

## Y 2014 Earnings Call

### Company Participants

- Carlos Fadigas, Chief Executive Officer
- Mario Augusto da Silva, Chief Financial Officer
- Roberta Varella, Investor Relations Director

### Other Participants

- Andres Portilla, Analyst
- Andres Sobreira, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem 2014 Fourth Quarter and Full-Year Earnings Conference Call. Today with us, we have Carlos Fadigas, CEO; Mario Augusto da Silva, CFO; and Roberta Varella, Investor Relations Director.

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

We have 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 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'll 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 circumstance that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Braskem and could cause results to differ materially from those expressed in such forward-looking statements.

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

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

Good afternoon, ladies and gentlemen. Thank you for participating in another Braskem earnings conference call. Today, we will be commenting on our results for the fourth quarter and for the year of 2014. We would like to remind you that pursuant to Federal Law 11,638 as of 2007, the results presented in today's presentation reflects the adoption of International Financial Reporting Standards or IFRS. The financial information in today's presentation was reviewed by independent and external auditors.

Let's go to the next slide please, where we will begin our comments. On slide 3, we will present the highlights of the fourth quarter of 2014. The average cracker capacity utilization rate was 86%, 4 percentage points lower than the previous quarter, mainly reflecting the scheduled maintenance shutdown at the Sao Paulo site.

Brazilian thermoplastic resins market reached 1.3 million tons, a 5% reduction from the third quarter, due to the period's seasonality. Braskem sales followed this trend and totaled 850,000 tons. At the U.S. and Europe business units, polypropylene sales volume was 454,000 tons, down 4% from the previous quarter, explained by the postponement of part of clients' purchases in the quarter due to the expectation of another price reduction, following the trend of declining oil and naphtha prices.

Consolidated EBITDA in the fourth quarter was BRL1.4 billion, a 10% reduction compared to the third quarter, explained by the lower resin sales volume mentioned earlier and the reduction in petrochemical prices in the international market, which was partially offset by the depreciation in the Brazilian real.

In comparison with the fourth quarter of 2013, EBITDA increased 19%, reflecting the recovery of petrochemical spreads in the international market. The quarter's financial highlights also included the contracting of a new credit facility in the amount of \$750 million, in line with the strategy of maintaining high liquidity.

Regarding its commitment to promote development of the Brazilian plastics chain, Braskem continued to make progress on the plan to promote the competitiveness of the plastics chain. Braskem, jointly with the Brazilian Plastics Industry Association, launched the Industry Fund to promote the plastic image. The goal is to develop actions to support innovation, competitiveness and a sustainable development of the Brazilian industry of plastic manufacturing.

Another highlight was Braskem's inclusion for the tenth consecutive time in the Corporate Sustainability Index of the Brazilian Stock Exchange. The company is part of a select group of 11 companies that has been included in the index, since its creation.

Let's go now to the next slide. On slide 4, we present the factors that influenced EBITDA in the fourth quarter of 2014 compared to the same quarter of 2013. Braskem's

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consolidated EBITDA was BRL1.4 billion, an increase of 19%, mainly reflecting the recovery in petrochemical spreads in the international market. The result was also influenced by the positive impact of BRL106 million from the full prepayment, including new contingencies of the Tax Debt Renegotiation Program, or Refis, partially offset by the negative value of BRL66 million from the accounting adjustment of the U.S. and the Europe business units inventory to market value, due to the decline in propylene and polypropylene prices in the international markets.

The average depreciation of the Brazilian real against the U.S. dollar was also a positive factor and impacted the result in BRL256 million, of which close to BRL900 million negative in cost and BRL1.2 billion positive in revenue. In U.S. dollar, EBITDA in the quarter was \$536 million, increasing 6%.

Let's go now to slide 5. This slide presents Braskem's financial indicators in 2014 and its growth projects. Braskem's net revenue totaled BRL46 billion, or \$20 billion, increasing 12% and 3% in relation to 2013, respectively. The main factors contributing to this result were the recovery in petrochemical spreads in the international markets and the higher sales volumes at the U.S. and Europe business units.

Braskem's consolidated EBITDA reached BRL5.6 billion, increasing 17% from the previous year. The highlights were the recovery in petrochemical spreads in the global market and the Brazilian real depreciation of 9% against the U.S. dollar. The result also reflects the nonrecurring positive impact of BRL277 million from the divestment of non-strategic assets.

In U.S. dollar, EBITDA was \$2.4 billion, increasing 80% in the period. In this context, Braskem's net income for the year was BRL726 million. The company's leverage ratio, measured by the ratio of net debt-to-EBITDA in U.S. dollar, decreased to 2.58 times, a reduction of 10% from 2013.

