

## Q3 2014 Earnings Call

### Company Participants

- Carlos Fadigas, Chief Executive Officer
- Roberta Varella, Head of IR

### Other Participants

- Fernando Perez Lizardi, Analyst
- Frank McGann, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's Third Quarter 2014 Earnings Conference Call. Today with us we have Carlos Fadigas, CEO; Mario Augusto da Silva, CFO, and Roberta Varella, Head of Investor Relations.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After Braskem remarks are completed, there will be a question-and-answer session. At that time further instructions will be given. (Operator Instructions)

We have a simultaneous webcast that may be accessed through Braskem's IR website, [www.braskem.com.br/ir](http://www.braskem.com.br/ir). The slide presentation may be downloaded found in 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 answering 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 managements 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'll turn the conference over to Roberta Varella, Head of IR. Ms. Varella, you may begin your conference.

## **Roberta Varella** {BIO 19105478 <GO>}

Good morning ladies and gentleman, thank you for participating in another Braskem earnings conference call. Today we'll be commenting on our results for the third quarter and first nine months of 2014. We'd like to remind you that, pursuant to Federal Law 11,638 as of 2007, the results presented in today's presentation reflect the adoption of International Financial Reporting Standards or IFRS.

Note also that, due to the decision of maintaining its investments in QuantiQ, the chemical product distribution company, Braskem restated its consolidated quarterly results for 2013 to include the results of this operation. The financial information in today's presentation was reviewed by the Independent External Auditor.

Let's go to the next slide, please were we begin our comments. On slide 3, we present the operating and financial highlights of the third quarter of 2014. The average capacity utilization rate of Braskem cracker was 90%, six percentage points higher than in the second quarter, reflecting the resumption operations at the Triunfo cracker following this capital maintenance shutdown and the normalization of feedstock supply at the Rio de Janeiro site, which partially offset this scheduled shutdown of the Sao Paulo cracker that started in September and was concluded in October.

Brazilian market thermoplastic resins was 1.4 million tons, increasing 5% from second quarter, which is explained by the better performance of factors related to consumer goods and by seasonality. Braskem's sales followed this trend and grew by 7%. Sales of top line at the US and Europe business units fell 2% on the previous quarter, mainly due to the slowdown in the European market compared to the third quarter of 2013 Braskem sales grew by 9% reflecting the better macro economy environment.

Consolidated EBITDA in the third quarter was BRL1.5 billion, which is explained by the higher spreads in international market and the growth in total sales volume. In US dollar EBITDA was \$660 million. In this scenario, Braskem reported net income of BRL230 million in the quarter. The company's leverage as measured by the ratio of net debt to EBITDA in the US dollar is stood at 2.7 times practically in line with the previous quarter.

In October, Fitch Ratings revised its rating outlook for Braskem from negative to stable reflecting. Its ongoing commitment to delever, the progress made on the strategy to diversify its feedstock profile and the consistent improvement in its operating results. Another positive factor in the outlook change was the expectation of better petrochemical spreads in the International market.

Let's go now to slide number 4. This slide presents the quarter's highlights related to projects and awards received by the company. In line with the company's project [ph] to diversify and gain assets to more competitive feedstock projects, the physical completion of the Mexico project reached 82%. The pre-marketing activities continue to advance with

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the number of active clients already reaching 276. The project which will start operations by the end of next year is the first greenfield project to be commission in North America, and we use ethane at competitive price to produce polyethylene.

In addition to the feedstock's competitiveness, another advantage of the project is, it focus on serving the growing demand for polyethylene in Mexico markets, which currently is an (inaudible) market and has around 70% of its demand supply by import. Another highlight was the withdraw by the subsidiary Braskem-Idesa of the fourth disbursement of deposit finance in the amount of \$383 million. As part of its commitment to promote this development of diversity in plastic chain, Braskem made progress in the program created jointly with the industry also known as PIC or Plastics Chain Competitiveness Incentive Plan. A highlight in the quarter was the creation of the Exporter Qualification Project export action focus on technical and market aspect and that has a widely supported 70 companies.

The project, aims to double the volume of the export of plastic manufactures groups made from polyethylene and polypropylene within three years. Braskem also won the Transparency Trophy award by Anefac, National Association of Executives Finance, Administration and Accounting. And for the first time, the award for Best Annual Financial Statements in the category of companies with revenue over BRL5 billion.

Let's go now to slide 5. This slide shows the performance of the Brazilian market of thermoplastic resins and Braskem's sales. In the third quarter Brazilian demand for thermoplastic resins grew by 5% compared to the previous quarter, mainly reflecting the recovery segments related to consumer goods as well the quarter seasonality. Braskem resins sales follow the market dynamic and reached 939,000 tons, a growth of 7%.

