

## Q1 2009 Earnings Call

### Company Participants

- Bernardo Gradin, CEO
- Carlos Fadigas, CFO
- Luciana Ferreira, IRO
- Unidentified Speaker, Unknown

### Other Participants

- Denis Parisien, Analyst
- Gustavo Gattass, Analyst
- Hassan Ahmed, Analyst
- Paula Kovarsky, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's 1Q '09 Earnings Conference Call. Today, with us, we have Bernardo Gradin, CEO; Carlos Fadigas, CFO; and Luciana Ferreira, IRO, from Braskem. (Operator Instructions). Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities and Litigation Reform Act of 1996.

Forward-looking statements are based on beliefs and assumptions of Braskem management and on information currently available to the Company. They involve risks, uncertainties and 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.

Now, I will turn the conference over to Luciana Ferreira, Braskem's IRO. Miss Ferreira, you may begin the conference.

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

Good morning, ladies and gentlemen. Thank you, all for participating in another Braskem quarterly earnings conference call. Today we will be commenting on our results for the First Quarter of 2009.

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First, I'd like to remind you that this conference call is based on consolidated information that includes the proportion of consolidation in accordance with CVM instruction 247 of the interest in Citrel S.A. [ph] and already incorporates the adjustments arising from the amendments to Brazilian corporate law introduced by federal law 1168 from 2007.

For better comparability, all figures for the Fourth Quarter of 2008 reflect only the adjustments of that quarter, arising from the amendments to Brazilian corporate law introduced by the law just mentioned.

Unlike the way we showed it in the Fourth Quarter of 2008, the quarter had the adjustments for full year-end 2008.

So let's begin, moving to slide number three, where we have our view on the global scenario. The more positive reports have already begun to influence markets. The economic recovery progress implemented by major economies, both from developed and developing countries have begun to bear fruit, leading to a wide change in trends worldwide with new home starts and home prices halting their downward trend in the US and consumption indicators in China changing course. It's early to say, though, if those signs are sustainable.

Inventories in the commodity chains remain at low levels, mainly due to shortage of credit, which means there is room for stronger recovery in the future. The competitiveness of gas producers -- gas-based producers has been leading to the closure of capacity based on uncompetitive [ph] liquid figures [ph], which should lead to higher prices for the byproducts of naphtha crackers over the medium and long term.

The United States and Brazil and the United States giving their improved productivity, since they are mainly gas-based, have taken advantage of opportunities to export to Asia. Asia has shown signs of a recovery in demand. But has shown signs also of supply problems due to scheduled and unscheduled stoppages in the region.

Since the supply situation is temporary, Asian prices could become more volatile in the second half of the year. The situation is further aggravated by the fact that some of the 6 million tons of ethylene capacity scheduled for -- to come online this year should come online as of the second half.

80% of the capacity that's scheduled to come online in 2009 is coming from the Middle East. But there's still room for uncertainty in the supply side, given the capacity closures and stoppages, around 6 million tons from what we could gather. And the delays in new capacity, around 4 million tons.

In view of this development and the fact that the credit environment should improvement. But not return to previous levels, 2009 should be a difficult year, marked by global recession. Although perhaps not as serious or as long as initially thought.

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Moving to slide number four, we see the regional scenario for the net platform area. In Brazil, the first figures from 2009 for the petrochemical industry show that the consumption of non-durable goods is performing well when compared to 2008. There's - they have been driven by consumption in the CDME income group. Some of the segments have even shown increase.

Based on Braskem sales, we can infer that in the Brazilian market, the segments that represented the least contraction or even some growth in the First Quarter were food packaging, home appliance, because we have a higher percentage of plastics in the products than in the past, consumer goods, personal hygiene products, cosmetics and cleaning products.

On the other hand, segments that have registered contractions, that have not reacted yet, are agribusiness, automotive and construction. Because -- the construction mainly because they experienced a strong stocking [ph] trend during the First Quarter.