Regarding the project to expand and diversify its feedstock profile, the construction of the Mexico project reached 88% physical completion at the end of December, with engineering and procurement activities practically finalized.

Braskem also announced the investment to produce ultra-high molecular weight polyethylene at its La Porte site. Known as UTEC, the resin has applications in different industries, such as construction, agriculture and automotive, and will complement the current portfolio produced in Brazil.

And last, the company completed its expansion and conversion of one of its polyethylene production lines to produce metallocene-based linear low-density polyethylene. This resin, with a more advance technology will supply the industry of plastic films.

Let's go now to the next slide, please. In slide 6, we will discuss the performance of the Brazilian thermoplastic resins market and Braskem sales in 2014. Brazil's weak economic growth, which was influenced by different factors, such as the lower number of business days during the World Cup and the increasing interest rates, affected the performance of

several industries, including the automotive, construction and durable goods sectors. In this context, demand for thermoplastic resins reduced by 1% in relation to 2013.

Braskem's resin sales followed the market trend and decreased by 3% to 3.6 million tons. Meanwhile, its market share was 67%, around 1 percentage point lower than in 2013. The opportunistic entry of imports during the last quarter of the year reversed the recovery trend in the company's market share observed during 2014.

Let's go to slide 7. This slide presents 2014 main operational highlights at our business units. The average cracker capacity utilization rate was 86%, down 4 percentage points from 2013, influenced by the scheduled maintenance shutdown of the Sao Paulo and Triunfo sites, and the feedstock supply restriction at the Rio de Janeiro complex in the first half of the year.

Meanwhile, ethylene and propylene sales grew by 4%, explained by the higher availability of product due to the scheduled shutdown at the second-generation and by the opportunities in the export markets. At the polyolefins business units, polyethylene and propylene production was 5% lower than in 2013, reflecting the scheduled and unscheduled maintenance shutdowns.

Braskem sales in the Brazilian market reduced by 4%, following the market trend. In the export market, sales decreased by 2%. At the Vinyls business unit, the year highlight was the growth of 9% in PVC production, explained by the normalization of the operations at its new plant in Alagoas. As a result, PVC sales increased by 4% in a year that the Brazilian demand decreased by 2%. Braskem's market share was 53%.

Lastly, the U.S. and Europe business unit posted a solid performance in 2014. Braskem set a new record for polypropylene production at 1.9 million tons, and Braskem sales grew by 4% from 2013. Contributing to this performance was the 4,000 tons expansion in production capacity at its plant in Seadrift and the better performance of the U.S. and European economies.

Let's go now to slide 8. On this slide, we will discuss the evolution of Braskem's EBITDA in 2014 compared to the previous year. Consolidated EBITDA reached BRL5.6 billion, growing by 17%. In dollars, EBITDA grew by 80% to \$2.4 billion. The highlights were the recovery in petrochemical spreads at a global level and the 9% depreciation in the Brazilian real, which had a positive impact of BRL817 million with a negative cost impact of around BRL3 [ph] billion and a positive revenue impact of around BRL4 billion.

The result also reflects the positive nonrecurring impact of BRL277 million from the divestment of non-strategic assets and the net positive impact of BRL72 million from the additional inclusions and full prepayment of tax installments under the Refis program, which were partially offset by the additional BRL65 million provision for the Petros Plans and the negative of BRL66 million impact from the accounting adjustment of the U.S. and Europe business units inventory.

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Let's go now to slide 9. On this slide, we comment on the Mexico Project. In line with the company's strategy to diversify and access competitive feedstock, the construction of the integrated project in Mexico to produce 1 million tons of polyethylene continued to advance, with the complex physical completion reaching 88%. The engineering and procurement activities are practically finalized with almost the main equipment and materials already delivered to the site.

The premarketing activities continued to advance. And currently, the client portfolio of the subsidiary, Braskem-Idesa, totaled 320 clients. At the end of 2014, total investments amounted to \$4.2 billion, with \$2.9 billion under our project finance model and \$1.3 billion under disbursement by the controlling shareholders. The project, which will start at the end of 2015, is the first Greenfield project to be commissioned in North America and will use ethane at competitive price to produce polyethylene.

In addition to the feedstock competitiveness, another advantage of the project is to focus on meeting the growing demand for polyethylene in Mexico's domestic market, which is a net deficit market and has around 70% of its demand supplied by imports.

