

Q1 2014 Earnings Call

Company Participants

- Carlos José Fadigas de Souza Filho, Chief Executive Officer
- Mario Augusto da Silva, Chief Financial & Investor Relations Officer
- Roberta Varella, Manager-Investor Relations

Other Participants

- Christopher Buck, Analyst
- Fernando Pérez Lizardi, Analyst
- Frank McGann, Analyst
- Gustavo Gattass, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen. At this time, we'd like to welcome everyone to Braskem's First 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's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given.

We have simultaneous webcast that may be accessed through Braskem 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 we 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 Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Braskem management and on information currently available to the company.

They involve risks, uncertainties and assumptions because they relate to future events, and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and

other operating factors could also affect the future results of Braskem and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference call over to Roberta Varella, Head of IR. Ms. Varella, you may begin your conference.

Roberta Varella {BIO 19105478 <GO>}

Good afternoon, ladies and gentlemen. Thank you for participating in another Braskem's earnings conference call. Today, we will be commenting on our results for the first quarter 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. Note also that due to the decision to maintain these investments in Quantiq, which is the company responsible for chemical products distribution, Braskem restated its consolidated quarterly results for 2015 to include the result of this operation. The financial information in today's presentation was reviewed by an independent external auditor.

Let's go to the next slide where we'll begin our comments. On the slide three, we present the highlight of the first quarter of 2014. The capacity utilization rate of Braskem's crackers averaged 85% mainly reflecting the scheduled maintenance shutdown of the mainline (03:14) at the cracker in Triunfo and operational problems.

The Brazilian market of thermoplastic resins totaled 1.3 million tons, similar to the level of demand in the fourth quarter of 2013. Braskem's sales were practically stable at 901,000 tons. Compared to the first quarter of 2013, resins demand grew by 3%, while Braskem's sales fell by 2%.

In-line with its strategy to concentrate its investments in the petrochemical industry, Braskem divested the assets forming the Water Treatment Unit located at the Triunfo complex for R\$315 million and recognized a gain of R\$277 million in the quarter.

Braskem's consolidated EBITDA was R\$1.6 billion, driven by the gains on the divestment of non-strategic assets, the stability in the petrochemical spreads in international markets, and the average depreciation of 4% in the Brazilian real in comparison to the last quarter. In U.S. dollars, EBITDA was \$690 million.

In this context, the net income recorded in the quarter was R\$396 million. Braskem's leverage as measured by the ratio of net debt to EBITDA in U.S. dollars stood at 2.71 times, decreasing 6% from the fourth quarter of 2013. As part of this strategy to diversify feedstock profile and make it more competitive, the construction of the new petrochemical complex in Mexico continued to advance with the project's physical completion reaching 66%.

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Another highlight was the withdrawal in April by the subsidiary Braskem-Idesa of the third installment of the project finance in the amount of \$465 million.

Regarding the Ascent project, which aims to analyze the opportunities offered by the competitiveness of the (05:17) U.S. shale gas, Braskem informed that Antero Resources signed an agreement to provide part of the ethane necessary for the operation of the complex. It's important to note, however, that the agreement is still subject to analysis of the projects feasibility and its approval.

Let's go now to slide four. The slide four shows the performance of the Brazilian market of thermoplastic resins and Braskem's sales profile. In the first quarter of the year, Brazilian demand of thermoplastic resins crossed 1.3 million tons, similar to the volume of the previous quarter. Braskem sales totaled 901,000 tons with market share of 67%.

Compared to the first quarter of 2013, demand grew by 3%, driven by the good performance of factors related to nondurable goods, such as beverage and by the continued good performance of infrastructure sectors at the beginning of the quarter. Braskem sales on the other hand fell by 2% affected by the lower utilization rates of the PE and PVC plants due to scheduled maintenance shutdown.

Let's go to the next slide please. Slide five details the factors that influenced EBITDA in the first quarter of 2014 compared to the fourth quarter of 2013. Braskem reported EBITDA in U.S. dollar of \$690 million. In Brazilian real, Braskem's consolidated EBITDA was approximately R\$1.6 billion. And many factors that contributed to the performance were the reorganization of R\$277 million gain from the divestment of the Water Treatment Unit at the Triunfo site and the stability of the petrochemical spreads at international markets. The 4% depreciation of the Brazilian reais against the U.S. dollar also had a positive impact of R\$108 million to the result, which resulted from a positive revenue impact of R\$438 and a negative cost effect of R\$330 million.