The level of imports in the Brazilian market remains high. And the period of three to four months, between the order and the actual importing of the products arriving -- arrival of the products, less than [ph] increase in orders at the end of last year, when Braskem prices were very high. And the weak demand in neighboring countries, which are Argentina, Columbia and the United States as well as tax strategies, involving the use of ports in certain states that give VAT tax deferment have contributed to keep this share high. Braskem is working together with the government, aiming at regularizing this situation in order to guarantee and to improve the competitiveness of the petrochemical and plastic chains in Brazil.

Moving to slide number five, we see some achievements, Braskem achievements, in the First Quarter. On May 5, Braskem's Board of Directors approved the terms for the new master supply agreement with Petrobras. This same agreement had already been approved by Petrobras' administration.

The new agreement has a duration of five years, has a clause of confidentiality regarding disclosure of price formula and, of course, assuring adjustments to the ARA naphtha quality standards.

The price formula seeks to protect both parties, supplier and consumer, against large fluctuations in raw material prices and to better -- and to improve the predictability of price. The agreement came into effect in March 2009.

In the First Quarter of '09, Braskem maintained a very high level of liquidity, holding a cash balance of BRL3 billion, even though the quarter was marked by below normal cash generation levels. In March, Braskem was already operating at full capacity. The results to capacity [ph] was gradual and was initially driven by the recovery in demand in the export market. With this recovery, the Company opted to adjust the level of its inventories to export sales. So revenue export volume in the First Quarter was 252,000 tons, with a growth of 106% in relation to the First Quarter '08 and 116% when compared to the Fourth

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Quarter '08. As a result, the average cost of the Company's inventories is now better aligned with production costs and inventory volumes are back to historical levels.

In alignment with the Company's strategy to keep its costs within standards that guarantee its global competitiveness, sales and administrative expenses reduced by BRL78 million when compared to the last quarter. Also to comply with its commitment to capital discipline, the investments made in this quarter were 49% lower than the ones registered in the same quarter last year. This trend should remain throughout 2009. So we should register lower investment levels this year than in the previous years.

Moving to slide six, we still see some highlights on the quarter. Net revenue was BRL3.2 billion, 24% lower than in Fourth Quarter '08, reflecting the moving domestic revenue price to adjust to international revenue price, the lower price for basic petrochemicals and the higher share of exports in the sales mix. Domestic PVC sales volumes fell by 33% from the same quarter of last year, impacted by the destocking trend in the PVC chain in the First Quarter and the scheduled stoppage in late March at the Alagoas unit. Meanwhile, import volumes remained at high levels, influenced by the lower demand in international markets.

Braskem registered EBITDA of BRL458 million in the quarter, with an EBITDA margin of 14.5%. In the First Quarter, naphtha costs were BRL846 million lower than in the previous quarter and EBITDA was also positively impacted by the recognition of PIS and COFINS tax gains of BRL97 million, helping keep the financial covenants below the established limited -- limits.

In terms of strategic development, on May 5th, Braskem merged Petroquímica Triunfo. The transaction was approved by the extraordinary [ph] meeting of Braskem shareholders, held on April 30th, as well as, by the same meeting of shareholders of Triunfo, held on May 5th. This step concluded the process to restructure the Triunfo petrochemical complex, which aims to strengthen the Brazilian petrochemical industry and increase competitiveness in Brazil's petrochemical and plastics chain.

On April 22nd, Braskem made the cornerstone for its green ethylene plant, which is a component of its green polyethylene project. The plant was -- has begun construction in the Triunfo petrochemical complex and requires investment of BRL488 million. Braskem will be the first company in the world to produce a polyethylene 35 that's made from 100% renewable raw materials.

Moving to slide number seven, we see Braskem's utilization rates and production. Over the course of the First Quarter, Braskem gradually increased the capacity utilization rates of its industrial units, which were cut back in late 2008. As a result, the average capacity utilization rate of the ethylene cracker in the First Quarter was 73%.

In March, the Company's [ph] production returned to full capacity, with the cracker operating at 95%. The decision to increase the utilization rates to previous levels primary reflects the recovery of demand, especially in the export markets, mainly in Asia. And in

March this decision was supported by the recovery in the domestic demand. Braskem expects to continue operating all of its plants at full capacity.

Moving to slide eight, we show the performance of Brazil's resin industry as well as Braskem's share of this market. In the First Quarter, demand for thermoplastic resins in the Brazilian market fell by 13%. In fact, primarily by the contraction in the global economy in the Fourth Quarter, which affect more sales in the Brazilian market through February this year.

