

## Q3 2015 Earnings Call

### Company Participants

- Carlos Fadigas, Chief Executive Officer
- Mario Augusto da Silva, Chief Financial Officer and Investor Relations Officer
- Pedro Teixeira, IR Controller and Project Finance Director

### Other Participants

- Alejandro Marti, Analyst
- Diego Mendes, Analyst
- Pedro Medeiros, Analyst
- Unidentified Participant
- Vicente Falanga Neto, Analyst

### Presentation

#### Operator

Good afternoon ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's Third Quarter 2015 Earnings Conference Call. Today with us we have Carlos Fadigas, CEO; Mario Augusto da Silva, CFO; and Pedro Teixeira IR, Controller and Project Finance Director. 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 section. At that time further instructions will be given. (Operator Instructions) We have simultaneous webcast that may be accessed through Braskem's IR website [www.braskem-ri.com.br](http://www.braskem-ri.com.br).

The slide presentation may be downloaded from this website; please feel free to flip through the slides during the conference call. There will be a replay facility for this call on the website. We remind you that questions, which will be answered during the Q&A session, may be posted in advance on the website. Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities litigation reform act of 1996. Forward-looking statements are based on the beliefs and assumptions of Braskem management, and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, 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 Pedro Teixeira, IR, Controller and Project Finance Director. Mr. Teixeira, you may begin your conference.

## **Pedro Teixeira** {BIO 20753906 <GO>}

Good morning ladies and gentleman. Thank you for participating in another Braskem earnings conference call. Today we will be commenting on our results for the third quarter and the first nine months of 2015. We would like to remind you that, pursuant to the Brazilian federal law the results presented in today's presentation reflect the adoption of International Financial Reporting Standards in IFRS.

The financial information in today's presentation has been reviewed by independent external auditors. Now, let's go to the next slide, where we will begin our comments. On slide 3, we present the highlights for the third quarter of 2015. The favorable international market dynamics and the new exchange rate level supported an increase in exports. Resin sales to foreign market totaled 454,000 tons, up 22% and 43% compared to the second quarter 2015 and third quarter 2014, respectively.

USA & Europe business unit reached a new polypropylene sales record this quarter, with 502,000 tons, an increase by 2% from the previous quarter. Construction of the Mexico project continued to move ahead. The project reached 98% of completion and pre-commissioning activities are already in progress.

Brazil's economic recession has been affecting the resin demand in the country. Total resin demand in third quarter reached 1.2 million tons, 1% higher when compared to the previous quarter; however 11% lower when compared with the same quarter as of 2014.

Braskem's sales achieved 866,000 tons on third quarter 2015, 9% higher than the second quarter and 8% when lower compared to 2014. If we exclude the Rio de Janeiro cracker, whose production has been limited by a lower supply of feedstock, the rate would have reached 95%. The high utilization level is explained by a good operational performance, the increase in competitiveness of naphtha based crackers when compared to gas-based crackers and the ability of the Company to increase its sales abroad.

Given this context, Braskem recorded consolidated EBITDA of R\$3 billion in the quarter. This increase over the second quarter is due to the depreciation of the real by 15%; higher international basic petrochemical spreads; good operating performance; and higher sales volume in the domestic market and exports.

The leverage, as measured by the net debt to EBITDA ratio in US dollars, was 2.05 times which is the lowest leverage in nine years. This represents a decrease by 10% and 24% in second quarter 2015 and third quarter 2014, respectively. For the fourth consecutive time, Braskem was included in the New York Stock Exchange Dow Jones Sustainability Emerging Markets Index. On slide 4, we will discuss the performance of the Brazilian thermoplastic resin market and Braskem's sales performance.

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The Brazilian thermoplastic resin market totaled 1.2 million tons on the third quarter 2015, 1% up on second quarter 2015 and 11% lower when compared with the third quarter 2014. In the first nine months of 2015, the resin market in Brazil totaled 3.8 million tons, 5% down on the same period as of 2014, as a consequence of the deterioration of the Brazilian economy and its impacts on durable and non-durable segments. Braskem's sales totaled 866,000 tons in this quarter, 9% up on second quarter 2015. In the first nine months of 2015, Braskem's sales achieved 2.6 million tons, 4% down as compared to the same period of 2014.

On slide five, we present the factors that influenced EBITDA in the third quarter in comparison with the previous three months. Consolidated EBITDA reached R\$3 billion. The increase over the second quarter 2015 is due to an average depreciation of the Brazilian currency of 15%, a good operating performance and higher sales volume in the domestic market and exports.