Let's go to the next slide, please. Slide 10 show company's CapEx in 2014. Braskem maintaining its commitment to making investments with returns above the cost of capital, invested around BRL2.5 billion in 2014, which is 5% lower than the initial estimate of BRL2.7 billion.

Excluding the Mexico project, total CapEx totaled BRL1.9 billion, with 85% allocated to maintenance and other operational investments, which included the two scheduled maintenance shutdowns at the Triunfo and Sao Paulo crackers, and the remainder disbursement is related to the productivity, operational efficiency and other ongoing projects, such as investments to produce UTEC in the United States and expansion and conversion of one of its polyethylene production lines to produce metallocene-based linear low-density polyethylene.

Let's go to the slide 11, please. This slide presents data on Braskem's debt. Since the investment made in the Mexico project by the subsidiary, Braskem-Idesa, is financed under a project finance model, with debt repay using the project's own cash generation. The debt analysis presented here does not consider its financing structure.

In this context, on December 31, Braskem gross debt stood at \$7.7 billion, decreasing 2% from the balance on September 3. In Brazilian real, gross debt increased by 7%, reflecting the impact from the 80% U.S. dollar appreciation in the end of the period. 68% of gross debt was denominated in U.S. dollar.

Meanwhile, the balance of cash and investments was \$1.4 billion, increasing \$76 million from the balance at the end of the previous quarter. The company, due to its liquidity strategy, has revolving credit facilities that do not include any restrictive covenants on withdrawals during times of reversal market.

As a result, Braskem's net debt decreased by 3% to \$6.2 billion. In Brazilian real, net debt increased by 5%. Net debt denominated in U.S. dollars was 74%. Financial leverage, measured by the ratio of net debt-to-EBITDA in U.S. dollars, ended the quarter at 2.58 times, down 10% from 2013.

On December 31, the average debt term stood at 16 years. Considering only the portion of debt denominated in U.S. dollars, the average debt term was around 21 years. Only 7% of Braskem's total debt matures in 2015, and its high liquidity assure that its cash and cash equivalent cover the payment of obligations maturing over the next 33 months.

Let's go to the next slide, please. On slide 12, we will discuss about the global scenario. The IMF provided its forecast for world GDP growth in 2015 to 3.5%, a 0.3 percentage point drop from its last report, but a still higher level than 2014. The exception was the outlook for U.S. economy, for which the IMF is projecting an expansion of 3.6%. Regarding China, the outlook is for moderate growth close to 6.8%.

When it comes to Brazil, higher interest rates, announced fiscal adjustments and lower commodity prices in international markets impacted the GDP forecast for 2015, which should be close to zero based on the last focus report.

In addition to this challenging situation, there is a potential need for the energy rationing due to the current level of the country's reservoirs. On the other hand, the recent dynamics of the oil market, which had its price reduction moderated mainly by the increase of supply, a boost to global demand growth, especially in developed markets and in oil importing countries.

Regarding the petrochemical market, as expected, there was a reduction in petrochemical prices, which followed the downward trend in naphtha price, the sector's main feedstock. However, there is an expectation that improvement in global economy continues to have a positive influence in the sector demand and profitability.

From the supply point of view, the postponement in announced projects and the possibility of new delays or even cancellation depending on the level of changing oil prices, are also positive factors to the industry margin. The points of attention remain related to the geopolitical issues in the Middle East and North Africa and to developments in the oil market.

Moving to the last slide. And this slide represents Braskem's management concentration for 2015, in which we can highlight, the renew at competitive basis of the naphtha supply agreement with Petrobras; the completion of the construction of the integrated project in Mexico, and the start-up preparations for the end of 2015; the renewal of the energy contract with Chesf, seeking a solution that ensures the competitiveness of its costs and the feasibility of its electricity-intensive operation in the Northeast region of Brazil, and to support an industrial policy parallel to the fiscal adjustment announced by the government to recover the competitive sectors of the Brazilian industry.

In line with its commitments to financial health and cost discipline, Braskem priorities for 2015 also include a current reduction of its investment level and the implementation of a fixed cost reduction program. That concludes today's presentation. Let's go now to the question-and-answer session. Thank you.

## Questions And Answers

### Operator

Thank you. This floor is now open for questions. (Operator Instructions) (inaudible) would like to make a question.

### Q - Unidentified Participant

Yes. Hi. I would like to know if you guys expect the contract with Braskem, the naphtha supply contract of Braskem with Petrobras to be renewed at the end of February. And yeah, if you could just tell us at.