In this scenario, Braskem reduced domestic revenue sales by 16%, with polyethylene going down 12%. Polypropylene volume down 9% and PVC volume down 33%. In addition to the atypical destocking trend in the plastics chain, the plastics for February, the Company's sales were also impacted by the still high import volumes and Braskem's decision to prioritize profitability over volume. In this context, Braskem's market share in the First Quarter '09 was 46%, contrasting by five percentage points in relation to the prior quarter.

Moving to slide number nine, we're going to see EBITDA evolution from the First Quarter '08 to the First Quarter '09. The drop of 55% in the ARA naphtha price in the First Quarter when compared to the same quarter of 2008, which was -- were \$842 per ton. And now its \$381 per ton, made a positive contribution of BRL2.5 billion. Higher sales volumes, led by the increasing overall revenue sales had a positive impact of BRL95 million.

The non-recurring recognition of BRL97 million related to the favorable ruling on the lawsuit that questioned the changes in PIS and COFINS taxes also had a positive impact on the EBITDA line. Given the high utilization of our business, the weakening of the Brazilian real led to a positive contribution of BRL342 million since the average exchange rate, the real devaluated by 33% between the periods.

Lastly, the combined effect of the slow international prices for both resins and basic petrochemicals and the sales mix for the higher share of exports had an average (inaudible) impact of BRL3.1 million. These factors combined led to a reduction in EBITDA between the First Quarter of '08 and the First Quarter of this year of BRL143 million.

And finally the term [ph], which is the same evaluation as between [ph] the Fourth Quarter of '08 and the First Quarter of '09. Once again, the reduction in raw material costs was the main positive driver of EBITDA in this quarter. So even though the ARA naphtha price stood almost at the same level, it was \$381 per ton at the Fourth Quarter and the First Quarter was \$364. The delay of one month in the pricing of the massive equity buy from Petrobras and the recognition of the more expensive naphtha in our inventories led to a positive EBITDA contribution of BRL1.2 billion.

The recognition, again, of BRL97 million gain from the taxes had also a positive impact. Higher sales volume for both resins and basic petrochemicals made a positive EBITDA impact of BRL86 million.

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The devaluation of the average exchange rate for the Brazilian real against the US dollar in the period, which was only 1.5%, generated positive EBITDA impact of only BRL26 million. The price effect generated a negative impact of BRL1.5 billion and it was the result of the decline of roughly 20% in domestic revenue price, the increase of exports with prices in US dollars lower than the domestic market and the sharp drop in aromatics price. Lower sales and administrative expenses contributed with BRL23 million to the EBITDA.

Let's move on to slide number 11. Turning to slide number 11, we present Braskem's debt and utilization schedule on March 31, 2009. Braskem's gross debt was BRL12 billion, in line with the level registered on December 31, 2008. The inflow from the BRL600 million loan contracted from Caixa Economica Federal with a term of four years and an annual cost of 117.5% of the TDI rate was offset by the amortizations in the period. The balance of cash and short-term financial investments also remains stable at BRL3 billion. As a result, Braskem's net debt stood at BRL9.2 billion or \$4 billion when expressed in this currency. The average term of the debt shortened from 10.9 years at the end of the Fourth Quarter to 10.5 years at the end of March. Braskem believes that its annual savings profile perfectly aligns it with this level of cash flow, even at the low cycle.

Despite the stability in net debt, the reduction in EBITDA over the past 12 months led the Company's financial average, as measured by the ratio of net debt to EBITDA in the last 12 months to go [ph], in reals, from 3.73 times, in the Fourth Quarter to 4.5 in the First Quarter of this year, with EBITDA from the past 12 months. Measured in dollars, this same index went from 2.89 times at year-end '08 to 3.31 times at the end of March.

Let's go to the last slide, slide 12. We present here the (inaudible) management with a focus on in the short term. Management remains confident and committed to making Braskem a leader in the global petrochemical industry. During this period of turbulence, the strengthening of long-term relationships with customers and financial liquidity and solidity are essential for capitalizing on opportunities and continue to concentrate on growing the Company.