The reduction in third-quarter resin spreads was partially offset by a higher level of basic petrochemical spreads in the international market. EBITDA in dollars came to \$870 million in this quarter, 2% up on the previous quarter. Now, on slide 6, we present the EBITDA in the first nine months of 2015 in comparison with the same period last year. Consolidated EBITDA stood at R\$7.1 billion. The improvement was due to the 38% average depreciation of the Brazilian currency, which generated a positive impact in the amount of R\$2.7 billion, consisting of a positive effect of R\$9.6 billion on revenues and a negative effect of R\$6.9 billion on costs.

A further positive impact came from the excellent operating performance and the upturn in total sales volume, especially in the international market. EBITDA in dollars reached an amount of \$2.2 billion, 20% more than in the same period last year. On slide 7, we show Braskem's debt. Given that the Mexican project is financed on a project finance basis, whereby its debt shall be amortized exclusively by its own cash generation, the analysis presented here excludes this amount.

On September 30, 2015, the Company's gross debt totaled \$7.3 billion, in line with the previous quarter. In reais, however, debt rose by 28%, reflecting the 28% of appreciation of the US dollar. 79% of the gross debt was dollar-denominated. Cash and cash equivalents stood at \$1.6 billion, equivalent to R\$6.4 billion. As a result, net debt came to \$5.7 billion, down by 3% over 2Q15. In reais, net debt was 25% up on 2Q15, as a result of the appreciation of the dollar.

In line with its liquidity strategy, the Company also maintains two stand-by credit facilities in the amounts of \$750 million and R\$500 million, with no restrictive covenants that could prevent the Company to disburse it during adverse market scenarios. The reduction in dollar-denominated net debt combined with the EBITDA growth of 8% in the last 12 months generated a positive impact on leverage measured by the net debt to EBITDA ratio, which improved from 2.27x to 2.05x when measured in dollars, 10% down on the quarter before, the lowest leverage since 2007. Leverage in reais came to 2.65x.

On September 30, 2015, the average debt term stood at around 16 years. Considering dollar-denominated debt only, the average term was around 19 years. In September, the risk rating agency Fitch reaffirmed Braskem's international scale rating as bbb minus, with a stable outlook. According to the agency, the rating and outlook remained the same because of adequate credit metrics; strong liquidity position; higher level of petrochemical spreads in the international market; and the depreciation of the Brazilian currency.

It is worth emphasizing that the Company's high level of liquidity ensures that it has sufficient cash and cash equivalents to cover the payment of its debt obligations maturing in the next 35 months. If we include the stand-by credit facilities, this coverage is 45 months. Slide eight, shows our CAPEX in the first nine months of 2015. Braskem invested R\$1.4 billion in the period, or R\$806 million when excluding the Mexican project. On this total, around 90% went to industrial operations, including investments related to improving operational efficiency and productivity. The remainder was allocated to other strategic projects, such as the production of UTEC in La Porte, in the United States.

The Mexican project, which is scheduled to start up at the end of 2015, absorbed investments of \$180 million, or R\$552 million, in the first nine months of 2015. The complex construction, conducted by Braskem Idesa, a company controlled by Braskem, is completed by 98%, and engineering and procurement activities were already concluded.

Pre-commissioning activities are moving ahead. The utility system is already in operations and the entire product dispatch logistic area was already concluded, and the first batches of railcars for product transportation already reached the site. On September 8, the company withdrew the sixth and last installment of the project finance amounting to \$24 million.

Moving on now to the last slide, where we will comment on the global scenario and Braskem's priorities. The modest recovery of developed economies and the slowdown of emerging economies led the International Monetary Fund to revise its annual global growth estimate down from 3.3% to 3.1%. The IMF also highlighted the economic slowdown in emerging market countries, with weaker growth in countries such as China and recessions in countries such as Brazil and Russia.

The risk factors associated with this scenario remain the higher volatility in financial markets, which could lead to a reversal in capital flows to developed nations. Turbulence in financial markets could also be exacerbated by the concern with China's growth potential, Greece's future in the euro zone and the impact of lower crude oil prices.