### A - Carlos Fadigas

Yeah. We are working right now with Petrobras to find a solution to the fact that the project that we have right now expires at the end of this month. I think that at this point, it's unlikely that we'll find a long-term solution, due to the fact that Petrobras has a new management and its new management is still getting acquainted or familiar with the issues related with this matter.

Therefore, I think it is more likely that we find a short-term solution like that in any six-month contract that allows us to keep running the crackers. Until we -- and with that, we might finally meet to try to get a long-term solution with them. So that's how I see it at this point right now. And we are working very hard to find a solution, at the least a six-month short-term solution, with the current management of Petrobras.

### Q - Unidentified Participant

So, you expect it to be renewed as it was basically in August and last March essentially?

### A - Carlos Fadigas

Well, we were -- we have had two periods of six months since the long-term contract we had expired in February last year. So the first one was an extension of the contract we have had for five years at that point. So, it was still have no conditions to what we had before. So between February '14 and August '14, what we got was basically a six-month extension of the long-term contract we had in terms of price and all the other conditions.

What we signed in August last year and that is expiring right now is different in the sense that it has what we call an open price, meaning that whatever long-term price we agreed during this six-month period would go retroactively to the September 1, 2014. What we're discussing to have from now on is still open. We haven't been able to agree on a structure for either a long-term or another six-month contract.

So I can't really compare what we are discussing right now with the two short-term solutions we found in the past, because we haven't yet found this what we believe we're going to find in this new solution for the next months.

### **Q - Unidentified Participant**

Okay. And I guess just one follow-up to that. Suppose the contract is not renewed, what alternatives do you guys have, if any? And or is that not really an option Braskem essentially needs this contract with Petrobras to continue to operate as --?

### **A - Carlos Fadigas**

Okay. If we just put some numbers to that -- comment some critical numbers in that situation. We have for crackers; we have been running naphtha in one (inaudible). So these other ones, the one in Rio de Janeiro is independent, let's say, from the total discretion of naphtha.

Of the three -- all the three crackers we have that run on naphtha, we purchased 10 million tons of naphtha per year. 3 million is imported by Braskem and 7 million is supplied by Petrobras. So if we don't have the 7 million from Petrobras, -- so 70%, let's say, of the raw material we need to run those three crackers, we will need to have.

Importing that, Braskem importing that, we don't see that as an option specifically and especially, because all these crackers were designed and built to run using local raw materials. It's not a technical thing, but more an industrial logic; therefore, these crackers are connected to their designers at Petrobras. They are nearby the refineries of Petrobras and they are, to a certain extent, an extension of their industrial compass of the Petrobras to run the refineries they have and the petrochemical plants, they're all interconnected.

So I'd say that we have to find a solution to that. And if not a long-term solution right now, a short-term one for that by ideally a long-term solution within (inaudible) to find some time right now in the field, it's important that we -- on top of finding a solution for the end of this month, on top of that, finding a long-term solution that's the whole discussion about that.

### **Q - Unidentified Participant**

Okay, thank you. I appreciate your answers and your time.

### **A - Carlos Fadigas**

Thank you, Chris.

### **Operator**

Mr. Andres Sobreira from Credit Suisse would like to make a question.

### **Q - Andres Sobreira**



Hi. Good afternoon again. Fadigas, this is Sobreira. Just a quick follow-up. In all the products and subsectors and types of clients that you sell to, is there any difference in demand behavior? Which sectors or which types of clients are suffering less? Which ones are suffering more? Is there any subsector or type of client that's actually doing well? I just wanted to get a little bit of more feel for -- in terms of demand and cap polarity. Thank you.

### **A - Carlos Fadigas**

Well, Andres, thank you for your question. We don't see a lot of segments performing particularly well, to be honest with you. When you think about the automotive, when you think about construction infrastructure, when you think about retail, we don't see -- when you think about durable goods, they all have suffered throughout 2014 and still in the same situation at this time.

Very specifically right now, what we see is rotomolding because of these water dams for - - because of the water prices in some regions in Brazil, people are buying more storage for water. So rotomolding for these water dams is something that specifically right now we see some reaction naturally. When you think about the average, because of the summer seasonality, it's a segment that is performing well.

But the very specific and -- when I think about the whole year of 2015, we do expect the agriculture segment to keep performing well. Hopefully, durable goods, what we call (inaudible) in Brazil, what we call refrigerators and home appliances, hopefully some of that will perform better. We are coming from a tough year in 2014.

But again, if we go back to automotive, civil construction, infrastructure and retail, even in the industry we don't see a lot of positive performance in these segments. So I think that's one way of breaking down commenting how specific segments are performing at this point.