Company's market share stood at 68%, with 1 percentage points from second quarter. Compared to the third quarter of last year and demand was affected by this loan balance with perception and by incentive review in the chain in the prior quarters, both Braskem's sales and market demand increases by 5%. In the nine months of the year, the Brazilian market of thermoplastic resins reached 4 million ton, in line with the demand presented in the same period of last year. Meanwhile, Braskem's sales increased by 2%.

Let's go to the next slide please. Slide six details the factors that increased EBITDA in the third quarter of 2014 compared to the previous quarter. Braskem's consolidated EBITDA of BRL1.5 billion and rose around 30% on the second quarter, mainly reflect the higher sales volume and the higher thermoplastic resins spread in the international market, which will partially offset by the non-recurring expense of BRL34 million from the renegotiation of tax liabilities under the resins [ph] program. The 2% average depreciation in the Brazilian real against the US dollar was another positive factor that impacted the result in BRL54, which resulted from a positive revenue impact of BRL250 million and a negative cost impact of BRL161 million. In US dollars, EBITDA was 606 million represented 30% from EBITDA in the second quarter.

Let's go now to slide number seven. Slide seven shows the change in EBITDA in the nine months of 2014 compared to the same period last year. Braskem's consolidated EBITDA

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reached BRL4.2 billion, growing by 16% on the nine months of 2013. On a recurring basis EBITDA grew by 10%. The main drivers of EBITDA growth was the recovery of thermoplastic resins prices in the international markets and the average US dollar appreciation of 80%, which generated a positive gain of BRL567 million, which resulted a positive revenue impact of BRL2.6 billion and a negative cost impact of BRL2.1 billion.

Let's go now to slide eight. This slide shows Braskem's debt profile. Since the investment made in the Mexico project by the subsidiary Braskem-Idesa finance model with debt prepay use in the projects own cash generation, the debt analysis presented this year does not considered this financial structure.

In this context, consolidated Braskem's gross debt stood at \$7.8 million, decreasing 4% from the balance on June 3rd. In Brazilian real, gross debt increased by 7% reflecting an impact from the 11% dollar depreciation in the end of the period. 68% of the gross debt was denominated in US dollars. Meanwhile, the balance of cash and investments stood at \$1.4 billion, practically in line with the balance at the end of the previous quarter.

The company, due to its liquidity (inaudible) revolving credit facilities that do not include any respected covenants on results during the time of adverse market. As a result, Braskem's net debt stood at \$6.4 billion. In Brazilian real, net debt increased by 7% to BRL15.8 million. Net debt denominated in dollar was 74%.

Potential leverage and measure by the ratio of net debt to EBITDA in US dollars ended the quarter at 2.7 times, in Brazilian real the leverage of ratio stood at 2.9 times, increasing 11%, which is explained by the Brazilian real depreciation between the periods.

On September 3rd, the average debt term stood at around 16 years, considering only the portion of debt denominated in US dollars, the average debt term was 1.5 years. Only 3% of Braskem's total debt matured in 2014 and its high liquidity ensures that its cash and cash equivalents cover the payment of obligations maturing over the next 27 months.

Let's go to the next slide, please. Slide nine shows CapEx in the nine months of 2014. Maintaining its commitment to making investments with returns above the cost of capital, Braskem invested around BRL2 billion in the period, of this amount, 60% was allocated in this operation, including part of the amount for the scheduled maintenance shutdown and around 30% was allocated to the construction of the new petrochemical complex in Mexico.

The reminder of disbursement is related to the other ongoing projects announced by Braskem, such as the investment for the production of UTEC at La Porte site in the United States and the conversion expansion of one of its polyethylene production lines in Bahia to produce metallocene-based polyethylene. It's important to remember that the amount invested in the Mexico project throughout the year does not include the amount on the project financed or for the project minority shareholder. For 2014, the estimated investment remains around BRL\$2.7 billion.

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Let's go to the next slide, please. On slide 10, we present the current scenario in international petrochemical industry. Higher oil production, especially in the United States than India diverged the attention from the geopolitical issues in Iraq, Ukraine and Russia, (inaudible) progress the upward trend in oil prices. The lower than expected growth in oil demand also contributed to oil prices falling from levels of over a \$100 per barrel to between \$85 and \$90 per barrel. In this context, the price of Naphtha, the main feedstock is used by the petrochemicals industry, and which is highly correlated to oil prices, continue to follow the dynamics of oil markets and also resulted in a positive impact on petrochemical supply.