Let's go now to slide six. This slide shows Braskem's debt profile. Since the investment made in the Mexico project by the subsidiary Braskem-Idesa is financed under our project finance model with debt repayment from the (07:47) project's own cash generation, the debt analysis presented here does not consider this financial structure. In this context, on March 31, Braskem's gross debt stood at \$8 billion, including a 1% from the balance on December 31.

In Brazilian real, gross debt decreased by 2%, reflecting the impact from the 3% depreciation of the dollar ended between the period. Gross debt denominated in U.S. dollar was 69%.

Meanwhile, the balance of cash and investments totaled \$1.4 billion, decreasing \$147 million from the balance in the previous quarter. The company, however, maintains three revolving stand-by credit facilities, which do not include any restrictive covenants on withdrawals during times of adversity in market and which were not tapped in the period.

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As a result, Braskem's net debt in dollars stood at \$6.6 billion, including 4% from the previous quarter. In Brazilian real, consolidated net debt remain almost unchanged at R\$15 billion. The percentage of net debt denominated in dollar was 73%. The 10% EBITDA growth in the last 12 months of \$2.4 billion, led to a reduction in the company's financial leverage as measured by the ratio of net debt to EBITDA in U.S. dollars from 2.87 times to 2.71 times. In Brazilian real, the leverage ratio also stood at 2.71 times decreasing by 13%.

On March 31, the average debt term was close to 15 years, in line with the average term on December 31. Considering only dollar denominated portion of debt, the average debt term was 21 years. Only 5% of total debt matures in 2014, and the company's high liquidity ensures that its cash and cash equivalents cover the payment of obligations maturing over the next 28 months. If we consider this stand-by credit facility as well, this coverage increased to 31 months.

Consistent with the strategy to lengthen a long-term debt maturity profile, Braskem re-tapped the market and raised \$250 million by reopening its bonds maturing in 2024 issued in February, in the amount of \$500 million. The proceeds from those issuances will also then be used to repurchase shorter-term bonds.

Let's go now to slide six. This slide shows CapEx in the first quarter of the year. Maintaining its commitment to make investments with returns above the cost of capital, Braskem invested around R\$763 million in the period. Of this total, about 50% was allocated to maintenance, productivity improvements and assets reliability, including part of the disbursement for the scheduled maintenance shutdown at the Triunfo cracker and around 45% was allocated to the construction of the new petrochemical complex in Mexico.

It's important to remember that the investment in the Mexico project shown here does not include the resources of the project finance and the minority shareholder of the projects.

For 2014, Braskem's investments are estimated around R\$2.7 billion. Of this amount, approximately 25% will go to the Mexico project, while around 60% will be allocated to maintenance and productivity improvements and reliability of these assets, including the scheduled maintenance shutdowns at the Triunfo and São Paulo crackers.

Let's go to the next slide, please. Slide eight shows the progress on integrated projects for the production of polyethylene in Mexico. The project construction continued to advance and physical completion reached 66% in the quarter.

More than 45,000 tons of materials and 510 pieces of equipment have already been delivered to the site. A highlight was the progress made in the electro-mechanical construction, which focus on installing equipment and assembling the metallic and tubular structures.

Regarding the project finance structure, by the end of the first quarter, the subsidiary, Braskem-Idesa, had good ground to disbursement of the project finance in the total

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amount of \$2 billion. The third disbursement of \$465 million was received on April. The project, which we start operations in the second half of 2015, is the first greenfield project to be commissioned in North America and will use competitive price update and feedstock for the production of polyethylene.

In addition to the feedstock competitiveness, another advantage of the project is its focus on meeting the growing demand for polyethylene in Mexico domestic market, which currently is a net importer market with 70% of its feed supplied by imported materials. For this year, the priorities are expanding the number of active clients, and increasing growing marketing activities, training and developing the members who will run the future industrial corporation.