Braskem remains committed to improving its productivity by significantly cutting production costs and administrative expenses as already shown by this quarter's figures. Braskem reiterates its focus on preserving the profitability of the business over the course of the petrochemical cycle and the competitiveness of the Brazilian petrochemical chain. In this context, all of the plants that suffered temporary production stoppages in the Fourth Quarter of last year were already operating at full capacity by the end of March.

With the conclusion of the naphtha agreement, we will continue to work with Petrobras to identify opportunities for synergies and business, like for instance, between the refineries and the basic petrochemical units. On the green polyethylene project, construction has begun on the ethylene plant to ensure operational start-up by the end of 2010. And before the end of this year, the Company hopes to conclude some long-term sales agreements. Braskem's management will act proactively and strategically to pursue the best opportunities in the areas of operational efficiency, productivity, NOIs to maximize the Company's results and value.

Lastly, on the projects in Venezuela, in the First Quarter we began negotiations with the BNDES Exim team to finance the Brazilian portion of the equipment and service for the polypropylene project. The due diligence process should also start to be conducted in the coming months. Braskem remains confident in the opportunities given by this project of value creation.

That concludes our presentation and let's proceed now to the question and answer session. Thank you, all.

## Questions And Answers

### Operator

(Operator Instructions) Your first question is from Paula Kovarsky with Itau Securities.

#### Q - Paula Kovarsky {BIO 15363001 <GO>}

Hi, Bernardo. Just starting on a question that remained unanswered for me from the previous call, I would like to go back to the discussion on the quality adjustment of the naphtha contract and I acknowledge all of the confidentiality limitations. But if I understood correctly, you mentioned that the naphtha had [ph] a paraffinicity level was around 70% and that some of the refineries in Brazil are already producing at 65%, 67% and that the adjustment would be for in a situation when Petrobras provides you with the naphtha with a lower paraffinicity than the 70%. Is that a correct reading? So the adjustment is based on a 70% level? So that's the first question.

And the second question is the previous price, I'm not sure if you can answer that. But the previous price had a different reference. I.e. is there -- is there a difference in the starting point?

#### A - Bernardo Gradin

Hi, Paula. The previous contract did not have a reference at all. So Petrobras could provide us any naphtha at any paraffinicity level and they would charge because ton and price of ARA [ph] paraffin's.

And yes, what I said before is that there's one refinery in Brazil that has -- that is refining one type of oil that brings paraffinicity close to what is referenced. All others today sell us naphtha lower than ever correspondent levels of paraffinicity.

#### Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. And the levels of the IRR?

#### A - Bernardo Gradin

It depends. It varies from refinery to refinery. I would say -- I would have to go back to you on a precise answer on the average last year. But I think it's under 60%. It's about 58%. Average.

**Q - Paula Kovarsky** {BIO 15363001 <GO>}

And -- but -- okay. Again, I know you can't say how much. But does that imply a different start up or a different reference price?

**A - Bernardo Gradin**

Yes.

**Q - Paula Kovarsky** {BIO 15363001 <GO>}

From the previous contract?

**A - Bernardo Gradin**

Yes. There is a gap of about...

**Q - Paula Kovarsky** {BIO 15363001 <GO>}

About how many points?

**A - Bernardo Gradin**

There's a gap of about 7% that the difference in price will stimulate Petrobras to give us a better naphtha in terms of paraffinicity.

**Q - Paula Kovarsky** {BIO 15363001 <GO>}

Okay. Thank you.

**A - Bernardo Gradin**

Thank you.

**Operator**

Your next question comes from the line of Hassan Ahmed with HSBC.

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

Hi, guys. My question is around demand. Your operating rates seem to have rebounded nicely through the course of Q1. Now as you look at an uptick in demand, do you think it's primarily inventory restocking? Or are you actually seeing the underlying demand picture pick up both in China and Brazil? I mean, my guess would be that with this massive stimulus package in China being fairly infrastructure oriented, we're seeing a good sort of improvement in the demand picture out there. But if you could just comment on that balance between restocking and actual underlying demand?

**A - Bernardo Gradin**

You know, Hassan, very good question. I follow you. I think that -- I can tell you that in Brazil there's no restocking yet.