### **Q - Andres Sobreira**

Great. Thank you.

### **A - Carlos Fadigas**

Thank you.

### **Operator**

Mr. Andres Portilla from GBM would like to make a question.

### **Q - Andres Portilla {BIO 18753749 <GO>}**

Hi. Thank you for the call and congratulations on the results. I wanted to ask you about what's your perspective for this year and beyond, based on the current oil prices which have decreased significant since the last half of 2014? I wanted to see what your expectations were and how this could impact the company's results?

## A - Carlos Fadigas

The reduction in oil prices, from a shortened perspective on spread they have initially increased the resins and base petrochemical products spreads, because oil price fell quicker than what we saw in the resins and base chemicals. Right now that we've seen over the last month or so that we've seen more stable oil prices, we are now trying to see and understand where exactly the price of resins and base chemicals will stabilize.

We don't expect to have lower margins than what we had in 2014. We can't be very sure about that at this point because we've seen what the -- at the end of this very volatile year when oil came from \$110 or \$100 per barrel, down to \$47, up again to \$55 and it has only recently stabilized. So we're still seeing the stabilization of resins and basic chemical price.

But having said that, I think that we don't have any economic -- macroeconomic evidence that this year should be any worse and also any better than what we had in 2014. So, what I do hope is that year-over-year, we end up with similar margins. We've seen weaker base petrochemical margins, especially in Asia, associated with products like butadiene and some aromatics. But it's too early to say, whether they're going to stay lower than next year or if they're going to recover back to the levels we had before.

For Braskem specifically, one positive and negative factor to add to that. The positive one is exchange rate. So the biggest part of our production is based in Brazil and the Brazilian currency is getting weaker and weaker. That helps our competitors. On the negative side, Brazilian GDP is not expected to grow in 2015, and that should prevent us from selling more than what we would like to do, but it's unlikely to happen due to the scenario in which we don't see GDP growth.

When I think about the long term, gas producing will remain more competitive. Therefore, our project in Mexico is relevant. Therefore, we're going to keep it for potential investment in gas-based production. But the difference between the gas producer that is still more competitive and a naphtha producer has been reduced to a big extent. But it still has to be more competitive. It's very hard for me to forecast oil prices, but it seems it should be a certain consensus that you're going to have an oil fluctuating at a much lower level than we've had going since last year. Average price was fewer than \$100 per barrel.

And there are lot of consulting stock [ph] that are talking about \$67 a barrel for the next few years. So let's see how it evolves. And that's pretty much all we can forecast given what we have right now in our hands.

## Q - Andres Portilla {BIO 18753749 <GO>}

Okay. Perfect, thank you very much.

## A - Carlos Fadigas

Thank you, Andres.

## Operator

(inaudible) would like to make a question.

### **Q - Unidentified Participant**

Hi, thank you for the call. Given the financial issues at Petrobras and the expectation that maybe -- they will be selling some assets, can you give us a sense of their level of commitment to owning a fair stake in Braskem?

### **A - Carlos Fadigas**

Hi, Chelsea. It's tough for us to comment on that, especially because it's a Petrobras decision to decide what they're going to sell, if they're going to sell or not. They have a 36% stake at Braskem. They have been a very present shareholder. We have a 11-members advisory board, and they have 4 seats out of these 11-member board. And they've been participating as a shareholder in the meetings that we have. So, it's really a question to be addressed to them. What we see from Braskem's perspective is the active involvement of Petrobras as a shareholder at Braskem Board.

### **Q - Unidentified Participant**

But there's no shareholder agreement or anything that would prevent them from selling, correct?

### **A - Carlos Fadigas**

No, there is a shareholder agreement. There is one signed between the Odebrecht Group and Petrobras. Odebrecht has 38% of the total cap of Braskem and Petrobras has 36%. Regarding voting shares, Odebrecht has 51% and Petrobras, I believe, has roughly 48%. They hold voting capital. They do have a shareholders' agreement, but as far as I know, it does not prevent any one of them from selling the shares they have at Braskem.

### **Q - Unidentified Participant**

And your shareholder agreement is available in our website?

### **A - Carlos Fadigas**

The shareholders agreement is available at our website. So it's public information and it does not prevent them from selling. Naturally, the rights that each shareholder has will depend on -- in the number of shares that they have. So that's -- again, let me just go back to my first statement that it's really something that it's for them to address rather than us.

### **Q - Unidentified Participant**

Okay, great. Thank you.

### **A - Carlos Fadigas**

Thank you.

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## Operator

(inaudible) would like to make a question.

