

Q3 2008 Earnings Call

Company Participants

- Bernardo Gradin, CEO
- Carlos Fadigas, CFO
- Luiz Henrique Valverde, IRO
- Unidentified Speaker, Analyst

Other Participants

- Adam Arnato, Analyst
- Denis Parisien, Analyst
- Eric Ollom, Analyst
- Gustavo Gattass, Analyst
- Ricardo Cavanagh, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's Third Quarter earnings 2008 conference call. Today with us we have Mr. Bernardo Gradin, CEO, Carlos Fadigas, CFO. And Luiz Henrique Valverde, IRO for Braskem. (Operator Instructions) We have a simultaneous webcasts that may be accessed through Braskem's 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 will be answered during the Q&A session, may be posted in advance in 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. 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 Mr. Luiz Valverde, Braskem's IRO. Mr. Valverde, you may begin your conference.

Luiz Henrique Valverde

Good morning, ladies and gentlemen. thank you all for participating in yet another Braskem quarterly earnings conference call, this time to discuss the company's results in the Third Quarter of 2008.

First I'd like to remind you that this release is based on consolidated information that includes a full consolidation of the results of Ipiranga Quimica, Ipiranga Petroquimica and Copesul, as well as the proportional consolidation in accordance with CVM Instruction 247 of the interest in Cetrel S.A., Empresa de Protecao Ambiental. To enable the analysis of these results in relation to prior periods, data for the first nine months of 2007 are stated on a pro forma basis.

Let's go to the next slide, slide number three, where we'll begin our comments. The net revenue in the Third Quarter was R\$5 billion, a growth of 40% in relation to the previous quarter, reflecting better resin prices as well as higher basic petrochemical volumes and prices, mainly ethylene, propylene and BTX, being BTX composes of benzene, toluene and xylene.

The increase of the average Naphtha price of 7%, combined with the average appreciation of the exchange rate of 1%, negatively impacted the cost of goods sold in the amount of R\$477 million in relation to the previous quarter.

The capacity utilization rate of Braskem's facilities exceeded 90% in the Third Quarter, reflecting the higher productivity and reliability following the scheduled maintenance stoppages at the Camacari and Trionfu [ph] Petrochemical Complex during the Second Quarter. It is worth noting that the capacity utilization rate for PP and PVC were both 100%.

Braskem reported EBITDA of R\$683 million in 3Q '08 with EBITDA margin of 13.6%, expanding by 1.8% in relation to the previous quarter. We highlighted PVC performance with a volume 14% higher and a higher revenue from basic petrochemicals. Both offset the higher Naphtha costs in the period.

Let's move on to slide number four where we'll comment on the advance of our strategic actions. On September 30 Braskem concluded the mergers of Ipiranga Petroquimica, Petroquimica Paulinia and a portion of Ipiranga Quimica that was spun off. It is important to mention that Copesul was merged into Ipiranga Petroquimica on September 11, therefore also becoming a part of Braskem.

A total of 1,506,061 Class A preferred shares were issued for the transaction, which were delivered to the minority shareholders of Ipiranga Petroquimica, corresponding to 0.7% of its capital. These steps will allow Braskem to accelerate the capture of announced synergies, leading to higher cash flow going forward.

On October 9, 2008 Braskem announced the conclusion of a five-year \$725 million export prepayment facility at a cost of LIBOR plus 1.75% and with a three-year grace period. With

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this operation the company successfully concluded the take out of the \$1.2 billion bridge loan for the acquisition of the petrochemical assets of the Ipiranga Group.

Next, the company did a swap transaction, fixing the LIBOR for an entire term at 3.85% per year. Therefore, the LIBOR plus 1.75% export prepayment was changed to a pre-fixed cost of 5.6% per annum. On September 25 Braskem, the world's first company to produce a polyethylene made from 100% renewable raw materials, signed an agreement to develop green polyethylene commercial operations in Asia, in conjunction with Toyota Tshusho, the trade company of Toyota Corporation. Braskem plans to begin the production of the 200,000 tons facility of green polyethylene by the beginning of 2011.

The company also announced the certification of the first polypropylene made from 100% renewable raw materials with the same characteristics and properties as traditional polypropylene. The polypropylene was analyzed by the laboratory Beta Analytic Incorporated and Braskem has already received the certification from the very same laboratory for the high-density polyethylene and linear low-density polyethylene.