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

Right.

**A - Bernardo Gradin**

We were in a fair -- we've been in a fair [ph] this week, it ends only at Friday. I've been in touch with most of our main clients. And there is still very little restocking.

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

Okay.

**A - Bernardo Gradin**

But the good news, I think, is that demand in Brazil, I think, is solid. There is even in a few segments real growth comparing these four months of 2009 comparing to 2008, a few segments even in a 2 digit growth. Unfortunately of course, margins were depressed on supply side pressure.

But I think we knew that China is picking up. If there is some restocking level, I don't think that is significant. And we follow on other clients. For instance, paper clients, they mentioned to us that from November to February, China seemed to be on vacation. No purchasing, no restocking. And contracts are back to big volumes.

So we hope that the directive in China of investment in infrastructure, domestic infrastructure shall be kept. We think that what China representatives have been saying, the leaders saying that China must grow, at least 8% this year. And we'll see this quarter.

I think that there is a really good chance that there's no restocking and (inaudible) picking up. It's too soon to say...

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

Very Good.

**A - Bernardo Gradin**

I'm more comfortable to tell that in Brazil, I see the demand is real.

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

Excellent, thank you very much.

**A - Bernardo Gradin**

Thank you.

**Operator**

(Operator Instructions) Your next question is from the line of Denis Parisien from Santander.

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

Good morning, thanks for the call. I'm wondering if you could give us a little bit more color on the price environment. The percentage declines in different products in the domestic market. And what -- do you think they're stabilizing?

Does the tidying up of your capacity utilization give you scope to increase prices, keep them stable? And where do you see the gap between international prices and domestic prices now?

And in terms of the elimination of capacity, inefficient expensive capacity in North America and Europe vis-a-vis the coming on stream of approximately equal amount of capacity in the Middle East. It seems to me that that low cost new efficient capacity being at approximately the same estimated amount, would that not mean a net-net increase in competition in the international market that could put additional pressure on prices in the second half of the year?

And last question; are you at your current leverage ratios at risk of any covenant violations? Thanks.

**A - Bernardo Gradin**

Thank you, Denis. Let me tell you a little of what happened in our view. Last year, at the end of the year, through all the chain, I'm talking specifically about Brazil. All the chains carried very high raw material costs us, NAPHTHA and our clients as well.

And I think that we were able to manage most segments here in Brazil to sustain a soft-landing in terms of prices. So much so, that what we saw in November and December, the difference of a gap between the domestic price and international price in Brazil going at rates like 85%, 80%, 85% in November, 70% in December. It's still 57% in January.

We were hit by volume. But we were able to sustain prices throughout the chain. That also stimulated the imports that grew substantially in the First Quarter of this year in spite of the exchange rate. But we knew that that could happen.

So were forced to reduce price. We reduced price comparing quarter-to-quarter about 20%. But we think that the Second Quarter would be able to see [ph] not to the level of gas that we (inaudible) the last quarter of last year but this is flat [ph].

Price, a bit of a concern on how exchange rate will behave in end of May and June. But we think that we'll come back to an equilibrium like Third Quarter of last year.

Yes. The new [ph] supply that will come from this will definitely put pressure, additional pressure on the entire system. We think that we expect some rationality on that

upcoming.

They made the moves before with a much rationale. And we have also to consider that the variable costs are very competitive. But we also believe the new investment must be depreciated. So we'll have to wait and see.

So let's hope that demand basically in China will be able to come back to (inaudible) that would sustain much of that new supply. But the leverage I'll ask Fadigas [ph] to answer you.

## A - Carlos Fadigas

Denis, this is Fadigas speaking. The first comment I would like to make is that when we look at leverage as measured by net debt over EBITDA, bear in mind that we're talking about the last 12 months EBITDA.

I think it's important to realize that we've just had two difficult quarters; the Fourth Quarter of '08 was a very difficult for everybody around the world, in the First Quarter of '09, as well, especially when we talk about January and February. We had a huge softening in demand at the end of last year.

We had our plants running at 55% capacity at a certain point in December and starting January. And we carried in the beginning of this period, inventory at a much higher naphtha price.

