

Q4 2012 Earnings Call

Company Participants

- Carlos Fadigas, Chief Executive Officer
- Guilherme Melega, IRO and Controller
- Marcela Drehmer, Chief Financial Officer

Other Participants

- Frank McGann, Analyst
- Gustavo Gattass, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we'd like to welcome everyone to Braskem's fourth quarter 2012 earnings conference call. Today with us we have Carlos Fadigas, CEO, Marcela Drehmer, CFO, and Guilherme Melega, IRO and Corporate Controlling.

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 at www.braskem.com.br/ir. The slide presentation may be downloaded from the website. Please feel free to flip through the slide during the conference call. There will be a replay facility for this call on the website. We remind you that the questions which will be answered during the Q&A session maybe 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 our information currently available in the company. They involve risks, uncertainties and assumptions because they relate to the 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 Guilherme Melega, IRO and Corporate Controlling Officer. Mr. Melega, you may begin your conference.

Guilherme Melega {BIO 18255356 <GO>}

Good morning 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 of 2012. First, we would like to remind you that, pursuant to federal law 11,638 from 2007, the results presented in today's presentation reflect the adoption of International Financial Reporting Standards, IFRS.

Note also that as of the second quarter, the company began recognizing investments in jointly controlled companies using the equity method, instead of the previous method based on proportionate consolidation. In addition, unless stated otherwise, for the periods presented, Braskem's consolidated results reflect the proportional consolidation of Refinaria de Petroleo Rio-Grandense, RPR, until the first quarter of 2012, as of the fourth quarter of 2011, the polypropylene business acquired from Dow Chemical.

Note also that in the last quarter of 2012, the company divested its interest in the capital of Cetrel and Distribuidora de Aguas de Camacari is currently negotiating the divestment of Quantiq. Therefore the results of these companies for the quarters ended as of 2011 and 2012 are recognized as profit or loss from discontinued operations. The information in today's presentation was reviewed by the independent external auditor.

Let's go to the next slide, where we will begin our comments. On slide three, we present the highlights of the fourth quarter of 2012. In line with the seasonality of the fourth quarter, Braskem operated its crackers at an average utilization rate of 82%, down from the previous quarter, which also reflects the operational problem resulting from the volatility in power supply.

Brazil's thermoplastic resin market contracted by 8% in the fourth quarter to 1.2 million tons. Braskem component had weaker demand with sales volume of 867,000 tons, keeping its market share in the quarter to remain stable at 70%. Net revenue was R\$9.3 billion in line with the third quarter benefitting from the higher average price for resins and basic petrochemicals. The last quarter full year EBITDA was R\$1.4 billion, or \$677 million.

These amount includes recognition after gains of R\$409 million from very first month after interest in Cetrel and after assets of the assets of the Water Treatment Unit and R\$107 million related to the sale of railcars at Braskem America. Excluding these effects, EBITDA in the fourth quarter was R\$883 million, as part of the strategy to diversify its feedstock matrix, Braskem continued to make progress on its greenfield project in Mexico to ensure the units start up by mid-2015.

Earthmoving works have been concluded and the projects physical construction reached 20% completion, in line with the timetable. Note that the company's interest in the project was increased from 65% to 75% and that the project finance structure in the amount of \$3.2 billion was concluded, in line with its commitment to safeguarding its financial health,

Braskem contracted another standby credit line in the amount of R\$450 million, and also contracted a new line from Nexi in the amount of \$200 million that would be disbursed in the first quarter of 2013.

Let's go now to slide four. This slide presents the performance in fiscal year 2012. Braskem's crackers operated at an average utilization rate of 89%, increasing 6 percentage points from the average rate in 2011, a year that was affected by scheduled and unscheduled maintenance shutdowns. The higher level of operating efficiency allowed the company to deliver on its strategy of recovering share in Brazil's thermoplastic resins market, which expanded by five points to stand at 70% in the year end.

EBITDA reached R\$4 billion, or \$2 billion, excluding non-recurring impact such as the receipt of compensation on this one of the propylene supply contracts in the United States and the divestment of non-strategic assets in the fourth quarter, EBITDA was R\$3.1 billion.

As part of its strategy based on enhancing value to existing streams, growing, diversifying and expanding internationally, Braskem commenced operations at its new PVC plant and the capacity expansion projects at its butadiene plant. Acquired in the United States of propylene's splitter unit to ensure the supply of feedstock on a variety of sources and finally a contract with Enterprise Products, which will build the propane dehydrogenation plant, PDH, to supply propane to plants located in the US Gulf region and continued to make progress on the timetable of integrated project in Mexico, which the highlights in the year including project pre-marketing efforts and signing of the EPC contracts.