Let's move on to slide number five please, where we show the growth in Brazil's resin market as well as in Braskem's share of this market. Demand for thermoplastic resins in the Brazilian market grew by 9% year on year in the nine months ended on September 30, 2008, with increases of 6% for polyethylene and PP and 20% for PVC, this latter being the highlight year-to-date.

In addition to the strong growth levered by the city construction industry, the PVC supply chain, which ended 2007 with low inventory levels, took advantage of the supply of imports from the United States to rebuild the inventories this year. In this scenario Braskem's domestic resin sales grew by 7% for polyethylene and PP and by 16% for PVC, with market share in the first nine months standing at 51%, in line with the same period in 2007, despite the growth of 7percentage points in the share of imports.

Let's move on to slide number six now. In slide number six we present a simplified income statement with the main lines from Braskem's results in the comparison period. The highlights of this quarter were, number one, the fact that Braskem posted a consolidated net revenue in the Third Quarter of R\$5 billion, as we mentioned, representing a 14% increase as compared to the previous quarter.

Excluding from both periods the effects of the condensate processing at the Southern Petrochemical Complex, net revenue in the quarter rose by 15% quarter on quarter, which represents R\$653 million (sic-see press release), chiefly due to an increase in basic petrochemical revenue of approximately R\$300 million and a realignment prices in the domestic market.

Excluding the effects of condensate processing, the net revenue in the quarter grew by 8% against 3Q '07, driven by, number one, the 7% increase in the average domestic resin prices in reals, number two, the 2% increase in domestic resin sales volume, number three, the 48% increase in caustic soda net revenue, boosted by both higher prices and

sales volumes and, number four, the 41% increase in butadiene net revenue, reflecting higher prices for these products in 2008.

Regarding the EBITDA, we will analyze it in detail on the next slide. Moving to the net financial results, in the Third Quarter the net financial results were the financial expense of R\$1.6 billion versus a financial income of R\$407 million in the Second Quarter. This result was mainly due to the difference in exchange rates between the two periods.

In 3Q '08 the Brazilian real depreciated by 20.3% against the U.S. dollar, compared with an appreciation of 9% (sic-see press release) in 2Q '08. Because Braskem has net exposure to the U.S. dollar, in other words more U.S.-pegged liability than U.S.-pegged assets, this foreign exchange variation had an import impact on the net financial results.

This net exposure is composed of 72% of debt and approximately 70% of suppliers on the liability side and 19% of accounts receivable and 34% of cash on the asset side. It's also important to mention that with virtually 100% of revenue and about 85% of its cost pegged to the dollar, the company believes that this exposure is adequate.

In comparison with 3Q '07, the net financial results in the quarter registered a variation of R\$1.5 billion. Once again, the primary factor was a greater impact from foreign exchange variation between the two periods, given the depreciation in the Brazilian real against the dollar in the Third Quarter of 20.3%, as already mentioned, versus appreciation of 4.5% (sic-see press release) in the same quarter last year.

Let's move to slide number seven. This slide, slide number seven, presents the main factors impacting the variation in EBITDA in the Third Quarter against Second Quarter. Braskem's EBITDA in the quarter of R\$683 million was R\$164 million higher than the EBITDA of R\$519 million in the Second Quarter of this year.

The higher prices of basic petrochemicals and excesses [ph] of the commercial policy maintain prices in a domestic market aligned with international market prices had a positive impact of R\$291 million. The increase of 22% in ethylene, propylene and BTX sales volume had a positive impact of R\$75 million, with resin volumes also contributing, although to a lesser extent with growth of 1%.

The variation in the FX rate between periods, with the Brazilian real depreciating by only 1% against the U.S. dollar, had a mass positive impact of R\$7 million, as shown on this slide. The increase of 7% in the average price of Naphtha ARA from \$949 per ton to \$1,011 per ton left a negative impact on EBITDA of R\$217 million.

Now let's move to the next slide, slide number eight. Slide eight presents Braskem's debt amortization schedule, including allocation by currency and a cash position on September 30, 2008. On September 30 '08 Braskem's gross debt stood at R\$10.2 billion, 16% higher than on June 30 '08, primarily due to the impact from foreign exchange variation of 20.3% between periods on the portion of debt pegged to the U.S. dollar.