Let's go to slide nine, please. Slide nine covers the global petrochemical industry and its outlook. The expectation is that the growth of the global economy in 2014, driven by the better performance of the developed economies, continues to have a positive impact on the demand profitability of the petrochemical sector, which remains relatively well-balanced in terms of supply and demand.

Risk factors remain associated with geopolitical issues in the Arabian Gulf and more recently in Ukraine, and their potential impact on the world economic growth and the price dynamics for oil and naphtha, the main feedstock used by the industry. Regarding Brazil, the factors we monitor are the recent appreciation of the Brazilian real, the potential need for reduction in the electricity consumption, and the weak level of economic growth.

Looking to the medium and long-term, the outlook for the global petrochemical industry remains positive, in response to the growing world demand. The uncertainty with regard to the timing and of the startup of projects already announced also continues to be at stable levels for the recovering sector's profitability. The factors to be monitored is the commissioning of the new projects announced for 2017 and 2018, which CapEx exceeds this relatively main goal of project dealings (14:39) and that have could pressured the margins of the industry.

Let's go the next slide, please. On this slide, we present the many areas management is currently focusing on. Considering this scenario present on the previous slide, Braskem's strategy remains focused on supporting the development of the Brazilian petrochemical and plastics chain, optimizing the management of its costs and strengthening of this business, relationship with clients and its competitors.

Braskem has invested in projects to diversify feedstock profile and improve its competitiveness in the global cost curves by (15:20) using the integrated petrochemical complex in Mexico to produce polyethylene, conducting studies for implementing the new petrochemical complex in Rio de Janeiro known as Comperj and the development of the status of the Ascent project, which is an integrated project to produce polyethylene using the North American shale gas as feedstock.

The company also remained focused on investments in innovation with the development of new applications and efforts to support the growth of the plastics manufacturing

industry, its continued pursuit of higher operating efficiency by increasing its capacity utilization rate, the closing of the acquisition of controlling interest in Solvay Indupa, and maintaining its financial health and cost discipline.

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

Q&A

Operator

Thank you. The floor is now open for questions. Mr. Frank McGann from Bank of America Merrill Lynch would you like to make a question?

Q - Frank McGann {BIO 1499014 <GO>}

Yeah, thank you very much, and good afternoon. Just wanted to focus a bit on the trends you're seeing in the second quarter, in terms of what you're seeing relative to the first quarter both in terms of volumes and pricing?

And then, looking out a little bit longer, you have made some comments about the need for the government to find ways to stimulate the industry. I was wondering, what types of actions you think the government should consider or perhaps is considering, how likely that is and what - how you think that might change the outlook over the next one to two years?

A - Carlos José Fadigas de Souza Filho {BIO 15226603 <GO>}

Hi, Frank, good afternoon. It's Carlos Fadigas speaking. Regarding the second quarter of the year, a few comments on the basic, on the more important aspects of performance for the second quarter.

First of all, there is a national spread. We don't see significant change on international spread in both first quarter and second quarter. I think we have to keep an eye on what happens in Asia, Far East, especially China, because the improvement in spread we've seen over the last year or so has a lot to do with improvement in economic performance both for U.S., in Europe, and China sustaining the level of economic activity it had in the past.

So if you see further reduction in growth in China, that may change things in petrochemical, you know that probably better than I do. So looking to our Southeast, it's China and Indonesia (18:46), but apart from that, we see international spreads staying pretty much where they are right now.

In terms of volume of sales, and then briefly, Europe and U.S. are doing fine, actually better than last year. We see a very sustained growth in the U.S. some return of economic growth in Europe. So I don't see concerns in that area.

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In Brazil, where we sell most of our products and still make most of our returns, our EBITDA, we see the second quarter probably not as strong as typically we have, because of seasonality every single year, we have a growth in sales that's coming from the first to the second quarter of the year. In Brazil, actually, we have a shorter month of February every year (19:39) in Brazil, when combined (19:40) with carnivals, we have less working days. So typically, we have second quarter better than the first.

That may not be the case this year. We've seen growth in demand in Brazil in the first quarter of 3% year-over-year and if you go back to the first quarter of 2013, and we believe that because of the World Soccer Cup that happened in Brazil in June-July, some production change may have already included purchase, and therefore, manufacturing integration for the World Cup and some - lot of people take invitations during the World Cup, a lot of consumption grow and this consumption may have already reflected in the first quarter.