In line with its strategy to invest in the petrochemical industry, Braskem divested non-strategic assets, as noted earlier, which enforced the commitment to its financial health and ended 2012 with investment grade ratings from the three major credit rating agencies.

Let's go to the next slide, please. Slide five shows the performance of Brazil's thermoplastic resin market and of Braskem's sales. Demand for thermoplastic resins reached 1.2 million tons in the fourth quarter, down 8% from the previous quarter, mainly due to the seasonality. In relation to the same quarter last year, resin demand grew by 3%. In this year, despite this lower growth in Brazil's domestic economy, demand grew by 2% to reach 5 million tons. In line with its strategy based on our commitment to supply the domestic market and on expanding its market share, Braskem's sales in 2012 increased 10%, leading its market share to expand by 5 percentage points from 2011 to reach 70%.

In addition, resin imports decreased by 4%, which I think was holding 24% market share. In the scenario of weak global economic growth, it is important to note that Brazilian governments will strengthen domestic manufacturers by adopting measures to boost their competitiveness which include greater import duties on PE which took effect in the fourth quarter of 2012, expanding the (inaudible), reducing the overall taxes in select industries and reducing electricity tariffs.

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Let's go to slide six, please. This slide presents the factors that influenced EBITDA in the fourth quarter 2012 compared with the prior quarter. Braskem's consolidated EBITDA was R\$1.4 billion growing by 50% on the third quarter. Figure includes the positive impact of R\$409 million from the divestments of Cetrel and the Water Treatment Unit and R\$107 million from the divestment of the railcars at Braskem America. Both of these assets were not related to the company's core business. Excluding these non-recurring items, EBITDA in the fourth quarter was R\$883 million, were 28% increase in spread for basic petrochemical and improvement in prices and was partially offset with lower sales volume, which was affected by seasonality which has positive impact of R\$112 million on the contribution margin.

Another factor impacting the results was appreciation in the US dollars based on the average exchange rate in the period, which generated a positive impact of R\$27 million, from our positive revenue impact of R\$104 million and a negative cost impact of R\$77 million. The R\$127 million increase in selling expenses is basically explained by the expense with ship demurrage and freight on prior sales that were paid this quarter. And the expenses with personnel under the collective bargaining agreement, applied retroactively to September at the units in Alagoas, Bahia and Rio de Janeiro.

Let's go to the next slide please. Slide seven shows the change in EBITDA in 2012 compared to EBITDA in 2011. Braskem's consolidated EBITDA in 2012 was R\$4 billion grown by 6% from the previous year. EBITDA in the year benefit from R\$860 million positive impact from non-recurring items, which included the compensation received under one of the propylene supply contracts in the United States and the proceeds from the divestment of non-strategic assets explained earlier.

Excluding these effects, Braskem's EBITDA was R\$2.1 billion or 70% lower than 2011. The higher sales volume and average US dollar appreciation of 70%, which generated a positive impact of R\$1.1 billion were not enough to offset the contraction in resin and basic petrochemical spread in export markets, which contracted by 21% and 7% respectively. The duration between the two periods was also influenced by R\$396 million including cost and expenses, which generated higher expenses with distribution and storage following the consolidation of the PP assets acquired in late 2011.

Let's move now to slide eight. Slide eight shows Braskem's debt on December 31st, 2012 end. Braskem's had consolidated gross debt of \$8,569 million, up slightly from the balance on September 30, 2012, which is mainly explained by the new funding contracted through the bridge loan for the integrated project in Mexico. The bridge loan reached the total of \$317 million in the year will be repaid once the first installment of the project finance is disbursed. In Brazilian real, consolidated gross debt grew by 3% in the period. At the end of the period, 68% of the gross debt was denominated in US dollars.

In line with its strategy to maintain high liquidity in six [ph] quarters financial health, Braskem maintains three revolving standby credit facilities with two lines in the aggregate amount of \$600 million and another line in the amount of R\$450. Note that this line do not include any restrictive covenant on withdrawals during times of Material Adverse Change, MAC Clause. All prime banks with low default rates and high credit ratings participated in

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the transactions. With R\$450 in new funding, the balance of cash in financial investments decreased by 10% in relation to third quarter to \$1,710 million.