So with all these things, net debt over EBITDA went up to four times. When we measured them in reais, last 12 months EBITDA in reais with the debt also expressed in Brazilian reais.

I think that from where we are right now, what we're going to see is a reduction in leverage, especially because on one side we're going to have EBITDA improving when we compare to what we had in the last quarters. And also on top of that, if you're talking about the net debt over EBITDA expressed in reais, the exchange rate should help Braskem.

And that's because we have around 70% of our debt in US dollars. This debt was translated at the end of the First Quarter at an exchange rate of 2.315. Exchange rate right now is around 2.10. So with dollars coming down from 2.31. And with EBITDA improving, I think we're going to see a reduction in leverage.

And also it's important to mention that the net debt over EBITDA measured in reais, if we go above 4.5 times, it does not -- it doesn't represent a breach of covenants. So all we would have to do, if we were above 4.5 times, we'd have to stop leveraging Braskem and we could only renew the debt. And we'd have to de-lever the covenant [ph]. That's anyway, what we are doing right now.

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When we compared net debt over EBITDA in US dollars, last 12 months, EBITDA measured in dollars with the debt also expressed in dollars, we are at 3.3 right now, even after two past quarters.

So a lot of room between 3.3 and again, 4.5 times, that would be the limit. So based on everything I've mentioned, I don't see a risk of having any problems both with the net debt over tax [ph] expressed in reais, or US dollars.

And I guess, all that's important to me [ph] so that the Company is very liquid right now, BRL3 billion in cash. All the debt we have maturing until the end of the year is about half of what we've had in cash. It's BRL1.6 billion. Out of this BRL1.6 billion we are renegotiating with Petrobras BRL700 million. So very comfortable position in terms of liquidity.

And my point of view, a comfortable position in terms of covenant as well, as we hope to see the Company deleveraging from now on.

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

Thank you for the very detailed answer. Could I ask though, when Mr. Gradin was answering on the price environment, your voice was fading in and out. And I'm not sure I fully understood.

Are you expecting to start increasing prices again, or keep prices stable going forward? If you could just elaborate on that a little bit, I'd appreciate it. Thanks.

**A - Bernardo Gradin**

For the quarter, we expect sale [ph] prices to be stable. We think that we will be able to adjust to a few segments in Brazil. And again, we cannot generalize what will be the average price. I know that that will be at the end what we compare quarter-to-quarter. But what we have in Braskem today is a very detailed sales force that understands well all segments in Brazil.

And what we've tried to partner with our clients is that so many users on the chain are less sensitive to volatility in price and less sensitive to cost of resins. So we tend to have different gaps in terms of international prices depending on the segment.

What I think will happen this quarter, is we'll go back to a more precise and close relationship on the chain. And be able to be closer [ph] on the segments. So we'll see our segments coming back to greater gaps and others being more hit by the international competition having to sustain its impact [ph] to market with a lower rate, or lower gaps I mean.

So I think frankly, to express in a summary, I think the prices will be flat in general in the Second Quarter.

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

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Thank you very much, I appreciate it. I'll get back in the queue for my other question.

## A - Bernardo Gradin

Thank you.

## A - Unidentified Speaker

We're going to read two questions that we received through the internet. The first one comes from Lilyanna Yang from JP Morgan. And she's asking, "Could you please explain to us whether in the near term we could expect lower naphtha costs coming from the application of the penalty clause of the new naphtha contracts with Petrobras?"

## A - Bernardo Gradin

Yes. There'll be some. We call it an adjustment clause. Because if Petrobras is able to provide us a naphtha with better deals in terms of ethylene, the adjustment will go on the EBIT of course.

But yes, you may expect some reduction due to the quality compared to ARA.

## A - Unidentified Speaker

The second question comes from William Lamos from IT [ph] and he questioned, how competitive do we expect green polyethylene to be compared with regular polyethylene?

## A - Bernardo Gradin

We expect to be very competitive. Our first [ph] estimate is at \$45 a barrel we'll be competitive. That is [ph] competitive.

And we think that there's much improvement to be made on the variable costs of freight. And we think that by the end of the year we will have that negotiated. And we'll be able to tell you how that will impact.