The Brazilian outlook remains challenging. Given the deterioration of the economic scenario, annual GDP is expected to shrink by 3% this year. For the global petrochemical industry, spreads are expected to remain at good levels in the short run. The points of attention are still related to geopolitical risks in the Middle East and North Africa and its impact on oil market dynamics and world's GDP. In addition,

oscillating demand from China, which is the world's largest feedstock consumer, and the recent negotiations to end the trade embargo on Iran, may put further pressure on oil prices.

In this context, Braskem's strategy remains based on the development of the petrochemical and plastics chain and investments in projects designed to diversify the feedstock mix and improve global cost competitiveness, through the execution, on a competitive basis, of the naphtha supply agreement with Petrobras; and the completion of the construction of integrated project in Mexico and its operational start-up at the end of 2015.

In line with its commitment to a healthy credit profile and cost discipline, it intends to focus on cash generation and implement a program to reduce costs, which should generate annual and recurring savings of around R\$400 million. That brings us to the end of our presentation and we will now go to the question and answer session.

## Questions And Answers

### Operator

Thank you. This floor is now open for question. (Operator Instructions) Mr. Pedro Medeiros from Citi Group would like to make a question.

#### Q - Pedro Medeiros {BIO 16187063 <GO>}

Hi Fadigas, Mario. As I said on the Portuguese conference call, congratulations for the results. I just had a follow-up question for that. Can you elaborate a bit further on your expectation for the polypropylene margins in the U.S. part of the business? I understand that since the second quarter, margins have been very, very strong partially driven by lower propylene prices. Can you comment a bit more about the sustainability of those margins throughout the fourth quarter and 2016?

#### A - Pedro Teixeira {BIO 20753906 <GO>}

Sure, Pedro. We have seen healthy increasing margins, actually beginning 2014 if we compare the performance of polypropylene, our polypropylene business in the U.S. from '14 to '15 seem a healthy increase in margins. And we see the dynamic happening throughout this year and actually getting stronger over the year. In that regard, we do expect to have a better fourth quarter than we had in the third quarter.

So, that's the dynamic from quarter-to-quarter. On top of that, it's important to emphasize two other things. First of all, we have seen the market demand in most of what the producers are able to produce in the U.S. So, the market is getting tighter and tighter and that's the trend that we see happening going forward. So, it's a healthy demand. If you think about segments like the automotive segment, where we have a good market share and if you just look at the average growth for GDP in the U.S. between 2.5% and 3%.

So, on the demand side, we see good demand. It's not an easy market for you to send polypropylene into the U.S. So, the local producers are enjoying, I should say, certain logistic advantage or logistic protection, if you wish.

On the other extreme of that, we have a very positive dynamic on the raw material as well, with the production of oil, pipe oil; we have the refineries running more than ever.

We have the PDH coming on stream, Dow Chemical PDH is going to start operations at the end of this year. For the next year we have the start-up of the enterprise PDH, Formosa is also building a PDH, so you have at least two very relevant routes for the production of propylene. So, the raw material is very competitive. Just to give an idea, we started the year, if I remember right, at \$1,300 per ton of propylene. At some point, at the end of last year, we had \$1,500 per ton, and we are down, at this point, with \$600 per ton of propylene in the US.

So, you have a positive dynamic on both ends, you have good demand on one side, which is expected to keep rolling. You have competitive propylene at the other side. This competitive propylene is really a domestic, a local dynamic. We do not see that happening in the same way in Europe and actually we don't see it happen in Brazil as well. It is really associated locally with PDHs and the light oil introduced, and the refineries producing more propylene. That is one of the reasons why we are not only debottleneck, a very small debottleneck, but just to mention it, and we are considering building a new polypropylene plant.

So, we do hope to see that as multiyear dynamic going into '16, '17, hopefully also into '18 until someone adds capacity in the U.S. And that's going to change operating rates and therefore spreads. But I think we are headed for a good period of polypropylene margins, specifically in the U.S. as we move forward.

**Q - Pedro Medeiros {BIO 16187063 <GO>}**

Okay, thank you so much. Very useful. Just as a follow-up to it, your response, when you talk about considering to do a new polypropylene plant in the U.S., would you mind classifying which kind of stage of development the plant is ballpark capacity side and operations startup date that is currently being considered?

**A - Carlos Fadigas**

Sure. We are still in the engineering phase. We have some way to grow as we move into the other phase of engineering, CO2 and CO3. It's not a complex theme especially coming from our mix on perspective of union petrochemical complexity of one polypropylene line is not that complex. So, what I am trying to say is that moving to CO2 and CO3 could be a very quick process, but we don't have a final decision made. We don't have a final union made. What I can tell you at this point is simply what makes sense, distribute what we call large scale plant, and the large scale plant would be something around 400 KT, 400,000 tons per year. So ballpark, that's what's being considered.