As a result, Braskem's consolidated net debt in both Brazilian real and US dollars increased by around 6% to R\$14,017 million and \$6,859 million respectively. The (inaudible) denominated in US dollars was 69%. Financial leverage measured by the net debt/EBITDA ratio decreasing from 3.77 times to 3.42 times when measured in dollar, reflecting the high EBITDA in the last 12 months compared to the previous quarter. In local currency, the leverage ratio stood at 3.54 times.

Excluding the total balance of the bridge loan for the Mexico project and their respective cash, the net debt/EBITDA ratio stood at 3.3 times in US dollars and 3.42 times in Brazilian real.

On December 31st, 2012, the average debt term was around 15 years, up from the 12 years on average on December 31st, 2011. Considering only the portion denominated in dollar, the average debt term was around 20 years. The average cost of serving the company debt on December 31st, 2012 was 6.24% in dollar and 7.58% in real, compared to 5.98% and 9.82%, respectively in the prior year. The higher costs in the US dollar explained by the longer debt term by three years.

Only 10% of Braskem's total debt matures in 2013, and its high liquidity ensures that its cash and cash equivalents cover the payment of obligations maturing over the next 22 months. Considering the stand-by credit facilities, this coverage extends to 36 months.

Let's go to slide nine please. Maintaining its commitment to making investments with returns above the cost of capital, in 2012 Braskem made operational investments worth R\$1,713 million in line with its initial estimates. Of this total 40% or R\$670 million was allocated to projects to expand the capacity while improving the operations of its assets, which the new PVC plant and the butadiene capacity expansion project is receiving R\$531 million in the period, both of which were commissioned on schedule. Braskem also invested R\$ 341 million in maintenance, in line with the objective of maintaining its assets operating at high levels of growth and efficiency and reliability.

Other project in Mexico were R\$3.2 billion project finance structure was concluded with a multinational pool of seven banks and credit agencies participating. Work also began on the complex structure and on pre-marketing for product sales. And the negotiations for the engineering procurement and construction contracts were also concluded. For the disbursements to be made in 2013, investment is estimated at approximately R\$2.2 billion with some 70% to be allocated to maintaining and improving the productivity and reliability of its assets and 25% for building the new petrochemical complex in Mexico.

The remainder is related to other operating investments and other projects in progress, such as the studies related to the Comperj project, the construction of a pipeline for the future supply of propylene to the acrylic complex in Bahia as well as other projects.

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Let's go to the next slide please. Slide 10 presents the outlook for the petrochemical industry. Despite the upward trend in petrochemical spread since the start of the year, the short-term scenario remains cautious with recovery and demand remaining fragile and high volatility in feedstock price continues. However, spreads in the year are expected to recover in relation to 2012. Expectations also point to improvement in the US economy and to stronger growth in China's economy due to the various measures adopted by the Chinese government during 2012.

In Brazil, the continued growth in household income and the recent measures adopted by the federal government to boost demand and improve the competitiveness of Brazilian manufacturers could also have a positive impact on the country's chemical and plastic chains.

Let's go to slide 11 please. And this last slide represents the new areas in which management is currently focusing on 2013. In line with the strategy to strengthen its business and boost its competitiveness, Braskem remains committed to supply in the domestic market and continues to invest in innovation, developing new applications and support in the industry's growth, resulting with subsequent expansion of its domestic market share.

The company is also making progress on creating together with the government and industry representatives an industrial policy for Brazil that strengthens the competitiveness of the petrochemical and plastics chain and supports new investments in the sector. Other highlights include the continuous pursuit of operational efficiency by capturing the synergies already identified and reducing fixed costs and increasing capacity utilization rates.

The seasoned disbursement of the project financed for the Mexico project and moving forward to the timetable for the project's construction on budget and on time, in order to diversify its mix of feedstocks at competitive prices and to start by 2015 to meet the needs caused by shortage of polyethylene in the Mexican market, analyzing the basic engineering studies for the industrial units at the Comperj petrochemical project located in Rio de Janeiro and defining the feedstocks to be used by that complex. And expanding the use of renewable feedstocks and all this without losing sight of maintaining the company's financial solidity. That concludes today's presentation. So let's go now to the question-and-answer session.

Questions And Answers

Operator

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

Q - Frank McGann {BIO 1499014 <GO>}

Hi, good afternoon. Just two questions. One, I'm sorry, I got cut off from the call for about 10 minutes, so I don't know perhaps you discussed this. But the SG&A, particularly the

selling expenses, seem to rise quite a bit in the quarter. I was just wondering what would account for that and certainly relative to sales, it seems to be up?