So we see more of a kind of a flat performance between first quarter and second quarter, where the traditional year will have the strongest second quarter than the first one. When we talk about first, the whole first half of 2014 compared to the first half of last year, at this point, we don't believe we're going to have the same 3%, we have it year-over-year, right now, until the end of the first quarter. So volumes may be in line, not as stronger as the traditional year would suggest.

In terms of exchange rate and it's critical for the performance of the Brazilian (21:05) business, we do have the vast majority of our costs associated with U.S. dollars so that we think it naturally has it, but we have some 20% of our costs were Brazilian reais denominated. Therefore, a stronger Brazilian reais make this a little bit less competitive and that's what we're seeing right now. The average exchange rate for the first quarter was R\$2.36 per dollar. Right now, the exchange rate is R\$2.22, so you have the real portion is a bit stronger than it was in the first quarter and that plays against our EBITDA generation, even if we measure debt in U.S. dollars, because it's the reais denominated costs and that's having a bigger expression when converted to U.S. dollars.

Regarding government stimulus, Brazilian government has been also quite active. It's a government that works and has a policy of stimulating the feel in (22:15) the economy be more present in the economy. In the past, we've managed to get FX reduction on our raw materials, a relevant one, you're familiar with that. We called it this petro regimes (22:27) for petrochemicals.

But there are others things that can be done. One thing that right now, we have already conquered is the anti-dumping measure. It's a temporary one where that it has been given to us. In the meantime, that the government is still doing the technical study to come a final conclusion where there is really dumping occurring in polypropylene. But it has already given us the provisory protection, the provisory defense, I should say, in the meantime, where we are going through the numbers.

And we do hope that they will confirm that we have this right, because in our belief, there isn't anti-dumping being practiced from a few countries in polypropylene. They are

dumping polypropylene in Brazil.

Maybe one final comment on that is the return of what was called (23:31). It's a way for the government to give back to exporting company, some of the taxes that end up being trapped in the cost of the product. So you don't pay direct taxes to export. It's just like any other country. But there are several taxes, there are some home debit (23:51) in the production process that is hard to get out of the cost of the exported product. We have that over the last two years, that represented 3% of the exported product, so every exporter of manufactured products in Braskem is among the 10 largest exporter of manufactured products in Brazil.

Every exporter of manufactured product would get a 3% tax rebate on the amount of its export of manufactured products that we don't know exactly why ended in December last year. The government said that it was mainly because exchange rate has improved. To be honest with you, it doesn't make much sense to us, because actually it has not much to do with exchange rate. It has to do with taxes embedded in the production process. So anti-dumping and the tax return, actually the tax break, tax credit in the export of manufactured products could be too late (24:55) for the government to provide stimulus to the Brazilian industry.

Just to give you a perspective of the competitiveness of the Brazilian industry as a whole, if you measured the trade balance, the Brazilian trade balance, if you look only at manufactured products, we have reached a record debit (25:14) last year, of US\$105 billion, meaning that we have imported US\$105 billion more of manufactured products than it has exported.

So just to give you an idea that it is a relevant (25:28) but for the most of the Brazilian exporting industry and we are working together to try to get some stimulus back from the government.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much. Very helpful.

A - Carlos José Fadigas de Souza Filho {BIO 15226603 <GO>}

Thank you, Frank.

Operator

(25:47) from GBM, would you like to make a question?

Hi, congratulations on the results. My question is, if the company is considering importing naphtha rather than buying it from Petrobras, due to the increase in prices, as the spread between imported and national naphtha has narrowed, that would be my question?

A - Carlos José Fadigas de Souza Filho {BIO 15226603 <GO>}

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Hi, Andre (26:16). I think for a question for your comment. We, as you know, we already bought 3 million tons of naphtha and we buy roughly 7 million tons of naphtha from Petrobras. And my answer to your question is, no, we do not want to import additional naphtha. And there are a few reasons for that.