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At the close of the Third Quarter the balance of cash and short-term financial investments was stable in relation to June 30 '08 at R\$1.85 billion. Accordingly, net debt, which previously stood at R\$7 billion, increased by 20% to R\$8.3 billion. In U.S. dollar terms, net debt remained stable at \$4.4 billion between periods, demonstrating the currency's initial impact on the amount denominated in Brazilian real.

The average term of Braskem's debt remained at 10.5 years at the end of the Third Quarter, lengthening to 11 years in October following the successful conclusion of the five-year, \$725 million export prepayment facility with a three-year grace period. Braskem believes its annual payment profile is perfectly adequate for its level of cash flow.

At the close of September, 72% of that was pegged to the U.S. dollar. And as a result of this variation that we just discussed, the company's financial average, as measured by the ratio of net debt to EBITDA in the last 12 months, which stood at 2.78 times in the Second Quarter, rose to 3.42 times in the Third Quarter 2008.

Let's go to slide number nine. Slide number nine presents Braskem's financial results over the quarters. It is important to mention that Braskem maintains a conservative risk management policy that includes a strict growth prohibiting speculative trading and short selling. In this context, Braskem has no target forward operation or other similar derivatives.

With practically 100% of its revenue directly or indirectly linked to the U.S. dollar and about 85% of its costs also pegged to this currency, the Company considers a natural hedge the maintenance of a significant portion of its indebtedness also in dollars. This strategy is based on the principle that the Company's indebtedness should have the same currency as its cash generation.

To protect short-term cash flow, Braskem aims at balancing its obligations in dollars to its revenues in this currency, in addition to cash invested in dollars. The limits to this cash flow protection policy were defined and approved by Braskem Board of Directors in 2004.

Accordingly, by the end of September 2008 the Company had three derivative transactions for hedging purposes and with maturities, currencies, rates and amounts perfectly adequate for the assets or liabilities being protected. In any given scenario, negative or positive adjustments in hedge positions will be counterbalanced by positive or negative adjustments in the protected assets and liabilities.

The foreign exchange impact of 20.3% in the quarter led to a foreign exchange loss of R\$1.4 billion in the period. In addition to the 72% of debt denominated in dollars, these lines also reflect exposure to the occurrence of 70% of suppliers accounts, 90% of accounts receivable and 34% of cash.

It is important to stress out that the negative effect of the R\$1,351 million in exchange variation during 3Q '08 did not impact directly the company's cash and cash equivalents in the short term. This amount only represents the impact of the exchange variation, mainly

on the company's investments. And will have a cash effect only when debt matures. And the average maturity term of our indebtedness is 10.5% years.

Given Braskem's cash generation profile, which is pegged to the U.S. dollar, the dollar appreciation has an immediate negative accounting impact and a medium-term positive impact on cash generation. In the nine months into September 2008 Braskem registered a foreign exchange loss of R\$753 million, a figure very similar, though opposite, to the foreign exchange gain registered in 2007 when the Brazilian real appreciated by 17%.

Let's go now to the last slide, slide number ten. In slide number ten we present the priorities of the administration for the Fourth Quarter of 2008. Braskem has reaffirmed its commitment to maintaining its competitiveness and remains focused on cutting its fixed costs and expenses. As of September '08 Braskem has already captured R\$143 million in annual and recurring EBITDA gains with a focus on initiatives involving the commercial and supply-chain areas.

In addition to this operational gain, Braskem has also captured annual gains of R\$55 million on a financial non-EBITDA basis. These synergies will be accelerated by the conclusion of the merger by Braskem of Ipiranga Petroquímica and Copesul, which occurred on September 30.

Braskem has also reaffirmed its focus on preserving the profitability of the business over the course of the petrochemical cycle and the competitiveness of the Brazilian petrochemical chain. To achieve this goal, we will maintain the intensity of our operation in the domestic market, while reducing the level of polyethylene and polypropylene exports in the Fourth Quarter. This is due to the combination of low demand and falling prices in international markets.

Braskem will reduce capacity utilization rates at its PE and PP industrial units and also add its basic raw material units. Braskem is continuing its negotiations with Petrobras for a new formula for the Naphtha prices, always seeking to obtain an agreement that is sustainable over the long term and that enables Braskem to be competitive at a global level.