And then second question is, and looking at the future, looking at the next couple of quarters, how you see supply demand trends and overall pricing and cost structure right now. It seems as if your comments are which has tended to be quite cautious over the last year, year-and-a-half seem to be perhaps just a little bit less cautious, a little bit more optimistic now and I was just wondering if how do you see things?

A - Carlos Fadigas

Okay, Frank. Thanks for the question. I'll start with your second question and then pass to Mr. Marcela and she will address the SG&A question you have. Yes, you're right. We have been very cautious and I think there was reason for being cautious. In the year 2012, you know that as much as we do, was a very tough year for the petrochemical sector apart from those cracking shale gas in the US, the margins internationally were tight.

The business in Europe, especially for those who have got important exposure in Europe, not the case with Braskem, but again a very tough year and it reflected on mainly the petrochemical space and that will be case for Braskem. We saw very soft market in the middle of 2012, especially around June and that's why we have been cautious. I'd say that in the beginning of year we are a little bit more optimistic about the wide economic environment.

Starting with the economy, I mean it just make some important things. I think that the general consensus about Europe is that is in a better position than it was a year ago. Nobody now questions the end of the Euro zone. So, although Europe still remain in recession the risk of a catastrophic scenario is much lower at this point. And similarly in the US, there's more discussion about US going back to recession that has improved as well.

In China, the so-called soft landing in China (inaudible) forecasts for China remains around 7.5 to 8% of growth. So I think that overall, economically, we are not going to see a very good improvement in economic activity. The risk of downside has been greatly diminished, so the least of negative effects in every major economic area region of the globe has been very much diminishing. That had helped as well. We've seen prices go up in general. That's happened in Europe, happened in Asia, happened in the US. We saw polyethylene prices go up roughly 7%, 8%, it is going to be priced lot less than that, less than that around 2% and that naturally is positive news. So, we do expect to have throughout the year better economic environment and therefore better spreads throughout the year of 2013.

I've just mentioned at the end that this is the kind of forecast, it is a very tough one for me, because it's also impacted by the price of naphtha and it is also impacted by the price of the core products, butadiene, benzene, in several design stores. So overall, I think we're going to have a better year in 2013. Just to go back briefly to 2012 out of the R\$4 billion of EBITDA we had, almost 900 million came from one-time non-recurring items.

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So, we hope sector to get back to a number of key (inaudible), so I do hope it has a better year in '13 internationally from the economic perspective, in terms of petrochemical spreads as well, and to Braskem, specifically not only a better spread but also coupled with a better market share in the year as we have been growing our share of the market from 65% to 70%. So, if I was to say that overall, I think, we're going to have a better year in '13 for the specific reasons, both Brazil -- market share in Brazil, but also globally with better spreads. Marcela will comment on the SG&A.

A - Marcela Drehmer {BIO 16721570 <GO>}

Hi, Frank. Just to give the segregation between the selling expense and G&A. Regarding this selling expenses, there are some expenses related to the third quarter that were recognized only in the fourth quarter, that's why there was increment around 12%. Just to remember you the third quarter sales were above the fourth quarter. So that was the main reason why we see this increment.

And regarding the G&A, basically the main factor, I mean the increment between the two quarters was around 4%. And the main factor was increment in salaries annually because of the collective bargains that was concluded in the last quarter that was reflecting the increments they have seen in the third quarter. Okay.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Great. Thank you very much. Very helpful.

Operator

(Operator Instructions). Mr. Gustavo Gattass from BTG would like to make a question.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi, good afternoon, guys. Just some follow-ups from discussions a little bit earlier. I've got really two or three quick questions here, which I guess, I think some for Marcela and some for you, but I just initially wanted to come back to the story of pricing of polymers and such things in Brazil. If we look back, you guys had what was five straight quarters of falling prices in dollars.

And this is really the first one that actually has upticked again. And I know you were mentioning that it was still early to know, let's say, what things were looking like in the first quarter. But I just really wanted to double-check, if you could say anything with regards to where prices were just going into 2013, relative to the quarter, was it, I would say, even higher, so you were in uptrend or kind of close to the average or something like that? Just try to get an idea of where we were in the beginning?