**Q - Pedro Medeiros {BIO 16187063 <GO>}**

Okay, okay.

## A - Carlos Fadigas

Okay.

## Q - Pedro Medeiros {BIO 16187063 <GO>}

Thank you so much, Fadigas.

## A - Carlos Fadigas

Thank you, too. Bye-bye.

## Operator

Ms. Annie Newman [ph] from Bank of America Merrill Lynch would like to make a question.

## Q - Unidentified Participant

Thank you very much for the call. I am sure you have answered this on the Portuguese call before, but there have been -- so my first question, I guess its two questions in one, has to do with the naphtha agreement with Petrobras. And I think it was the press conference that you had yesterday that said there were important differences on the price level that Braskem was willing to pay versus what Petrobras was willing to pay.

There was also a news report out today. I think you know global, that Petrobras saying that you had reached an agreement and they were just having an outside consultant review it. So, it's still a little bit confusing. I guess that sort of the first part of the question is if you can comment on what the status is. And the second part is I know the current agreement is just for a 45-day period. I know that your credit rating agencies are watching this very carefully.

Fundamentals are doing very well and very strong right now, but I know it's one of the factors for which the two agencies that have the negative watch have the negative watches domestically. So, I would appreciate any enlightenment you could provide on that topic for us, because we would like to see you stay at your BBB minus investment grade rating levels?

## A - Carlos Fadigas

Okay. This is Carlos Fadigas speaking. Thanks for your question. On the market front, what we have right now is a 45-day extension that will expire in December '15. We -- I do expect -- I hope that in December 15, we signed a long-term contract. I have had that expectation before and it ended up on an extension. I do hope that this time, it really materialize into a multi-year contract. That's what we are targeting.

Regarding price levels, what we said at the press conference today, just to make clear what's our position regarding price of naphtha. What we said yesterday is that we believe

that the variable formula that could vary around ARA prices, given European prices, Amsterdam, Rotterdam and reference prices, would be better suited to the changing reality of oil/petrochemical industry.

So, we have advocated that we should have a formula that would vary between, let us say, 90% of ARA and 110% of ARA or it could be 95% to 105%. And actually, in periods of time where both oil and Naphtha are low, we would pay a premium, and when it is at higher levels, we Braskem should get a discount.

These variable prices would, as I have said, help to move the changes in scenarios and they do happen, if you go back on 18 months, you get to a point where naphtha was at \$900 per ton, and now it is \$400 and something. So this vary every time. If we were to sign a long-term contract that should help us and that was mentioned yesterday, just to clarify that at this point, with the current results we have, Braskem could face more than other reference. When I say could is both because we would agree, we

could agree to do so, and we have the financial capability to do so.

The point is that Petrobras has stated that they do not like the idea of the prices coming below reference at any point. They would not like to sell below other references at any point. Then, our position, in accordance to Petrobras position, is that if they do not want to have a contract that would ever go below ARA, we would not like to have a contract that we ever go above ARA.

So, either goes for a variable team, where one side helps the other one, or we go for a fixed percentage of ARA that would not vary, but we would not like to see this percentage being higher than 100%. These are the two contracts. Either variable and it works both directions or a fixed one. If it is a fixed one, I think ARA is expensive enough in a very high reference price, we do not need a premium on top of that. So that's our position and one of the things being discussed with Petrobras.

Regarding what is done to press, I will tell you what I have heard also. But then, Petrobras should speak more in detail about that. And my understanding is that Petrobras is making a few studies to help support the decision of the executive board, but that has to do with internal governance of Petrobras. That's all I have heard and I really can't comment more than that. Annie, having said all that, one final thing I would like to mention is that the general communication between Braskem and Petrobras has always been open.

We have always been working together very professionally. Although we have briefing perspective on things, we have always been discussing these prospects in a very professional way and both Braskem and Petrobras are both engaged and trying to get to a solution of that. Both companies understand the -- outside there was possibilities toward the Brazilian industry, the chemical industry and so on. And I do hope we at a certain point, hopefully December 15, we get to an agreement and then we sign a long-term contract.