On its green polyethylene project, Braskem plans to present to the Board of Directors by the end of the year the project for a new plant capable of producing 200,000 tons of green polyethylene each year from sugarcane ethanol. This is scheduled to come on line in early 2011. The plant, with investment of approximately R\$500 million, will be located at the Southern Petrochemical Complex and already has demand identified and in the process of being contracted in the food packaging, cosmetics and automotive sectors.

Well that concludes our presentation and let's go now to the Q&A session. Thank you very much.

Questions And Answers

Operator

Thank you, the floor is now open for questions. (Operator Instructions) Our first question comes from Denis Parisien of Santander.

Q - Denis Parisien {BIO 20333702 <GO>}

Good morning, gentlemen. thanks very much for the call. I'm wondering, you said imports got larger share of the market in the Third Quarter, is the recent depreciation likely to reverse that, or at least stop its growth? Is that a stable situation or could that be reversed? And to what degree would lower freight costs offset the depreciation impact on the competitiveness of imports?

And my second question is in terms of preserving profitability, obviously reducing capacity utilization in the Fourth Quarter you'll cover less of your fixed cost of an impact on margins. And seems, according to the data that I'm looking at, that the price petrochemicals in the international market is falling more rapidly than the price of Naphtha.

So it looks to me like your Fourth Quarter margins, as you pointed out in your press release, the increase in inventories at your clients, the picture is looking like a bit of margin compression coming. Could you give us a little bit more clear guidance on what to expect in the Fourth Quarter and in 2009 in terms of margins? Thanks very much.

A - Bernardo Gradin

Good morning, Eric, thanks for participating in the call. You're right, the imports were more aggressive. This is Bernardo, sorry. The imports on the first and Second Quarter were more aggressive in Brazil and the appreciation of the dollar against the real added to the less credits for international operations into lower substantially the imports on this quarter.

There is an inertia of imports made on second and third. And we feel already clients that are now importing as much as the second and Third Quarter. This will probably help us on the domestic demand. And what we may have in reducing of the international markets, we may recoup some in the domestic demand.

There is a pressure, of course, on margins, especially on the international market because of the reducing Naphtha being so rapidly (inaudible). So the volatility does not help us with the higher costs and prices coming down. There's a different dynamic pricing, the realignment of prices in Brazil, it's different in terms of the time frame.

So it takes more time here for prices to be adjusted. So we are concentrating on lowering inventories, we're reducing our operations on the crackers and also resins so that we can combine the best possible margins, considering the inventories we have with the domestic demand.

Q - Denis Parisien {BIO 20333702 <GO>}

Thanks for that, can you comment on the lower international freight rates. To what degree does that offset the benefit of the depreciation? And if you could get more specific about

guidance on margins I'd appreciate it.

A - Bernardo Gradin

Lower freight rates come with supply and demand, the same way of prices on the products. I don't think that offsets directly. On the Fourth Quarter we will have some more margin pressures, especially I think for December and end of November. So we were helped by the exchange rate. So in the domestic margins we were helped on the real depreciation. But we still have some pressures in margin pick up, the national [ph] margins parity for probably December more than October and November.

Q - Denis Parisien {BIO 20333702 <GO>}

Thank you.

Operator

Our next question comes from Eric Ollom of ING.

Q - Eric Ollom {BIO 4374335 <GO>}

Hi. Good morning, everybody. Could you just update us on the capital spending budget, what you expect 2008 to come in at? Also, what is the likely scenario for 2009? I understand the Venezuelan projects may be delayed, perhaps you could touch base on that.

Then just finally your debt policy, you laid out the amortization schedule which is very sound. But could you just tell us what is the target leverage ratio that you expect to be able to maintain in a down cycle over the next two, three years? Thank you.

A - Carlos Fadigas

Hi Eric, this is Carlos Fadigas speaking. Considering the number of investments next year, we are right now going through the process of defining which products we're going to be concentrated next year and amount of money we are going to be investing.

To give you an initial number, for '08 we had and we are going to finish the year close to R\$1.3 billion. We are right now at around R\$1.1 billion of investment. If you want to get the number in U.S. dollars, I believe the average exchange rate for the year was around \$1.7

For next year, we are forecasting something around R\$1 billion. We still don't have the final number. We are still going to have a discussion with the Board towards the end of the year. And so if you want to get, again, the number in dollars, with an average, we're working with an average exchange rate for next year of around two. So this should give you a \$500 million average of investments for next year.

