locate the product. For example, close to the ethanol production, just to give an idea of the additional competitiveness that a project like that could have.

If you move from the green platform to the traditional materials, we have a market that is growing very fast. We just mentioned the 10% potential growth for the resin demand in Brazil and Braskem being the leader in this industry, naturally wants to capture most of this growth. Not to say, ideally, all this growth to Braskem. We are the leaders in this market. We have a huge market share. We have almost all the capacity share, apart from (Solvay) PVC production in Brazil. We have a commitment to the petrochemical sector and to the plastic chain.

We are committed to our customers. We have to keep supplying them and we want to keep supplying them. We want to grow with them. And we see growth in demand in Brazil. So that's why we are planning debottlenecks. We are planning to eventually scrap and build new plants using the raw material we have from the crackers. And we are very

actively working with Petrobras to design a complex -- the petrochemical complex in Rio de Janeiro that will be able to compete in a scenario in which gas -- ethane becomes more important.

So we are discussing with them how we should design the project and how we should have it been supplied in terms of raw material, ideally moving in the direction of being -- having it supplied with gas instead of naphtha. So there is growth coming from Brazil as well. So we are not going to wait and see in terms of cross our arms and wait for awhile to decide what we're going to do. We will keep investing. We will keep growing Braskem.

We are already analyzing several opportunities to keep growing the Company. We have a very good EBITDA. We had a BRL4 billion EBITDA last year. We do hope to have a better EBITDA this year, based -- if you take, basically, the trend of growth of the domestic market, that alone could provide us with a better EBITDA for this year. And we're going to use this cash generation capacity to keep growing the Company. That's the Company (provided) how it has been since the Company was created back in '02 and that's how it's going to continue to be, especially now, as I said, that we have opened several new avenues for growth for Braskem. And we are going to use this broader array of opportunities to carefully select the ones that will add more value to Braskem and we will act on these opportunities.

So that's the strategic direction in which we are going. Naturally, financial strength is key. We saw how important that was in -- back in 2008 when we had the petrochemical companies basically divided in two groups -- the ones that were for sale and the ones that had the balance sheet to buy Braskem. Because of its discipline was in the group that had the balance sheet to buy out the companies and that's why we bought both Sunoco and Quattor. So yes, we're going to grow, but financial strength is paramount. We are going to keep leverage at reasonable level and use the cash generation capacity to keep growing the Company. I hope I have provided you with a good answer to your question.

Q - Gustavo Gattass {BIO 1702868 <GO>}

You did. You did. Let me just spin the question in one way. I know it's always tough to actually think about something like that. You guys put out the target or the plan to keep leverage below two-and-a-half times. Should we think, when thinking about the things that you might plan to do, should we think that 2.5 times is something that you want to attain on a, I don't know, 550 polymer spread or is it something -- I'm comfortable to focus on 2.5, even if I'm counting on BRL700 million, BRL750 million spreads on polymer for naphtha, somehow I forgot. That's the kind of mindset that I wanted to understand. You clearly are bullish that things are going to get better for spreads. But should we think on an even more aggressive growth plan or is it being kind of tailored towards a normality or a mid-cycle?

A - Carlos Fadigas

Gustavo, first of all, the 2.5 times, I think we -- every time we talk about the future, we have to balance a direction in which we want to go and the reference points we have in terms of strategic focus be it for the resins, be it for the kind of asset that we are looking for, be it for the kind of leverage we want to have. But we have to balance that with some

FINAL

flexibility. So for instance, right after we bought Quattor and Sunoco, we had a net debt of EBITDA of 3.6 times. And the market was, like always, very concerned about it and that's not how we would leverage the Company. And one year later, we are at 2.4 times.

So first of all, in terms of planning, it's never too rigid. It's never we have to have that at every single month, at every single point and so on. So the good thing is that we have 2.5 times or less than that in the scenario in which we actually believe we're going to have improvement as the cycle improves, as the margin improves. So it will only reduce the leverage and give us more room to grow. So trying to summarize 2.5 is a goal. Two-and-a-half is a long-term goal. We want to keep the Company around its leverage, but, yes, we may have a scenario in which we have a higher or lower leverage depending on the opportunity we find, depending on the short-term profitability of a specific quarter and how it impacts the last 12 months' EBITDA.

And we will not give up on growth opportunity. We will not give up on good projects because of one or two quarters net debt over EBITDA grow. The rating agencies understand that. They do have what you call forward-looking approach to leverage. They've seen Braskem leverage and deleverage several times after every single positions expected the same thing. The good thing of a track record is that people can't understand the profile and how things happen. Every time we buy a company, net rated average goes up. It typically comes down very quickly because of synergies and so on.

So 2.5 is not written in stone in the sense that we will have to have that at every single point. 2.5 is a very important growth, is a long-term growth. We will keep on pursuing that, but we will have the flexibility to adjust. We will adjust to spreads in resin and we will adjust to the opportunities we find and how we want to act on these opportunities.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you.

Operator

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

Q - Denis Parisien {BIO 20333702 <GO>}

Hi. Just a follow-up, guys. You, I guess, did a road show with investors in Europe late last year. We know that you reiterated in the press release your intention to use the proceeds of your last deal to pay down particular pieces of debt. Could you give us any color guidance on your financing plans for 2011? Thanks.

A - Luciana Ferreira {BIO 15106436 <GO>}

Yes. At the beginning of the year, we did a road show in Europe, focus on (bond) in euro. However, the mid swap went up, moved up and now we understand that the price of that bond will be expensive for Braskem. We don't have any pressure on the short term. If you see only 13% of our debt will be due in the year for 2011. So we still see some opportunity

to increment the thinner and to reduce the cost of the debt, so we are following all the markets. But we are not considering to do anything in the short term. So we have to wait and see the best moment of the market in order to access it.

Q - Denis Parisien {BIO 20333702 <GO>}

Thank you.

A - Luciana Ferreira {BIO 15106436 <GO>}

Sure.

Operator

(Operator Instructions) We have no further questions at this time. I'll turn the call over to Mr. Carlos Fadigas for closing remarks.

A - Carlos Fadigas

Well thank you again for your participation in the call. Thank you for your interest on the discussion about the Braskem results. My final comment is that 2010 was a very important year for Braskem, both on the strategic and on the operational front. On the strategic front we bought both Quattor and therefore we finished the consolidation project for Brazil. That's very important for us to open a new agenda for growth with our customers and defend the sector and grow the sector.

But more than that, we bought the first operation outside of Brazil with the acquisition of Sunoco Chemicals. And now we have one million ton capacity in the US and we've been -- and that will be a very important stepping stone for us to grow our international presence. It was very important, strategically as well, also on -- with the start up of the green polyethylene plant and that opened a new front -- a new avenue for growth for Braskem in a new line of product that we hope to develop to become a broader platform and a more profitable platform.

On the operational side, Braskem was capable of running quite well the assets that it bought. We increased EBITDA from both Quattor and Sunoco. They both increased roughly 80% in one year. That shows the competence and the capacity of the Braskem teams to operate petrochemical assets and extract maximum value from them. And that has helped Braskem grow from BRL3.2 billion of EBITDA to BRL4 billion of EBITDA and therefore creating a new reference point in terms of EBITDA, a new size of the Company in terms of capacity of generating cash.

So a very good year for Braskem and we do believe that 2010 will give us all the elements we need to keep growing the Company with international presence, with a new platform of products, a new reference point for cash generation, and who helped the Company pursue its goal to become one of the leaders of the sustainable chemical sector. Thank you very much for your interest and I wish you all have a very good weekend.

Operator

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

FINAL

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.

Bloomberg Transcript