### Q - Unidentified Participant

Hello, thanks for the call. I just have -- maybe you can clarify on the NASDAQ contract with Petrobras. When it's reached the agreement, would it have any impact retrospectively or it would be only going forward since when you signed the contract?

### A - Carlos Fadigas

What we have right now is a contract, a short-term one, signed September 1st last year, with open price that goes from September 1st to the end of this month, 28th of February. It's an open price and it says that, whatever price both companies agree on will be used to adjust back to September 1st, '14, meaning the last six months, if we reach an agreement. But we have not reached it yet.

The main focus of our discussion right now is on a new contract, and I don't think it's going to be feasible to achieve an agreement on a long-term one. So it's probably easier and more pragmatic to look for a short-term one that prevents us from stopping the crackers. And keeping an open price for the new one is something that is being considered. It has helped us in the past, in the sense that it has prevented us from stopping the crackers in the past. It would be useful again, but it has not been decided.

I don't think we're going to have any material effect moving back to September 1st, 2014. But that depends on if and what kind of agreement we reach with Petrobras until the end of this month. But again, I don't see it having a material impact on our result, because it is retroactive feature that we have.

### Q - Unidentified Participant

Okay. And also, I wanted to ask you, if you can give us some guidance in terms of the CapEx for this year and what is the part that needs to be financed for the Mexican project?

### A - Carlos Fadigas

Okay. We haven't approved the investment budget with the Board and we have agreed on the Board to take a couple of extra months this year to refine the budget. Typically, we approve the budget in December, but in December at the Board Meeting we had, we agreed that the market was so volatile that it was to the benefit of the company to take a couple of extra months to refine the budget.

The overall budget, results, EBITDA, everything it goes for the year and associated with that, define the CapEx for us. Because that, because we don't have an approved budget with the Board and that's something, we are going to have pretty soon. And I think it was a good decision to postpone that for a couple of months. We have more clarity now than we had in December about oil prices and some other things.

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Once we have, we're going to make that public and available, and we wouldn't expect any dramatic changes on typical issues like the level of investment, nothing dramatic. We have been just a little bit more conservative on the maintenance aspect in order to generate some more cash, free some more cash from operations. But that's something we're going to go to back to once we have a budget that has been approved by the Board.

I'll comment on the Mexican project and then pass on to Mario, who's the CFO, to comment on that as well. My initial comment is that the Mexican project is being financed by a package signed -- in a deal signed by the end of '11 -- '12, at the end of '12 with several banks. It was -- the project financed package of \$3.2 billion and with 17 banks. And we've been drawing from that line, and that's the line we're going to use to finish on top of that, debt plus equity, to finish the construction of the project. I don't know if Mario wants to add to that.

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

Well, let me just add that so far, we have invested in the project \$4.2 billion, out of which \$2.9 billion was the financing that Fadigas has just mentioned and \$1.3 billion out of equity contributions from both Braskem and Idesa. Braskem holds a 75% stake in the project. And Idesa -- Idesa, it's a Mexican company that operates in the chemical space in Mexico, has 25% of this joint venture. So out of the \$1.2 billion of equity that has been contributed so far, Braskem has contributed 75% and Idesa has contributed 25% of that. So the project is doing well. Expectation is that we have a start-up on the project by the end of 2015.

### **Q - Unidentified Participant**

Okay. And coming back to the budget for this year, can we expect to have fundings in Q1? Or it will be later than that?

### **A - Carlos Fadigas**

Well, that's good -- Q1 is good as for us. We hope to have that approved. We have a board meeting scheduled for next month. And we most likely are going to have the business plan and the budget approved next month. And then once it's approved, we're going to make that information available to you. We're going to have that on the website and comment on that. And naturally, we can't disclose that in more detail in a call as we address the first quarter result. If you want you can go back to the budget, but at that point, it will be public information and discuss the CapEx budget for Braskem for 2015.

### **Q - Unidentified Participant**

Okay. And maybe finally, if you can give some comments on the -- regarding the energy rationing that might happen in Brazil this year. What is your view? What is your expectation of what can happen? I mean, it's quite difficult to give an expectation of the weather, right? But if they're going to implement this rationing, what is the impact that it can have for the company?

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## A - Carlos Fadigas

Okay, Murdia, as you said, the Braskem forecast, if it's going to happen, when it's going to happen or how long it's going to happen and how deep the cut will be demanded from the consumers? So what we have done internally is that we have run several different scenarios, and how we would react to each scenario. A very important thing is that having 29 plants in Brazil, and having internal electricity generation at Braskem, we have a good degree of flexibility, meaning that we could cope relatively well. I'm sorry, I can't give numbers close to comments like relatively well, but what I'm trying to say is that we have designed different scenarios and if we have more or less intense rationing process, let's say, 5%, 10%, we're going to work with the electricity internally to minimize impacts on the results.