One of the important investments for '09 will be Venezuela. We are right now -- we have just approved on the Board meeting, we had two days ago, an initial value of investments

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for Venezuela and we will update you on the next forecast on the evolution for that project.

If you could repeat the second part of the question again, please?

Q - Eric Ollom {BIO 4374335 <GO>}

Yes. Hi. Yes. You outlined your debt schedule, with the refinancing, etcetera. Just given that we're going into a down cycle, at least it seems that way in petrochemicals as well as everything else, do you have a targeted leverage goal, net debt to EBITDA that you can share with us that you think you can maintain throughout that down cycle?

A - Unidentified Speaker

Eric, as we said before, we don't have a target. Naturally there is kind of an ideal zone where we would like to be. And I think that would be good for us to keep the leverage around 3, not above that. We are right now at 3.4. That's some -- the mechanical effect of the exchange rate over the dollar denominated debt and the positive effect of that exchange rate on EBITDA will only come in the near future, in the next quarters. So right now, we already have the effect on the debt. But we haven't seen the positive effect on EBITDA.

As it said on the financial release, we have some costs denominated in reals. So the higher exchange rate benefit Braskem in two ways. First of all, the translation of the margins to Brazilian reals, naturally as the margin translates into more reals. And on top of that, we get more profitable as we better dilute the costs related to Brazilian reals.

So net-net, the company is more profitable. There's the effect of stronger U.S. dollar is positive for Braskem. We haven't seen that on leverage yet. We will see that over the next quarters. But what is very important to mention to you. And you have mentioned that on your question, is the profile of the debt. We have a long-term debt. We have a very reasonable amount of debt maturing every single year. And that amount is way lower than the EBITDA we produce. It's lower than the cash that we have in our hands and we have a very cheap debt, I would say.

The average cost of the dollar denominated debt is 6.4%. The average cost of the real denominated debt is lower than Selic, the Brazilian-based interest rate. So it's a cheap debt, long-term debt, with very good schedule that is very easy to be repaid with the EBITDA we have. So I see no problems coming in that front.

Naturally we would like to see a lower net debt to EBITDA ratio. But I think that will come with, as I said, the impact of the exchange rate over the EBITDA in the quarters to come.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Thank you.

A - Unidentified Speaker

Thank you.

Operator

Our next question comes from Ricardo Cavanagh of Raymond James, Latin America.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Yes, hi. Good morning, (inaudible).

My question is related on, which is your views, after all the things that have occurred in the past three months, of global supply and demand fundamentals for 2009, 2010? You mentioned, in the press release, the possibility that some projects might be delayed. So net, which would your view in terms of capacity utilization rates for the down cycle?

A - Unidentified Speaker

Ricardo, thank you for your question. We think that internationally speaking we will have a lower capacity rate for the next -- capacity utilization for next year. It may come down to 87% we think. There is an interval now that's difficult to measure because we suffered such a volatility, not only on prices of raw materials and resins. But also on international credit lines that the last 60 days and probably the next 60 days, we hope it's out of the curve. But we have a focus on the domestic demand. We think that domestic demand in Brazil will still be a positive in terms of growth next year, of course. And going last and this year, we estimate the growth in between 2.5% and 3%, with resins growing between 5% and 6% next year.

International, it's more difficult to predict, because so many people are saying different things. But the down cycle's probably coming second semester of next year, I'm talking about the petrochemical cycle. And that implies lower operations rate.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay. Perfect. And how do you see PVC that, in Brazil, that it has been performing quite robustly, going forward?

A - Unidentified Speaker

We think that the growth we experienced in Brazil this year will not be reproduced next year. This year it's been a formidable year in PVC demand. We are forecasting PVC demand still to grow next year. But not at the same rate. Probably down to 8% increase next year.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay. Thank you very much.

Operator

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(Operator Instructions) Our next question is from Gustavo Gattass of Pactual.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi. Good afternoon, guys. I had a couple of questions. I'll start with two of them that are related to the quarter's results. We saw credits, as far as the Q3 results, both on the income tax line and on the operational cost line. I was wondering, since these thing are related to the merger of Copesul and Ipiranga Quimica, is anything there recurring or are these just one-off adjustments?

A - Bernardo Gradin

Hi, Gustavo. We would love to have this as a recurring effect. But they are not. The point is what we had on PIS/COFINS was an alignment of prices between Braskem, Copesul and Ipiranga, where we plan to recover PIS/COFINS on some materials.