First of all, we don't believe it makes much sense to run petrochemicals segment in Brazil and when I talk about the petrochemical industry in Brazil more than Braskem, because roughly 800 chemical plants are supplied directly indirectly by Braskem. So Braskem is in just the first step in the production change and the production change that has several other hundreds of plants in other different companies.

And together, we will represent roughly the third, fourth largest piece of the Brazilian industrial GDP. So it's a relevant segment in Brazil. It was not built to run on imported naphtha. It doesn't make sense to run an entire segment of the Brazilian industry on imported naphtha. And more than that, Brazil, Petrobras produces enough naphtha to keep supplying Braskem and through Braskem, the whole petrochemical Brazilian segment.

Some of the naphtha right now produced is being added to the gasoline tool to provide gasoline, we do have had a huge growth in demand for gasoline, and we believe the Brazilian asset should keep being related to the petrochemical segment.

I have also to tell you that, Petrobras recent discussions we've had with them, our belief is that they understand the need to have the local industry supplier to really buy local raw material doesn't make sense to keep it working for us to import what they already import and we are confident we're going to find a way together to find the price formula in an equation that fits (28:36) company.

One final thing to add to that is that we've been working very hard to find industrial strategies between the two companies, in a way to create value to accommodate the difference views on naphtha (28:51) meaning that it will find other ways to make money together that could help us compensate for the difference in perspective on what should be the cost of the naphtha being showed by Petrobras to Braskem, and therefore, the petrochemical segment in Brazil.

Q - Operator

Okay. Thank you very much.

A - Carlos José Fadigas de Souza Filho {BIO 15226603 <GO>}

Thank you.

Operator

Mr. Gustavo Gattass from BTG Pactual, would you like to make a question?

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Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi, guys. I had two quick questions for you. The first one, on the market share loss that we had from the quarters, I just wanted to touch base. Do you guys see that as any structural change in the way that the business is growing or is that just basically one-off part of the story?

And the second one, I just wanted to touch base, the press release talks about a pension fund charge, yet on your presentation there's no indication of an adjustment as one-off for that. I just wondered if you guys could talk a little bit about what that is and what it means for your EBITDA in the future and for the first quarter? Thank you.

A - Carlos José Fadigas de Souza Filho {BIO 15226603 <GO>}

Hi Gustavo, thanks for your question. Two important points regarding the first question, market share, we did 67% market share and you know that in the past, we said, we'd like to have a market share around 70%.

So it actually means that we would rather have 70-plus% like we had 71% about a year ago. So I don't see that as a consequence of a structural change. It is a very competitive and tough market, you know that, Brazil - the Brazilian market has actually completed around - Brazilian market share in the high 60%, low 70%, so we had bit less than 70% back in 2011, we grew to 70-plus% in 2012 and then back to 70%, around 70% last year.

So one important thing to mention to that, I don't see that as a structural change. It is a consequence of also - it is the consequence of how we drive our products, what the service margin charge on top of the price of the imported resins, and therefore, it's the market share that we reach and we always keep in the mind the trade-off between these two variables. As we do that naturally (31:39), we work on other areas of the customers to increase relationship and the additions (31:46) to pay higher CESMA. So I don't see that going further down and but that's a constant battle and probably one of the most important one, regarding the current operations.

We still see some fiscal informality (32:07), well, meaning that's not paid by some important material on top of some important material, we are also working on that with the authority and that could be providing some series (32:23) for imported resins right at them in Brazilian resin. So that's something we also have on line on that.

As mentioned before anti-dumping is the key. We've got a temporary anti-dumping protection against imports from India, South Korea and South Africa. We do hope that we got it confirmed as a permanent measure, because we believe there's nothing incorrect on the (32:48) from these three countries each of these view. So focus point relevant, not a structural change, but not how we're seeing, we see that's the consequence of our commercial strategy as well, but we're going to keep an eye on that, we're going to keep working on that.

Regarding pension fund. As we bought just to have everybody on the same page, as we bought several different companies over time, we ended that with several different

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pension funds. At a certain point, we almost had 16 different pension funds. We have migrated them all to except for two, it's no great (33:27) the other ones to one kind of pension fund and no liability to Braskem, and this is one, but there are last two pension funds that are associated and managed by Petros.