However, over the coming months, petrochemicals prices are expected to follow the downward trend offset with the Naphtha prices with balance in the level of its price, but we should still remain at high levels. In the medium and long term, the outlook for the global petrochemical industry remains positive. Then certainly with regard to the timing of the start-up of the projects already announced continues to ask every one of the positive factors in the recovery of the industry's profitability.

For the period from 2014 to 2017 when we've compared the expectation with the imbalance of new capacities at the end of 2013 with the recent outlook, it was observed that (inaudible) in the startup of new ethylene capacity for 7.6 million ton with 4 million tons of this amounted related to projects announced in China [ph].

In the case of demand, average annual growth advertised third quarter to reflect the recovering macroeconomic, especially in the United States. In this context, petrochemical spreads are expected to remain at healthy levels over the coming years. One point that made attention is the start-up of projects on asset after 2017, especially in the United States whose capacitive positive demand growth estimated for the fuels, and that once again show ad pressure on industry margins.

Let's go to the last slide, please. Slide 11 presents Braskem's outlook and priorities. The brightest prospects for the US economy were not enough to have had a weaker performance for the main needles on economies and the slower growth in emerging market. This led the IMS to revise its forecast for world GDP growth in 2014 to 2.3%, down 0.1 percentage point from its forecast announced in July.

In Brazil, the scenario remains challenging; country GDP growth forecast for the year was revising downward 2.3% per year, reflecting the slowdown industrial production and in consumer expanding, as well as the low levels of investment and business confidence. In this context, Braskem strategy continued to focus on investing projects to diversify its profile and improve its competitiveness in the global cost curve, but butyl ether [ph] integrated petrochemical complex in Mexico to previous polyethylene and continuing to make progress on the states for the project, whose technologies for the polyethylene and cracker production has already been decided.

The company also believes focus on developing the business petrochemical and plastics chain reviewing naphtha suppliers with Petrobras and its energy supply with CHESF, continuing to capital operating efficiencies gains by increasing its capacity relation rates,

completing the acquisition of the controlling interest in Solvay Indupa and maintaining financial health and cost discipline.

That concludes today's presentation. Let's go now to the question-and-answer session.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) Mr. Frank McGann from Bank of America would like to make a question.

#### Q - Frank McGann {BIO 1499014 <GO>}

Hello, good afternoon. I was wondering, how you are seeing the competitive environment now relative to import with the falling oil prices, have you seen some of the naphtha based suppliers, or rather natural gas based suppliers, we have been less competitive is the result is coming less revenue issue or is it actually perhaps a reverse because of low oil prices in general?

#### A - Carlos Fadigas

Hi, Frank, this is Carlos Fadigas. Well, the reason drop in oil prices and therefore the reduction in naphtha price expires in the year has not changed nothing dramatically and the net EBITDA based producers remain much more competitive in the naphtha producers. And so the overall picture has not changed. What has been exported for naphtha producers the fact that a spread have increased, simply because although base petrochemicals have sold -- sold also along with the naphtha, but resins have being come down in a global base. So therefore, margins were better in the third quarter and now in the beginning of the quarter. But apart from that, when you compare gas basis, naphtha based producers no relevant change, we haven't seen any of the relevant change.

#### Q - Frank McGann {BIO 1499014 <GO>}

And how do you say the increased price is going forward, do you think they will become under more pressure or?

#### A - Carlos Fadigas

I think that the resin prices will yet (inaudible) come down overtime to address for the fall in naphtha price. You're also asking the first question about import. We haven't seen any special patterns imports in Brazil, we increased our share from the second to the third quarter from 6% to 7% of the Brazilian market to 68%. We are going to try to increase a little bit more this market share in Brazil, import levels have seen probably normal. So to address the point you have raised in your first question, to import in Brazil are following the same pattern as before.

Price is going forward as I was mentioning, base petrochemical price we act more fast to the fall in naphtha prices, resins are come down in a much (inaudible) base. So therefore,

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we're going to have relatively good market we have had it at the end of the third quarter and at the beginning of the fourth quarter, but that something that preview this dynamics pretty much relate to this quarter. I don't think that the spreads you see right now are extendable long term, its result of the adjustments to the fall in naphtha prices. But when you compare, if we were to compare what we expect for the whole (inaudible) with what we have had so far, I think that spreads overall will remain pretty much the same in next two years.

So we're should be little bit more optimistic and that we do have a low increase in spreads due to the fact that demand is growing, not in Brazil, but outside Brazil and not a lot of value -- volume coming through the market. But that's more on the optimistic side of the forecast rather than the conservative one.