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## Q - Unidentified Participant

Okay. Thank you. Thank you very much. But let me just ask you a follow-up. Let's just say in the sake of, increasing diversity and options going forward, I know it's very difficult today because I believe your facilities are connected to Petrobras' refineries and so forth. But let's say hypothetically, it did make sense to open up your imports to more than the 30% that you currently import. Would you need to invest in additional port, pipeline or other sort of transmission facilities, so that could accept a greater percentage of imports of naphtha?

## A - Carlos Fadigas

Well, let me answer to you in two different ways. First, from a technical objective point of view, yes some investment will be required, right. But the second point of my answer is that we don't see that make much sense. And that's also something that has been on the table in the negotiations and the arguments of these negotiations with Petrobras. We have to bear in mind that the Brazilian petrochemical sector has been developed to process local naphtha. We didn't create the sector to run on imported naphtha.

It's a very tough business for you to be competitive globally, especially shale gas for you to run, a petrochemical complex -- so for you to run a petrochemical industry based on imported naphtha. To be honest with you, Brazil would have never built its petrochemical industry if we were to rely on imported naphtha. It's simply the math doesn't add up. If you think about what is happening right now with Japan, if you think about what is happening now in some other places, we are simply shutting down their capacity. Europe itself is not buying imported naphtha, but it's tried to these very expensive raw materials closing plants, let alone paying logistics on top of naphtha. So this 30% we have is, I would say to a certain extent a weakness. We have a weak spot. It's something we wouldn't like to see growing. So although we could from a pure logistics point of view, from a pure technical pipeline/storage point of view, would be done, because Brazil is abundant in both oil and naphtha and we should be supplied locally. That's the logic behind this industry for the last 40 years. And we hope to see that support in the industry for the foreseeable future.

## Q - Unidentified Participant

Okay. Thank you very much. Good luck with your negotiations.

## A - Carlos Fadigas

Thank you very much. Let me pass on to Mr. Mario.

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

Hi and regarding your second question about the rating agents, let me just comment. Yes, the uncertainty regarding the naphtha contract is affecting our rating, especially in two of the three rating agents. But on a qualitative basis, because on a quantitative basis, all the three rating agencies recognized the quality of our numbers, the evolution of our performance, the deleverage, the strong position in liquidity that we have at this point. So I am -- needless to say that all the efforts that the management team at this point is to reach an agreement on that contract. And as a consequence, we could move-on on that

topic. So that is the current position and the dialogue we have with the rating agencies regarding this point.

## Q - Unidentified Participant

Okay. Well, I hope -- we all hope that it works out. So good luck on that also.

## A - Carlos Fadigas

Thank you.

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

Thank you.

## Operator

Mr. Pablo Castelo Branco from Itau BBA would like to make a question.

## Q - Diego Mendes {BIO 16313486 <GO>}

Hi. It's actually Diego Mendes from Itau BBA. Good afternoon Fadigas and Mario. So two questions for you guys, the first one is related to the situation of the Maua plant, if you have any kind of guidance of what's going to be the financial impact? And now also if this plant has any kind of insurance if they are going to cover in the loss of the plant.

And then second regarding the PVC demand here in Brazil, we saw a very significant drop in the sales in the country and it's actually for the second quarter that is happening also, if I am not mistaken and if I am, please correct, but you guys are losing some kind of market share in the PVC as well. So, if you could tell us what are your expectations for PVC going forward; if you plan to increase your market share here in Brazil or if you are going to continue exporting the amount of volume that you did on the 3Q? That is it. Thank you.

## A - Carlos Fadigas

Okay, Pablo. Let me start with Maua and then move on to PVC. First of all, at this point, we are forecasting to have the plant back running on the third week of this month of November. It has stopped, the accident happened on October 14th, so we are talking roughly about something between 30 and 40 days of this plant being off line.

The main concern, naturally, is safety. It an industrial site that is surrounded by the community, by houses and residences and so on. It is actually one of the few that, unfortunately, are so close to the community. The other ones are located in industrial districts. Well, this one was in an industrial district some four years ago, but in the end the operation moved closer and closer to the plant.

But that is why safety is a top priority and we do believe we are going to be able to bring it back on line at the third week. In terms of losses, there are no relevant physical losses if you look at the asset itself. We did not lose much, I mean, in the perspective of this kind

of event. What we will end up losing is the profits we are not going to be making throughout these 40 days due to the fact that we will be off line in a period of good margins.

This number, right now, is being calculated around \$50 million and it is 95%, more than that, related exclusively to the profits we are not going to make, and that will show up at the fourth quarter results. It will be fully reflected at the fourth quarter results.