The R\$38 million that is included on the EBITDA and the number for income tax comes from two different areas. A little bit more than R\$100 million comes from the benefit of the integration between Copesul, Ipiranga and Braskem. So these are part of the synergies that have been announced in the past when we take credit of the amortization of future goodwill on the acquisition of these two companies. And the balance, around R\$390 million, comes from the effect of the exchange rates over the debt.

So the -- at the end of the day, the net effect on cash of these exchange rates is actually a positive effect when we have -- we are going to be saving cash that were -- that would have been used to pay income tax. So around R\$390 million is the effect on income tax for these years and for future years as well, as we get the R\$1.6 billion negative effect of exchange rate over the debt.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Perfect.

My second question had to do with pricing on the domestic market in Brazil. Can you guys give us any idea of how October was?

A - Bernardo Gradin

I'm sorry. In terms of price, comparing to September?

Q - Gustavo Gattass {BIO 1702868 <GO>}

Yes. Yes.

A - Bernardo Gradin

Pricing compared to September were pretty much online with all three resins.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay.

A - Bernardo Gradin

In reals.

Q - Gustavo Gattass {BIO 1702868 <GO>}

And my last question, I just wanted to take a step back on the cut-end production that you're guiding for the Fourth Quarter. I actually wanted to tackle two points here.

The first one being whether or not reduction in production was expected for the quarter as an average? Just in light of the guidance that you had given that the slowdown in production in October was about 6% and so I was just wondering if we're going to be seeing a very large impact on the coming months?

And the second one, I just wanted to understand how that works as far as the contracts with Petrobras go? If for example, you were to cut production significantly now in November, would you be able to, I would say, buy a lot less Naphtha with the average price for October and concentrate production on December when Naphtha was cheaper? That's -- I wanted to understand that.

A - Bernardo Gradin

Very good. You have two questions.

About the first one, we are still measuring the benefits of shutting one line of one of the crackers. So we believe that one of the synergies of having two crackers, one in the south and one in the northeast is that we may decide to shut down one entire line and keep the other three running on full operation over 98% capacity. So that will depend a little bit on domestic markets. But mainly on the international demand and our ability to export. Here we have positive margins, considering the Naphtha we carry and inventories we carry.

Regarding the Petrobras contracts, the contract is in negotiation when -- with respect to the long-term contract. And we are still with high expectations that by the end of the year, we'll have a new contract signed with Petrobras, reflecting not only the competitiveness of the petrochemical chain. But the expectations of both parties, Petrobras and Braskem, for a balanced contract of raw materials in the region.

About the November -- October, November and December consumption of Naphtha, we have a contract that's being carried on with Petrobras. The contract that was entered in July is still every month being renovated with Petrobras. So we have commitments to Petrobras. Also some commitments with the international suppliers. So it doesn't have a direct link in terms of pricing or conditions. Of course we will have to plan ahead and that will depend on the commitments we have for each one.

Q - Gustavo Gattass {BIO 1702868 <GO>}

So if you wanted to cut production, for example, in November, the contract allows you to do so without any kind of liability to Petrobras. That's what I was wondering.

A - Bernardo Gradin

There is flexibility not only with Petrobras. But also with international suppliers.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Though presumably you would actually keep your international suppliers, they're priced as of month and delay of Petrobras? Or am I understanding the pricing wrong?

A - Bernardo Gradin

You're right in your rationale. I can't answer you that precisely because it depends on the commitment and where the boats are and where the orders are placed.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay.

A - Bernardo Gradin

So I cannot answer you precisely.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. That's perfect. Thank you, Bernardo.

A - Bernardo Gradin

Thank you.

Operator

Our next question comes from Adam Arnato [ph] of JPMorgan.

Q - Adam Arnato

Hi. Good morning, everybody. Two quick questions on your cash management. The first one is regarding your share buy-back program. You have executed 37% of it in terms of volume. And I was wondering if you still intend to keep the per [ph] shares in your shares in the next month under the scenario of liquidity concerns. And I agree that it is not that relevant. But I was under a more conservative approach in terms of cash management.

A - Unidentified Speaker

Adam, we have the program in place. And we are still buying the shares.

We have a target to buy almost 20 million shares. At current price, unfortunately, it's only, for the whole program, around R\$170 million. I'd rather spend more money buying the

shares and have the price of the shares higher. But that's the value for now.