And because of the performance of assets purchased by Petros as the manager of these two pension funds we still have, we have to account for a potential adjustment that could become necessary of \$65 million. In this quarter...

A - Roberta Varella {BIO 19105478 <GO>}

Reais.

A - Mario Augusto da Silva {BIO 18087499 <GO>}

\$65 million. In this quarter, that adds up to what we already have - had before, making that R\$255 million to R\$270 million of provisions for eventual losses on pension fund. We don't see that growing beyond that point. The provision we made this quarter is exactly to accommodate the difference between what we had and what we see as a potential loss.

As we do that, we keep looking very hard to find a way to have these money managed by somebody else, managed in a different pension fund not by Petros. They are managing much larger pool of money from employees of Petrobras and some other companies. And we just would like to do what we did with the other several pension funds we got that we migrated to one common pension fund that is called Odebrecht Previdência. That - because of this portfolio doesn't bring any liability to the company. So, to give you a broader answer, but in a nutshell, we don't see at this point, we do not see additional loss in the proceeding quarters (35:28) what we believe we have eventually at a loss. (35:34)

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Should I think about your EBITDA as being - have been R\$65 million bigger or was it charged somewhere else?

A - Mario Augusto da Silva {BIO 18087499 <GO>}

You should think of the EBITDA that on a recorded basis should have been bigger \$65 million - R\$65 million.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Perfect. Thank you.

A - Carlos José Fadigas de Souza Filho {BIO 15226603 <GO>}

Thank you.

Operator

Mr. Christopher Buck from Barclays would like to make a question.

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Q - Christopher Buck {BIO 15134624 <GO>}

Yeah, good afternoon. First, just wanted to see if you could clarify for a little bit more on the anti-dumping, if you can tell us what the potential financial impact would be, that will be helpful? Second, if you could, you guys have done a bunch of liability management exercises this year already. Any comments about any other plans you may have for the rest of the year? And then finally, just a quick housekeeping issue, I had seen a change in the 4Q 2013 revenue number that was on your prior release versus the one in this release. So I was just wondering if there was an adjustment there that I didn't see it in the release, so, wondering why there was a change there?

A - Carlos José Fadigas de Souza Filho {BIO 15226603 <GO>}

Christopher, I'll start with your question on anti-dumping, on polypropylene, and then I'll pass on to Mario da Silva to comment on the liability management, and then we'll comment on the adjustment you just mentioned.

What we got was a temporary anti-dumping protection against PP imported from India, South Africa and South Korea. At a certain point in the past these three countries represented roughly 50% of profits (37:52). It doesn't mean that we'll see a 50% drop on imports, what it sits in that (38:13) case is that they either keep coming, but at a different price points, because the anti-dumping protection is in place or they come from a different origin. This temporary right was given to us in the beginning of January, and therefore, the effect is - it's already (38:17) reflect in the first quarter of the year. So that's one way of answering your question. We do believe that it has presented us - it has presented some - an additional lousy (38:27) market share and that's one consequence of that.

Having said that, we do hope that we still grow market share as we move forward. So, it is on polypropylene only. It is for the three countries. And actually what we've seen the past is that some of the flow of import work its way somehow around it, not in price, but at least in origin - sometimes in both origin, price. And the end result is that internal price in Brazil doesn't suffer as much as it would suffer with dumping. But we managed to hold market share as a consequence of that.

I know one thing that we lost some market share, but as I said in the previous questions, it has also to do with as I've mentioned strategy on whether we want to be (39:28) focused on (39:45) or market share.

I'll pass to Mario to comment on liability management.

A - Mario Augusto da Silva {BIO 18087499 <GO>}

Hi, Chris, this is Mario. Regarding the liability management, I mean, it's important to mention we're in the petrochemical industry, by definition it's an industry of very long cycles. So, as a consequence of that, the exercise that we do here is to try to have a debt profile as long as possible. This year would be the true exercise of liability management. The first one was in January. We issued a 10-year transaction \$500 million and we bought back the bonds maturing on 2017, 2018 and 2020. And we added to that transaction 15

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days ago, two weeks ago, \$250 million. In the future, the work that we do here, it's - you know, every time that we see an opportunity a good moment in the market, we buy it eventually and go again to the market in another exercise. But again, the target is always to have adequate debt profile, and as long as possible, given the long cycles that we have within the petrochemical industry.