**Q - Frank McGann** {BIO 1499014 <GO>}

Great. Thank you very much.

**A - Carlos Fadigas**

Thank You.

**Operator**

Mr. Fernando Perez from GBM would like to make a question.

**Q - Fernando Perez Lizardi** {BIO 17362174 <GO>}

Good morning. Thank you for the call. I have two questions. The first one is, how do you expect the decline in oil prices to affect the negotiations with Petrobras regarding naphtha supply contracts? And the second one is, if you have a guidance regarding the domestic market for the next year, how do you expect it to behave in terms of volume? Thank you.

**A - Carlos Fadigas**

Okay, Fernando, thank you for your question. Regarding the fall in both oil and therefore naphtha prices, the impact of the negotiation with Petrobras. First of all, one very important thing to mention that the recent production in naphtha price does not show the issue of competitiveness of the naphtha based petrochemical producers. Simply because, as naphtha prices fall, the price of the end product, petrochemical product would be the resins or the base petrochemical products they also sold. And therefore, the profitability of the petrochemical producer is much more related with the balance between demand and production of petrochemicals itself, not very much associated with -- for the absolute value of naphtha.

And that results to growth through the gas price that we don't see happening, that could have an effect. But the important message here is that, the reduction in naphtha prices from \$950 per ton in June, July to \$650 per ton does not change the fact that the petrochemical producers needs are still less competitive to get do so.

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What I think that this fall in prices of oil derivatives in gasoline, the critical one for Petrobras could help Petrobras to reduce the loss based on (Technical Difficulty) they've had over time with the imports of gasoline. So that maybe do some pressure on the gasoline side, naturally technically pressure on other areas. We try to show -- to get a conclusion from that and understand whether that will help or not the naphtha price negotiation.

Our goal is to trying to have a raw material that is more competitive when compared to shale gas, try to close some of the gap between naphtha and gas and therefore naphtha price doesn't change effectively you need that.

With respect to second question regarding the guidance for the fourth quarter in the domestic markets, we saw an increase in demand coming from the second to the third quarter, its increased by 5% as we presented that has helped balance the overall demand for resins in '14 with the one we had in '13 when we compare the nine months of '14 with nine months of the '13, so we have zero growth now. So if we were to compare our projection for the full year of '14 with full year of '13, we see the market is very much in line with what we had last year. So, at this point we expect to finish the year with zero growth.

And if we talk specifically about the fourth quarter, because of seasonality in Brazil, we expect to have a lower demand than we had in the third quarter hard to forecast the (inaudible) how much, but a 5% reduction with the -- reasonable number to expect when we look at several series years seasonality on the fourth quarter. I hope I have answered your question.

**Q - Fernando Perez Lizardi** {BIO 17362174 <GO>}

Yes. Thank you very much.

**A - Carlos Fadigas**

Thank you.

**Operator**

(inaudible) from Credit Suisse would like to make a question.

**Q - Unidentified Participant**

Hi, good afternoon again, Fadigas, Roberta, Mario. I have one follow-up from the Portuguese call. When you were making comments about the Mexico project, I had the feeling that you were somewhat cautious about show your ability to sell the Mexican market. Did I understand that correctly? Are you a little bit more concerned about your ability to displace the imports in the Mexican market going forward? Do you see more competition? That would be my first question.

The second question also follow-up regarding the Ascent project in the states. The decision and the structure of the project is it more, because you don't necessarily wants to own the project and you wants to operate or just would be the rough data. Is that your

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decision, because you preferred that solution or it's the balance sheet decision from Braskem that you cannot do it therefore you're trying to grow in another routes? That will be the two questions. Thank you.

## A - Carlos Fadigas

Thank you, Andrea [ph]. Regarding the Mexican project, we're going to be producing close to 1 million tons naturally. As we start up the plan, there is a ramp-up period, but in the end of the day 150,000 tons of capacity. We are very confident of our capacity of placing most of that in the Mexican market. But what we said or what I try to say at least is that, especially the beginning we don't go from zero presence in the market or very little presence and with three marketing. Although we are up to 1 million tons sold (inaudible) in the very first year. So right from the start when we are planning this project and budgeting and so on, we knew that we would have to be an adjustment period.

Right now, the market -- the Mexican market seems roughly 1 million to 1.2 million tons of resins, mainly from the United States and in order US producers we try to keep the share of the Mexican market. So the point is, there is a period of adjustment, we are going to go after our fair share of the domestic Mexican market, but we also have stretch forward to understand that.