The balance we still have to buy new demand from us, a little bit less -- a little bit more than R\$100 million. So it's not really that relevant in terms of the cash position we have in our hands. R\$1.85 billion, that's what we had by the end of September.

So we still have the targets to complete the program. What measure you would want disclosure on how -- on how fast we will do that, because it may benefit whatever new win we are going to go to the markets to buy and how fast we're going to implement it. But we still have the program open. And we still have the target to finalize the program by March, that is the deadline we have to renegotiate all the shares.

Q - Adam Arnato

Okay. Thank you. And a second question, could you please confide the cash effect of this R\$1.35 billion negative FX variation in the Third Quarter?

A - Unidentified Speaker

Well the comment I made on the previous question is that at a certain point, during -- well first of all, the negative impact will come over time as we repay the debt. So this R\$1.6 billion impact on the Third Quarter, that translates into around R\$800 million for the first nine months of the year. Because we finished the first half of the year with a very positive effect. This will be paid as we pay back the debt. And the debt, as you know, has an average life of 11 years. It's 10.5 at the end of September. But once we finish the export pre-payment transaction at the end of October, the average life grew to 11 years.

And we do expect to have the positive impact on EBITDA, much sooner than that, in one quarter or two. So we will have the positive effect on EBITDA, much, much before we have the negative effect of repaying the debt.

On top of that, what I've mentioned in the previous question is that that will help us save some cash and income tax for this year. The value of the income tax to be paid this year varies a lot throughout the year because exactly -- because of the exchange rate and the impact of that on the debt. We started the year with a forecast of R\$100 million. At a certain point, we have had such a gain on the debt that we were forecasting R\$240 million and we are going to finish the year with virtually no income tax payments.

So on top of the effect on the debt and the positive effect on EBITDA, there is a short-term positive effect on cash that is saving the money that would be used to pay income tax and that won't happen in 2008.

Q - Adam Arnato

Okay. Thank you.

A - Unidentified Speaker

Is that clear for you?

Q - Adam Arnato

Okay. Okay.

Operator

At this time, Braskem will take a question received through the Internet.

A - Unidentified Speaker

We received a question from Amanda Felski [ph], from Citi Bank and the question was, we've seen Naphtha prices go to the level of around \$300. Are these prices really being practiced? And the second question is, what can we expect in terms of margins in the down cycle next year.

Well Naphtha, Naphtha has shown great volatility. Yesterday's price were up to \$380. So maybe somebody could, if I did make the purchase for Naphtha at \$300. But we don't see that as a contract price or even a trend.

Unusual volatilities caused unusual offers and the dynamics of the market should bring it back to a more rational and balanced price. Regarding oil prices and also they reflect on resins afterwards.

Regarding the margins, yes, the down cycles next year will -- we should expect lower margins. We hope that in our case, because of our position in the region and because of the currency relation, we think that we will be -- still have very good margins next year in spite of a down cycle, putting us on the second semester of next year. But for the global petrochemical industry, yes, the down cycle means lower margins.

Operator

(Operator Instructions) It appears we have no further questions. I would like to turn the call over to Braskem for any closing remarks.

A - Unidentified Speaker

Thank you, once again for taking part in our conference call. I'd like to summarize and share our view that Braskem performed well in the Third Quarter, despite a surge in peak stock prices, volatility and exchange rate volatility regarding the real. We see Braskem prepared for a slowdown in global economy and reduced growth rate in Brazil as well as the foreseeable petrochemical down cycle in second semester of next year.

We will keep focus on financial discipline, be proactive on reducing costs. We will be active on following the domestic demand and committed to our clients' effectiveness. And of course international demand.

FINAL

Economic and petrochemical cycles may be tough. But we are not here for an easy ride. So in order to be best in class in the Americas, we structured the Brazilian petrochemical industry and we intend to lead the petrochemical chain in the region, with a sound relationship with Petrobras and all our clients. And we intend to lead also, the dynamics of the international -- of the domestic and regional petrochemical chain.

We think that it will be a tough cycle on the end of next semester. We think that the Brazilian economy is well positioned, especially in the beginning of next semester. And we still have sound expectations that Braskem will perform above peers and well next year.

Thank you very much for your attention and we hope to see you all in the next conference call of results of Braskem.

Operator

Thank you. This concludes today's Braskem's Earnings Call. You may disconnect your lines at this time.

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