Of course, you have to consider that we're talking just on 200,000 tons compared to the entire production [ph] (inaudible).

## Operator

(Operator Instructions) Our next question is from the line of Denis Parisien from Santander.

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

Hello, thanks for taking my follow-up. You highlighted in your comments earlier that the -- and we noticed that the CapEx number was significantly reduced from the previous quarter in the previous year.

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Are we expecting from you, a -- and should we take that as an indication of the level of CapEx per quarter that we can expect from you? Or have you reduced your projection for CapEx?

### A - Bernardo Gradin

Very good question, a reduced expectation for disbursement and CapEx this year. We reduced it to be disciplined [ph] on our cash orientation on the during the crisis [ph]. So we postponed investment, which will be started in the First Quarter, except those that are crucial for the operations intensity [ph]. And the process of automation and melioration [ph] of the assets.

We think that if we sustain the cash that we forecast in terms of operational levels to the end of the year, we will be close to the BRL900 million that we expected liquidating [ph] part of it on [ph] the last quarter.

If we don't see the generation in cash that sustained the deleveraging by the end of the year, we will probably postpone disbursements. Our best expectation today is that we'll have a minimum disbursement in CapEx of about BRL700 million during the entire year of course.

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

Great, thank you very much.

### Operator

Thank you, our next question comes from the line of Gustavo Gattass with UBS.

### Q - Gustavo Gattass {BIO 1702868 <GO>}

Hello guys, just trying to understand if I understood what you said correctly. The 7% reduction in price that you indicated, Bernardo, for naphtha, is that what it would have been if Petrobras just keeps providing you with the same quality naphtha that it was providing before, or what does that mean? Just out of curiosity.

### A - Bernardo Gradin

Sorry, Gustavo, I may have missed your question. The 7% difference is not in price. The 7% difference is the paraffinicity that is required on the ARA reference, naphtha contract, compared to what Petrobras offered us.

### Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay.

### A - Bernardo Gradin

So 7% is not a difference in price, it's a difference on the paraffinicity. I cannot disclose to you the adjustment in dollars per percentage for the difference, because it's also in the

confidentiality clause.

But I would be able to say I think by the end of the quarter to make your own calculations.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay, no, perfect. It's, just trying to understand. Thank you.

**A - Bernardo Gradin**

Great, thank you.

**Operator**

I will now turn the call over to Mr. Bernardo Gradin for final considerations. Mr. Bernardo, you may give your final considerations.

**A - Bernardo Gradin**

Thank you, thank you all for your time and attention. We think that we are very well-positioned being in Brazil as I mentioned before. The destocking happened in Brazil. There's still some credit limitations in the chain. But credit is coming back. So you may see some restocking, maybe not as to the level that we saw in September along the year.

We also see that many segments; especially the ones on segments that are far from the durable goods show [ph] an increase in demand, not only this First Quarter or first four months. But especially throughout the year.

There is a middle class that is coming out and consuming in Brazil. And we think that investments the government will make in infrastructure will sustain consumption this year. If the PGMP will give us growth [ph] because of direct investment. And even that we think will come back in the Second Quarter when interest rates will come down to levels that we never see in Brazil -- we never saw in Brazil.

So I think there is some optimism here that there is a national growth in demand. We also think that the affect that a low interest will be very beneficial for direct investment, consumption and what you may see on the second semester, maybe only in the last quarter.

We have some questions on what may happen in Europe, the US and even Asia. We're optimistic that the channel will grow 8% and the consumption of commodities will come back to levels that we saw in the first semester last year, maybe not at the same price levels. But demand, I think, will be there. We think we'll be there.

And another issue that was not raised. But I'd like to emphasize. Braskem is making a hard homework [ph] on reducing costs. And especially SG&A. And we expect that by the end of the year we will be able to show you that we reduced SG&A and direct costs at least \$100 million in addition to what we've done last year.

So we think we'll be able to, in spite of the trough, in spite of low cycle, have a very positive vincibility [ph] and be able to show results that will be sustainable, both trough and high cycle.

Thank you very much for your attention. And hopefully we'll see you all next quarter.

## Operator

Thank you; this concludes today's Braskem's Earnings Conference Call. You may now disconnect your lines.

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