Somehow like review, were although we are the sole producer, the only producer in Brazil, we understand some open market and it's natural that we have spot from resins and there is some resins been imported in the market. The exact percentage that we're planning to export, get some more delicate point because it size with our from commercial strategy and how aggressively happening to be in the beginning. I would not go depth of sale, but we were and we'll remain very confident in place in products in the Mexican market, it's just that we also and have always understood we'd have stretch forward some of that.

Naturally we're going to see production should maximum impossible, the project is so competitive than regardless of exporting of selling demands we're going to be making money and that's why we plan to produce as much as we can and sell domestically and also export.

Regarding the Ascent project in the US, we are steady. The structure we are trying to put in place is the balance sheet strategy. Its linked with the fact that we do not want to bring all these leverage inside Braskem balance sheet and we are trying to find a way of keeping most of the benefits of the project, meaning, bringing the off-taker keeping to Braskem moves of the risk and the profitability associated with converting ethane into polyethylene, pretty much the same thing we did with enterprise on the PBH projects. So we want to keep most of the benefits of the asset project being in one side evolved with the decision of ethane on the other side as the off-taker of the polyethylene and at the same time not bringing the assets and the debt to our balance sheet.

And in doing that, we keep the balance sheet of Braskem open for other projects, like the competitive projects that we expect to happen at a certain point in Brazil. And also

eventually other projects we're going to be analyzing in South America and in other places. So in that sense, if the balance sheet decision rather than not want in the assets.

### **Q - Unidentified Participant**

Okay, perfect. Thank you very much.

### **A - Carlos Fadigas**

Thank you.

### **Operator**

(Operator Instructions) Andres Ortega from GBM [ph] would like to make a question.

### **Q - Unidentified Participant**

Hi, thank you for the call. I wanted to ask you, when do you expect to close the acquisition of Solvay Indupa in Argentina?

### **A - Carlos Fadigas**

Hi, Andres [ph], its Carlos Fadigas. We announced this acquisition in December last year, as you remember. The Brazilian Antitrust Authorities analyzed that they have deadline to make a decision on that between now and the end of the year, meaning over the next week and we expect to hear from them in that time frame.

If we have an approval, and we're hoping and we are working very hard to have an approval, then we would close the transaction immediately. After closing the transaction then we will go on and deal with the other things associated with these acquisition, meaning a public offer to buy the shares of the minority shareholders of Solvay Indupa as we going to decide stock exchange and naturally all the order asset integration activities combining teams, combining the effort of teams and start planning production sales on a more integrated basis.

We remain confident in getting this transaction approved, just like we had other polyethylene, polypropylene acquisitions approved in the past. In the BCC market, we see the same reality. There is no local market, it's really a global market and even with this acquisition in Brazil will remain as you know players globally and therefore unable to define prices to the market, meaning we are going remain the price status just (inaudible) in the petrochemical cycle. Because of that, we believe we are hoping to get this contractions approved. We are in constant contacts with the Brazilian Antitrust Authority to provide the data to get this transaction approval and I hope we get these on between now and the end of the year.

Having said that, the Brazilian Antitrust -- the final decision we make on this topic and we start with them to make a final decision. We are doing everything, we cannot hide, but we have to respect the acquisition on that.

## Q - Unidentified Participant

Okay, thank you very much.

## A - Carlos Fadigas

Thank you.

## Operator

(Operator Instructions) I will turn now over to the company for closing remarks.

## A - Carlos Fadigas

I'd like to thank you all for participating the call. I'd like to thank for the questions and have the chance to address some of the relevant points. Only two or three comment from my side. First of all, we are -- as we were in the past, we remain very focused on this gas based project, (inaudible) Ascent and comparison that these are transformative projects for Braskem and they are very critical for us to diversify our raw material. At the same time target we're working very hard to extract all the possible value from the assets we have, that's why we work hard to get the practice running at maximum capacity and adjust the commercial strategy in Brazil generates most of very possible.

As we do that, we also work and try to influence the debate about competitiveness of the Brazilian industry, because of several factors cost of electricity, raw materials, labor, exchange rates, taxes and so on, the Brazilian industry as a whole has less competitive over time and it's relevant that we find a way to get a more competitive in this respect in Brazil, be it in the petrochemical or in the other segments.

And Braskem as a large Brazilian industrial companies engage in this debate. We are glad see some of the efforts that were made by the government recently, (inaudible) to reimburse some of the facts that embedded in the cost of products export, it was important initiatives from the side of the government and we're planning to, as I said, remain involved in trying to contribute to the discussion so we can increase the competitiveness of the Brazilian industry.

So thank you all again and I hope to meet you on our next call. Bye, bye.

## Operator

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

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