The last point that you had, I'll pass to Roberta to comment on the revenue of difference that you found.

A - Roberta Varella {BIO 19105478 <GO>}

Hi, Christopher, this is Roberta, do you remember that by the end of last year, we decided to keep our investments in (41:21) we're in this slot of what we had, it was like a quarterly adjustment. So, we can see it in our release of results that we add a table by the end of the release in the appendix that will show all the effects that we had quarter-over-quarter.

A - Mario Augusto da Silva {BIO 18087499 <GO>}

May be just to add to that, the - when we had Quantiq, our chemical distribution business up for sale, we - the auditor asked us to segregate all the numbers from Quantiq from the consolidated Braskem income statement. So, throughout most of the year in 2013 - all the year 2013...

A - Roberta Varella {BIO 19105478 <GO>}

All the year in 2013, then...

A - Mario Augusto da Silva {BIO 18087499 <GO>}

... in 2013, we had the consolidated Braskem numbers not including Quantiq. And now, we are including Quantiq and to make it comparable first quarter - first part of 2013 (42:14) we had to add Quantiq back to the beginning of 2013. So, it's comparable with the first quarter of 2014.

A - Roberta Varella {BIO 19105478 <GO>}

Yeah. And to make clear, we are adjusting our quarterly basis, because I don't know if you remember, in fourth quarter, we did everything in the fourth quarter of 2013. By the time that we decided that we were not selling Quantiq. So, now to be comparable, we're readjusting the first quarter of 2013 with the fourth quarter of 2014. I don't know if it's clear.

Q - Christopher Buck {BIO 15134624 <GO>}

Okay. No, and that's great. Thank you. And maybe just one additional question would be - you guys have provided some pretty clear margin guidance for the rest of the year. I know there is a lot of different factors that go into that, but any additional thoughts about where we should think about EBITDA margins coming up for the year on a whole or should we just think about that as being status quo and go with the guidance you gave previously?

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A - Mario Augusto da Silva {BIO 18087499 <GO>}

Well, sometimes it's tough for us to answer the question on where we see the EBITDA in the next quarter, you're asking about the whole year. But let me tell you that if we look at it - as we look at 2014, it seems irrelevant that could change the performance we've had in the first quarter, would be associated with what happens in Asia, if there is a slow down the economy in China. What happens with exchange rate, it's relevant. We had R\$2.36 per dollar in the first quarter. So, the reais - Brazilian reais gets stronger, it reduces our EBITDA generation. If the Brazilian reais gets weaker, it's good for the performance of the company.

In terms of economic performance, the consensus for Brazil economic growth at this point is roughly 1.6% EBITDA growth. I don't see at this point it's changing materially. So I don't think a big surprise would come from there. So, if you want a forecast for the year, what I would do is take the first quarter and then play with the variables according to your perspective of these variables, to try to come up with a whole year EBITDA. And I think those are the most relevant things to take into consideration. That's probably - that's possible answer I can give to you given the uncertainties around economic growth, exchange rate, and some of the other variables.

Q - Christopher Buck {BIO 15134624 <GO>}

Great. Thank you.

A - Mario Augusto da Silva {BIO 18087499 <GO>}

Thank you.

Operator

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

Q - Fernando Pérez Lizardi {BIO 17362174 <GO>}

Good afternoon. Thank you for the call. I have just two brief questions, the first one is the regarding Solvay Indupa acquisition. I was wondering if you have any timeframe whenever it's going to be completed. And second one is, if you see any, a further benefit in Mexico after the one-off of the secondary loss you have been presented? Thank you.

A - Carlos José Fadigas de Souza Filho {BIO 15226603 <GO>}

Fernando, we probably have some problem with the audio. I would like to, if you could repeat the question, the two questions please. We had some trouble understanding them. I don't know if you can speak a little bit closer to the phone or something like that to help us understand you.

Q - Fernando Pérez Lizardi {BIO 17362174 <GO>}

Sure. My first question is regarding the Solvay Indupa acquisition. I was wondering if you have any timeframe, whenever it's going to be completed. And second one is, regarding

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Ethylene XXI project. Did you see any further benefit due to the secondary loss that have been presented to the Congress (46:09)?

