

## Q4 2008 Earnings Call

### Company Participants

- Bernardo Gradin, CEO
- Carlos Fadigas, CFO
- Luciana Ferreira, IRO

### Other Participants

- Christian Woman, Analyst
- Denis Parisien, Analyst
- Eduardo Vieira, Analyst
- Elena Slobodian, Analyst
- Juan Caverez, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's 4Q '08 and 2008 earnings conference call. Today with us, we have Bernardo Gradin, CEO, Carlos Fadigas, CFO, and Luciana Ferreira, IRO for Braskem.

We would like to inform you that this event is being recorded. And all participants will be in listen-only mode during the Company's presentation. After Braskem's remarks are completed, there will be a question and answer section. 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 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'll turn the conference over to Luciana Ferreira, Braskem's IRO. Ms. Ferreira, you may begin your conference.

**Luciana Ferreira** {BIO 15106436 <GO>}

Good morning, ladies and gentlemen. Thank you, all for participating in yet another Braskem quarterly earnings conference call. Today, we will be commenting on our results for the Fourth Quarter 2008.

First, I'd like to remind you that information presented in this conference call is based on consolidated information. That includes the 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. To enable analysis against prior periods, data for the full-year 2007 are stated on a pro forma basis.

In addition, the data for 2007 and 2008 already includes the adjustments resulting from the change in Brazilian corporate law introduced by Law 11,638 of 2007 with the entire year adjustments reflected in the Fourth Quarter.

Let's go to the first slide, slide three, where we'll begin our comments. The last months of 2008 were marked by an unprecedented financial crisis and (were apparent) in the real economy, leading to high volatility in the exchange rate and raw materials and resins price.

In Brazil, the most significant development was a destocking trend in the production chain, primarily driven by credit restriction concentrated in durable goods industry and agrobusiness. As a result, clients ended the year with end results well below normal levels. This scenario led to a contraction of 16% in the resin markets in the Fourth Quarter with a reduction in (ore) as of December.

Bringing its inventory levels in line with demand, Braskem gradually reduced the capacity utilization rates of its plants with its (actual) utilization rate ending the year at 55% after averaging 84% in the last quarter. The situation led to net revenue in the quarter of BRL4.1 billion, which was 18% lower than the previous quarter. EBITDA in the Fourth Quarter was BRL633 million with EBITDA margin of 15.4%. Note that the effect of the adjustment is reduced by Law 11,638 of 2007 related to (inaudible) impact on the EBITDA of BRL74 million.

Let's move to slide four, where we continue to show Fourth Quarter highlights. The 22.1% devaluation of the Brazilian real in the Fourth Quarter caused an accounting impact of BRL1.9 billion on the Company's results. And 34% of Braskem's debt are denominated in

US dollars. On the other hand, the real devaluation improved the (copex) business of the Brazilian (inaudible) resulting in a reduction in (inaudible).

On December 17, 2008, the Board of Directors approved the investment of BRL488 million to build the green polyethylene plant at the Triunfo Petrochemical Complex. In January 2009, the Company received the environmental license to build the facility from FEPAM, the environmental protection agency of the state of Rio Grande do Sul. And we have already begun construction of the unit and reserved the facility's strategic equipment, such as the compressors.

Furthermore, Braskem has also planned the commercial agreement with Toyota Tsusho to sell green polyethylene in Asia. Braskem believes that the best way to face challenge this year is to maintain a strong cash position with management primarily focused on financial (inaudible).

Let's go now to slide five. Slide five shows the growth in Brazil's resin market as well as Braskem's share of this market. In 2008, demand for thermoplastic resins in the Brazilian market grew by 3% versus 2007. The polyethylene and polypropylene volumes remaining stable and PVC volumes growing by 14%.

Demand for thermoplastic resin in 2008 was marked by two distinctive periods. In the first nine months of the year, demand grew in line with historical elasticity to Brazilian GDP, registering growth of 9% in the period. The last quarter of the year, however, was impacted by the strong destocking trend in the petrochemical production chain, especially among polyethylene and polypropylene consumers.

This trend came in response to the sharp slowdown in global economic growth as well as the significant drops in international resin prices and its isolated effects represent a substantial contraction in demand of approximately 6% on an annualized. (inaudible) domestic resins increased 2% with PVC and PP growing by 7% and PE reducing by 3%. In this context, Braskem's market share in the full year was 51%, in line with (inaudible), even though the share in imports grew by six percentage points at the same period.

Let's move now to slide six. Slide six shows the variation in EBITDA between the third and Fourth Quarters of 2008. Given the high (inaudible) of our business, the weakening of the Brazilian real made a positive net contribution of BRL538 million, which are composed of a positive impact on revenue of BRL1.5 billion and a negative impact on costs of BRL949 million (inaudible).

The 62% decline in naphtha prices in the Fourth Quarter made a contribution to EBITDA of BRL426 million. The (inaudible) excludes the effect of the passthrough of raw material costs in the Third Quarter to cost of goods sold in Fourth Quarter as resin inventories in September 2008 were above regular levels.

On the other hand, these amounts include these amounts include BRL427 million from the adjustment to (present) value of naphtha (inaudible) (3.2 FI) to the full-year end (inaudible). Out of this amount, BRL74 million referred to other quarters of 2008.