So in essence, the number of plants, the different lines of products and some capacity to generate electricity internally should help us deal with that. Next week, something more radical comes, we've read articles talking about 20% cuts in that case. We're going to have just like anybody in the industry, to -- more relevant impact at Braskem.

One final comment from my side is that, the way that this process is managed by the government and defined by the government can have very different impacts on GDP and on the consumers. For instance, with companies like ours, with very different plants could benefit for -- benefit from a process in which consumers are demanded to make reduction in consumption of electricity, and the government leaves to the company to decide where to reduce its consumption, meaning that I think overall it could be mandatory reduced consumption. But we could choose which plant and how much from each plant we will do that.

That would allow us to allocate effects to the products with lower gross [ph] margins. So it would be very, very positive for not only the industrial segment, but the user as a whole to have this flexibility in each site, where to keep current operations and where to reduce more dramatically the consumption of electricity. In that regard, it could let the economy adjust itself through a process like that. So we've been keeping track of what is happening. We do sign some promotion packages from consultants in this area of electricity generation and consumption.

So we've been keeping track of that. We have maintained our scenarios and we are trying to communicate to be prepared and hoping, prepare for the worst and hoping for the best. That's what people say.

## Q - Unidentified Participant

Okay. Well, Thanks very much.

## A - Carlos Fadigas

Thank you.

## Operator

Mr. Greg Palacios from Paola Assets [ph] would like to make a question.

## Q - Unidentified Participant

Hi, everyone. Thanks for your time. Just a quick question on EBITDA contribution from the Mexican plants, if you could have some rough color on that? And the other one is the Moody's negative outlook, if you could share some thoughts where they see, maybe a trigger for downgrade for the bonds? And I don't know if you have any EBITDA guidance for this year? I guess, given the -- that the margins won't be much different than I guess that's not the main question here, but maybe just about the 16 Mexican plants and just the Moody's. Thanks.

## A - Carlos Fadigas

Well, thank you. I'll start with the EBITDA and as I mentioned -- as I talk about the EBITDA, we'll obviously comment on Mexico, and then I'll pass the words to Mario Augusto to comment on Moody's, your question about ratings with Moody's.

We do not disclose guidance for EBITDA, but what I can tell you, I can comment our expectations on the main drivers, the things that naturally impact the EBITDA. So talking about those things, in terms of international spreads, I think I have mentioned in the previous -- answering the previous question that, at this point, what we believe we're going to have in '15 is international spreads similar to what we had in 2014.

There is a stabilizing after the -- some situations we've seen in both oil and petrochemical prices, but we don't have any evidence that suggests that we need to have lower margins. So that's kind of an unusual affect with hopefully a positive risk to have better margins.

In terms of sales in Brazil, again it's a flat projection; GDP of Brazil is not expected to grow. So therefore, we don't expect material changes from that. The devaluation of the Brazilian currency that is getting weaker and weaker, it's a positive effect, because it makes our Brazilian production more competitive when compared to international competitors. So that could help us generate more EBITDA in 2015.

And on top of that, we had two planned maintenance stoppage at our crackers in '14. And the way our maintenance stoppage are scheduled, it just happens that we're not going to have any maintaining stoppage in 2015. That could help us increase production and, therefore, hopefully, positively impact the results.

Mexico is not going to have a relevant impact in 2015 in terms of EBITDA, because their start-up is forecasted for the end of this year. To get for potential EBITDA of the Mexico Project, that's not a tough number to calculate. It's 1 million tons -- 1,050,000 tons of polyethylene. That's the capacity of the complex coming from gas and you can use U.S. price of gas as a reference to calculate the potential EBITDA generation of a context like that. That's -- so that's what I can comment about it.

Next, we again mentioning that in '15, does not have impact probably on the overall Braskem EBITDA, because it will start up only by the end of the year. I'll pass on to Mario to comment on the Moody's rates.

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

Hi, Graig. This is Mario. Let me -- we -- right now, we have, from Standard & Poor's an investment grade with stable outlook. With Fitch, in the last quarter last year, Fitch has removed the negative outlook to a stable outlook, recognizing the evolution on our financial indicators. Also, we had the last review from Moody's in the second half of last year -- August, September last year. Moody's recognizes the evolution in the operational results, in the leverage of the company.