A - Carlos José Fadigas de Souza Filho {BIO 15226603 <GO>}

Okay. I will start with your question on Solvay Indupa and then we move to the question on the Ethylene XXI project. First to go (46:22) to Solvay Indupa acquisition, it's a process to go through. Right now the Brazilian to express contribution is in the live distribution (46:31). They have - based on how they classify the acquisition as a complex one. And they have roughly 300 day meaning 10 months to start - file the case with - represented first (46:50) ADT on January this year, so roughly around October we'd have, October, November we'd have a final decision. I do hope that every week, there is a final decision, a positive one to us and I do hope that with a little bit sooner than that, but that's how our (46:50).

In Argentina, we also have five or four public offer, a change of control public offer; we had to do that because Odebrecht Previdência as you know is a public company listed in the Buenos Aires Stock Exchange. The monetary - the capital market authority in Argentina is analyzing our proposal to come up with a complete value - (47:32) it is a valid proposal and asking them afterwards that the represented should be minority shareholders of certain group. But having said all that, things might be on track.

The critical path, the longer path is really here at the Brazilian antitrust (47:50). And (47:52 - 47:57) that PVC is a global market and therefore we don't see concentration that would jeopardize competition on the PVC market, meaning that we hope to have transaction approved by the Brazilian antitrust committee in review.

Regarding the - your second question, let me see if I got it right here, give me just a second.

Fernando, regarding your question on Ethylene XXI and the environment and the change that the government in Mexico has made. To summarize some of the points that I've made. What we see in Mexico is on the petrochemical segment, as a segment that is very much related to the both oil and energy segment, what we see is an - the government more open to private participation. Actually as you know Ethylene XXI is a consequence already of that - we view that the private money is welcomed to the petrochemical segment. So, the energy reform that was passed in Mexico is a huge sign of the readiness of the Mexican society, Mexican authority to welcome more private money in oil and therefore, even more in petrochemical. It was actually more open to private investment to start with big petrochemical companies like Mexichem, (49:39) and so on.

So we see a good business environment both in terms of regulation, but also in terms of energy cost, in terms of labor cost, in terms of trade agreements, Mexico has several free trade agreements with different countries. So, it is a positive environment. We are comfortable with the way the project is progressing. And actually, we have - I'd say we have the obligation to keep our eyes open to new investment opportunities in Mexico. So debottleneck for additional investments are not off the table at a certain point when we

consider that. Right now, the focus is really on finishing the construction, but we are open, especially in the environment that is favorable to business as we see in Mexico today.

I hope I have answered your questions. If I haven't let me know and I think I can complement what I said.

Q - Fernando Pérez Lizardi {BIO 17362174 <GO>}

Thank you.

A - Carlos José Fadigas de Souza Filho {BIO 15226603 <GO>}

Thank you too.

Operator

I will turn over to the company for closing remarks.

A - Carlos José Fadigas de Souza Filho {BIO 15226603 <GO>}

Well, I'll be very brief. Thank you very much for participating in the call. We remain focused on two parallel agendas, first of all optimizing profitability of the assets we already have. And in that line, we are working to improve the business environment in Brazil to the extent at the Brazilian industry. The anti-dumping measures, it's a consequence of that. The tax incentive (51:19) material. The last year is another example of that. The tax (51:24) is another example of that in our constant effort to keep increase market share is also a consequence of that.

We also has launched a program to support our customers, it's called PIC (51:40), the translation of that would be a stimulus program for the plastic industry, where we support innovation, export of transformed (51:51) material, the material is the products produced by our customers, and so on. So as we work on the current assets that we have, trying to increase profitability also work on as I said a parallel agenda to build the assets to make Braskem more competitive. That's the case for Mexico, for the Ethylene Project in United States, for their Comperj Project in the State of Rio de Janeiro, in Brazil and also with the acquisition of Solvay Indupa.

So and as we work on that, you probably thought if you see better EBITDA coming from the business we have right now as we have improved it from the first quarter and I think that compares with the first quarter of last year. So thank you again for your interest and I wish you all have a good weekend. Thank you.

Operator

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

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