The accident happened and, hopefully, the plant will be back both during the 4Q. The plant is insured. Let me pass to Mario Augusto to comment a little bit on that.

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

Hi Diego. We do have insurance to cover the damages on the property of the facility. So, we do expect to get all the necessary investments to put the plant back on operation to be recovered by insurance. As Fadigas mentioned, the only portion that there is going to be an impact is associated with the profit that you would make during the period that you do not have production on that plant. But the whole fixed asset portion of the storage is covered by insurance.

### **A - Carlos Fadigas**

Just to make it clear, for the bigger portion of the loss that is associated with the profits we are not going to make, we are not going to reach the threshold to use the insurance on that piece. We are also insured for business interruption, but the threshold is higher than --

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

Usually, business interruption is, the threshold is 60 days and we expect to have the petrochemical complex back on operation much before that.

### **Q - Diego Mendes** {BIO 16313486 <GO>}

Okay.

### **A - Carlos Fadigas**

Diego, let me now move on to PVC. What we are having in Brazil is a dramatic reduction in the demand of PVC. It is one of the resins that has most heat by the recession. So, demand, on a yearly basis, of PVC could go down as much as 15%. Out of the three resins, if polyethylene is in one side more diversified and, therefore, associated with consumer goods and, therefore, you have the lower, the smaller heat, PVC is at the other extreme, very much associated with a long term consumption, with durable goods and, therefore, with the biggest drop in demand.

Because of that, the dispute for market share is a tougher one. We actually increased the market share from the second to the third quarter. In the second we had roughly 46% of market share and it has gone up to 51%. We are exporting from PVC, and we will remain

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exporting to the new size, smaller size of the Brazilian demand. We are going to defend our market share, we are going to work on holding the market share we have, but we are also going to try to run the plant as much as we can so that we export the excess we kept to the benefit of running the plant close to full and we export.

So that's one of the reasons why we increased only 3,000 tons in the second quarter to roughly 50,000 tons on the third quarter at the same time we are recovering market share. And we are just planning to keep doing that, as I said, keep our market share to run the plants full and export the balance due to the smaller new size of the Brazilian demand. Actually, we can only hope that, at a certain point, in the short future we will have both the housing market and infrastructure market back on track so you could see more demand for PVC in Brazil.

**Q - Diego Mendes** {BIO 16313486 <GO>}

Okay. Thank you very much.

**A - Carlos Fadigas**

Thank you, Diego.

**Operator**

Mr. Vicente Falanga Neto from Bank of America Merrill Lynch would like to make a question.

**Q - Vicente Falanga Neto** {BIO 18277588 <GO>}

Hello, good afternoon. Thank you, Fadigas. Thank you, Mario. I apologize if I am somehow being repetitive, because we were just able to join the call, but I have basically two questions. First of all, one element that has been surprising us is Braskem's amazing ability to place its products in the international markets. Based on our data, exports for PE, PP and PVC have reached most recent 150,000 tons per month more or less, which is almost twice as much as the normalized levels for the past five years. My question is based on your vast experience in the industry do you think most important element in this case is to hold exports right now at these levels is mostly the FX? And do you see more room for imports to improve even further if FX levels continue to depreciate?

And my second question, we understood Braskem's explanations regarding the booking of the ethylene 21 debt as a hedge to future sales. What we are trying to get more color on is the effect of this looking forward? Is it fair to assume that when we have an FX depreciation, the company will now have a significant FX gain in the financial expenses until the plant starts to ramp up? Thank you very much.

**A - Carlos Fadigas**

Thank you, Vicente. You are right, we have increased exports we have been mentioning that for 150 KT in this quarter, there's roughly 50 KT there, but the other 100 are for polyethylene and polypropylene that we began to remain exporting. I think that the main

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driver, the main factor that has been enabling us to export these spreads. The FX, the exchange rate helps naturally, having 3.8 exchange rate is way better than having 2 to 1 reais to dollar. But the portion of our fixed cost that is associated with Brazilian reais is not that big.

So yes, the exchange rate is important, but the spreads have been helping more. We have very open spread at this point. The fact that not disclosed, not that far from the cost of gas makes us more competitive when compared to the U.S. producers. That has allowed to, let's say, spend some of these open spreads to pay for freight and still have a positive netback in Brazil. If the spreads close, then at a certain point, they will drop below the cost of moving these goods all the way to Asia and we may reduce our capacity to export.