They recognize the very strong liquidity position that we have. They haven't removed the negative outlook, a little bit related to the dynamics of the negotiation of the naphtha contract. They want to see the outcome of that negotiation before having a final position on the removal of the negative outlook to a stable outlook. Last year, we had, I think, a strong evolution in our leverage. We ended the year with a net debt-to-EBITDA of 2.58. So really, a very good improvement. That was the lowest leverage of Braskem since 2010, 2011.

So we've been deleveraging the company in the past two years.

In the end of 2012, let's remind you that we had a net debt over EBITDA of 3.3, and again right now at 2.58. And on top of that, at the same time it's good to remember that we have investor, we're close to the start-up of the Mexican project.

So most of the investment in the Mexican project is done. And with the start-up of the project, again I think was a big victory on our side being able, at the same time doing a project like the Mexico one, a big project with a big CapEx. And at the same time being able to reduce the leverage of the company in the past two years.

We keep talking with Moody's and we expect that with the evolution and if we are able to get a final -- a long-term contract with Petrobras on the naphtha negotiation, we've been able to remove the negative outlook.

### **Q - Unidentified Participant**

Okay. And just going back to the CapEx, the cycle since, like it's going to be much lower in '16, '17, right? I mean, generally, that's going to be the trend, can you confirm that?

### **A - Carlos Fadigas**

Could you say that again? When you say the cycle --

### **Q - Unidentified Participant**

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Yeah. So the CapEx cycle after 2015, do you think '16 and '17 will be dramatically less or just slightly? Can you just comment on that?

### **A - Carlos Fadigas**

Okay. We need to separate two things. We have a much more stable number on maintenance CapEx, in which you work on the maintenance of our 36 plants. So that's a more stable number. It varies a little bit depending on how many crackers we have to stop for maintenance, based on the long-term schedule we have for that. And we have a more variable, let's say, budget on new investments, new plants, new projects, and CapEx.

We have the objective to keep leverage close to 2.5. It may go up eventually as we work on an acquisition or as we work on a new project. And then we try to bring it back down to a zone around 2.5 times net debt-over-EBITDA. So, what's going to happen on the CapEx cycle as we think about '16 and '17 that will actually depend on whether we're going to have opportunities to invest in M&A or new crackers.

There isn't any big relevance in the ways we are targeting now. We have just announced that last year, actually at the end of '13, that we were planning to buy Solvay new PVC plant that even go through with the antitrust authorities. So these are the kind of factors that you change the new investment. And I'm calling it new investment CapEx. So what could move our budget up in '16? For instance, you create and sign a raw material contract to increase capacity in the cracker we have in Rio de Janeiro using gas from the pre-salt in the state of Rio de Janeiro.

So again, maybe to summarize that, a stable maintenance CapEx that doesn't vary much; and on top of that, we want to keep working on adding capacity through eventually acquisitions and through new projects; and it's very public that we've been pursuing a project in the United States based on gas that we call Ascent; we'll be pursuing additional capacity of resins in the state of Rio de Janeiro; even a petrochemical project in the Comperj area; or increasing the current cracker we have in Rio de Janeiro.

So those are the kinds of factors that will affect the CapEx, as we call it CapEx cycle, when we think about 15, '16, 2017 and so on.

### **Q - Unidentified Participant**

Okay. Great. Thank you very much.

### **A - Carlos Fadigas**

Thank you.

### **Operator**

Thank you. I will turn over to the company for closing remarks.

### **A - Carlos Fadigas**

FINAL

All right, I'd like to thank you all for participating in the call. As you all know, '14 was a tough year for Brazil. No GDP growth. We had signed two short-term contracts with Petrobras, one in February, one in August to keep the crackers running. But I'm glad to see that at the end of the day, we had a positive result BRL5.6 billion, \$2.4 billion of EBITDA. That's a positive number compared to historical results of Braskem. And we have avoided negative risks that we faced throughout the year.

As we work now in 2015, I think it's going to be -- keep being a challenging year in Brazil for the current operations that Braskem has, and we're going to be working very hard to prevent any negative risk and any negative impact be it from eventually having to reduce consumption of electricity or the naphtha supply from Petrobras, among other factors. And as we work on these, let's say, defensive strategy, we'll also work on a growth agenda through the Mexican project that we plan to finish would have its starting up by the end of this year. And as we look for alternatives to reduce costs and make Braskem more competitive in Brazil.

So again, thank you all for your attention, your time. We meet again at the call (inaudible) first quarter results. And I wish you all have a good weekend. Thank you very much.

## Operator

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

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