And the second thing that I just wanted to check with you guys, I was looking at the breakup of the costs of goods sold. And just maybe even following-up on the point that we saw there with regards to, let's say, the selling expenses. Was there significant shift in the electricity bill that you had from one quarter to the other, because I'm not sure, if my data is wrong, but I'm saying in some places 2% cost of electricity for the previous quarter

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rising to 3 and another saying that it was three and it continues to be three? I just want to double-check.

A - Carlos Fadigas

Gustavo, let's start with your question around polymers. (inaudible) if you started '13 at a better price point in the year an average compared to the last part of last year, is that your question?

Q - Gustavo Gattass {BIO 1702868 <GO>}

Yes.

A - Carlos Fadigas

Okay. So the answer -- my answer is yes.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay.

A - Carlos Fadigas

Prices went up internationally all between the areas of Asia, US and Europe and it went up for the three resins, polypropylene, polyethylene, and PVC. And we enter the year of '13 at better price points than the average of the fourth quarter of 2012.

Having said that, I need to bring back also the fact that we also make sure that naphtha prices went up as well. Naphtha were around \$930 in November. I do know it's exactly the fourth-quarter average, but for sure is around that and right now is at 990. So although we are happy about the price, (inaudible) going up and that contributes to our results.

A lot of the results is also explained by the price of raw material in naphtha is going up. If these prices in naphtha translate into higher food products, especially benzene, butadiene and even propylene, but we also sell propylene to our customers. Then that would compensate naphtha and would be left with better spread, overall spread. But it's something -- and that's because (inaudible) it's too early in the quarter and one-third of the quarter is gone to say that overall we're going to have a better result. The only positive thing that we are sure about that the ask price of resins went up, we entered the year in a better position, but then you have to see the order. The rest of the peak which you see (inaudible).

A - Marcela Drehmer {BIO 16721570 <GO>}

Gustavo, you do have the wrong number. The number that we have in the previous release is 3.2 regarding the electricity.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Now so the 3.2 to 3.0 is on, that is right?

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A - Marcela Drehmer {BIO 16721570 <GO>}

Yeah 3.2 versus previous quarter and 3.0 in this quarter.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Perfect. Perfect. And Marcela, if I could just have a very quick follow-up on what Frank was asking about. You do mentioned in the press release that you had higher, let's say, sales cost, but if you set it right now, I wasn't able to catch it, are you disclosing more or less how much of an impact that was?

A - Marcela Drehmer {BIO 16721570 <GO>}

No, they are just and we are not providing a detailed number, but the majority of this trend, the 12% increment in this number is regarding that. But we are not providing the number itself.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. So I had, let's say, lower volumes and I should think about the delta has been the 12% or the move in unit costs would be mostly the impact?

A - Marcela Drehmer {BIO 16721570 <GO>}

Yeah, I will have lower costs and so I would say that we are supposed to have lower sales cost in this quarter. Let's see what we can provide you with more details Gustavo. Okay, let's see what we can provide you later.

Q - Gustavo Gattass {BIO 1702868 <GO>}

That's perfect. Thank you, guys.

A - Marcela Drehmer {BIO 16721570 <GO>}

You are welcome.

Operator

(Operator Instructions). I will turn over the floor over to Mr. Carlos Fadigas for closing remarks.

A - Carlos Fadigas

Well, I'd like to thank you again for participating in this call, as well as to answer the questions and it seems that the release was detailed enough and the discussions we had in the current quarter were also have to clarify the doubts. My two, three comments at the end of this call is just to say that we did everything we could in 2012.

During that very difficult economic environment to guarantee, we'd have positive results from last time. I am glad we finished the year with R\$4 billion EBITDA, although not all this EBITDA came from current operations. But we found ways to generate EBITDA and to

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keep the company at a reasonable leverage even in a period we were finishing two new plants in Brazil and the investment in Mexico and that's our company.

We had a better year in terms of sales and market share. We had a better year in terms of production. We had a chance to run our crackers close to 90% capacity. We kept the investment pace, so we kept building stronger and more profitable direction going forward with Mexico and also for certain things which compares us well.

So I hope the current environment improves. The years since 2008 haven't been particularly easy to any industry. 2012 was a better year for petrochemical industry and I think we manage to do as good as we could in such a tough economic environment. Hope 2013 will be a better year and we will remain in total [ph] attention to all different possibilities of generating additional results to Braskem and also to keep investments in the date at which we are building Mexico in a short period, we're going to start (inaudible) as well.

Thank you again for participating in the call and see you again in the call after first quarter. 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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