Having said that naturally exporting to South America, exporting to Europe will remain part of our strategy, but we may go back if spreads move down, we may go back to the situation we have, let's say in '13, 2013. But typically, we would reduce the final production, the last 100, 150 KT of production in one of our sites, typically at the Rio Grande do Sul site, because the last tons, the last tons wouldn't be profitable. So I would credit more to the spreads rather to the FX. Naturally, both helped. But spreads, we feel are more relevant to support the exports. I will pass to Mario who should comment on our hedge accounting.

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

Hi, Vicente. This is Mario. Let me comment on the hedge accounting question. Just remember that on the Braskem SA level, we have adopted the hedge accounting July 13 and we are going to start seeing this FX expense in the income of Braskem beginning next year, in 2016 until 2024. In the case of Braskem Idesa, which is the Mexican project, we have adopted by the end of 2014, and also we going to start seeing these FX expenses in the income of Braskem Idesa and as a consequence of that on the consolidated income of Braskem beginning in 2016.

In the case of the Mexican project, the adoption of the hedge accounting was based on basically two things. First, the project will have a portion of its production being exported throughout the years. And number two, different from Brazil, in Mexico, you are able to issue invoices in US dollars. Those two factors allowed us, on an accounting perspective, to adopt the hedge accounting, and you're going to see the effect of these and the income of Braskem Idesa from 2016 until 2029. Okay?

#### **Q - Vicente Falanga Neto** {BIO 18277588 <GO>}

Okay. Perfect, thank you.

#### **Operator**

Mr. Alejandro Marti from GBM would like to make a question.

#### **Q - Alejandro Marti** {BIO 19543019 <GO>}

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Yes, hello. First of all, congratulations for your report. I only have one question. Would you have any comments regarding that bribery allegation between Petrobras and Braskem?

### A - Carlos Fadigas

Hi, Alejandro thanks for your question. Just to recap the whole issue, we heard from the press that allegations that Braskem in 2009 would have paid, made a corporate payment, to have an advantage on its naphtha contracts, right. We -- right after hearing that and learning that we started an internal investigation an independent one is being conducted by a law firm from the U.S. and local law firm in Brazil. They have access to everything inside Braskem and they have more been working so far inside Braskem looking for eventual evidence to establish whether that has happened or not.

They are independent and therefore they have the own timeline. We have been giving them all the information they need on that. We keep on reporting on the progress of what they are doing to the authorities, both the Department of Justice and the Securities and Exchange Commission. We, as I said, we have -- following what they are doing, we are learning with them what they are doing. Not a relevant amount so far, so we do hope that at certain point in the future, we have the conclusion of investigation. And actually, I hope we at a certain point in the future, they are going to be able to establish that nothing happened. But at this point, positively we support their work.

So, I guess that's from a technical perspective, from a legal perspective, from an objective perspective. That is all I can mention. There is also risk to mention above that. In the meantime, Petrobras has spoke about this issue as well. At an interview with the Petrobras' current CEO has mentioned that he didn't -- they didn't find inside Petrobras any evidence of loss. Petrobras, number or evidence that Petrobras had lost money on this contract; that is one of the things he has mentioned. So, that's what we have been doing and as we do that, as we have this internal investigation being conducted independently, what we try to do is business as usual; keep working, keeping the team's focus on running the plants, selling the chemical products and making them -- due to the results we have. And again, I can only hope that it ends soon, so we can turn this page and move on.

So, that's where we are right now.

### Q - Alejandro Marti {BIO 19543019 <GO>}

Thank you very much.

### A - Carlos Fadigas

Thank you.

### Operator

I will turn over to the Company for closing remarks.

FINAL

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FINAL

## A - Carlos Fadigas

I would like to thank you all for participating in the call. I would like thank you all that have congratulated us on behalf of everybody of Braskem. I would say that we are very happy with the results. We do understand and we know exactly that part of that's coming from external factors, international spread and exchange rate, but we also know that a part of that is coming from the long and hard work we have been doing over the years to increase production at the plants, to reduce cost, to reduce maintenance cost, to increase market share, to protect mainly the Brazilian domestic market from unfair trade practices and to keep growing the Company as we do that, with the Mexican project and several other initiatives.

So, thank you all for participating in the call. We will remain very focused here, on the last two months we have of the year to hopefully finish 2015 with another very good quarter for Braskem. Thank you again, and I wish you all a good weekend. 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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