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The decline in international price for revenue and (various) petrochemicals in the export market and the related effects on the domestic market generated a negative impact of BRL848 million, the lower sales volume resulting from the contraction in demand and a (inaudible) trend in the production chain had a negative EBITDA impact of BRL174 million. (inaudible) these impacts, EBITDA fell by only BRL50 million between the two quarters of BRL683 million in the Third Quarter to BRL633 million in the Fourth Quarter.

Moving to slide number seven, we present Braskem's net financial results over the quarter. Braskem maintains a conservative risk management policy. That includes the (inaudible). Therefore, Braskem (holds) no target forward operations or operations involving other similar derivative instruments. With practically 100% of revenue directly or indirectly pegged to the variation of the US dollar and approximately 85% of costs pegged to same currency, the Company believes that maintaining a significant portion of its debt also in US dollar creates a natural hedge.

This position is based on the principle that the Company's debt should always be denominated in the same currency as cash flow. To protect cash flow in the short term, Braskem seeks to balance the maturity of its dollar-denominated liabilities with its dollar-denominated revenue plus cash investments in the same currency. Note that the (inaudible) established by this policy to protect cash flow was (inaudible).

(inaudible) of 2008, the Company has two derivative transactions for hedging purposes and the maturities, currencies, rates, and amounts that are perfectly adequate for the assets or liabilities being protected. Therefore, in any given scenario, negative or positive adjustments in derivative positions will be counterbalanced by positive or negative adjustments in the prospective assets and liabilities.

Analysis of the net financial results in the Fourth Quarter shows that impact from foreign exchange variation of 22.1% in the quarter led to a foreign exchange loss of BRL1.9 billion in the period. In addition, the (inaudible) percent of dollar-denominated debt (inaudible) exposure that's 84% of suppliers, 23% of accounts receivable, and 36% of cash. Its important to bear in mind that these negative foreign exchange impacts in the Fourth Quarter did not have a direct cash impact in the short term. The amount represents the foreign exchange impacts, especially those on the Company's debt, that will be disbursed as the debt matures, which has an average term of 10.9 years.

Given Braskem's cash generation profile, which is pegged to the US dollar, and despite the negative accounting effect in the short term, a weaker Brazilian real ultimately has a net positive impact on the Company's cash flow in the medium term. In the full year, foreign exchange variation had a negative impact of BRL2.6 billion.

Moving to slide eight, it presents Braskem's debt (allocation) schedule. On December 31st, 2008, Braskem's gross debt grew to BRL12 billion, 18% higher than in September 20th, 2008. The impact from the foreign exchange variation of 22.1% (inaudible).

At the close of the Fourth Quarter, the balance of cash and short-term financial investments was at BRL3 billion. This is the working capital operations (inaudible) in the

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quarter. As a result, net debt, which previously stood at BRL8.3 billion increased by 8% to BRL9 billion. (inaudible) 2007, net debt declined by 11% to BRL3.9 billion, mainly reflecting the high cash (balance).

The average term of the debt (inaudible) 10.5 years at the end of the Third Quarter to 10.9 years at the end of the year. (inaudible) cash flow. At the close of 2008, the portion of debt denominated in US dollar stood at 74%. As a result of this variation, the Company's financial leverage as measured by the ratio of net debt to EBITDA on trailing 12-month basis and in Brazilian real registered at 3.42 times in the Third Quarter went to 3.73 times in the Fourth Quarter. When measured in US dollars, the (inaudible) which went higher than 4.5 times due to a debt acceleration, the financial leverage reduced from 3.06 times in September 2008 to 2.89 times by the end of 2008.

Let's go to slide number nine, where we see a net debt bridge in US -- in dollars. (inaudible) cash generation in the year, interest paid and working capital variation, net debt would have reached \$2.2 billion by the end of 2008. (inaudible) positive disbursements related to investments and the (inaudible) effect of the consolidation of (inaudible), net debt would have been approximately \$1.1 billion lower than in 2007. (inaudible) investments and this consolidation effect, net debt (resulted in) \$3.9 billion.

Going to slide number ten, where we show our estimated operational investments as well as expected investments in share interests for 2009 comparing it to 2008. In 2008, investments totaled BRL2.3 billion, which included BRL885 million related to the (inaudible) from the acquisitions of Politeno and Ipiranga Group (inaudible). Braskem expects to invest a maximum of BRL909 million in 2009, which includes capacity expansions, new projects, such as the green polyethylene plants, and scheduled maintenance stoppage.

Braskem's concentrating its resources on priority projects that offer high return, self-financing, and rapid payback, while maintaining a solid financial position and capital discipline during these times of global turbulence. Furthermore, Braskem remains committed to cutting costs and fixed expenses with the objective of increasing its competitiveness by lowering production costs and administrative expenses.

Moving to the next -- the last slide, slide number 11, we'll present the (inaudible) management will be focusing on during 2009. Our management continues to be confident and committed to make Braskem one of the leading global petrochemical. In this challenging moment, liquidity and financial health are essential in order to take advantage of all opportunities and continue to work for the Company's growth.

At the same time, the Company is focused on the accelerating the synergies provided by consolidation. As of December 2008, Braskem had already captured BRL174 million in EBITDA gains focused on initiatives involving commercial and supply chain areas. In addition to this gain on operational front, Braskem also captured annual gains with a cash impact of BRL75 million on a cash basis.

Braskem has reaffirmed its focus on preserving the profitability of the business over the course of the petrochemical cycle and the competitiveness of the Brazilian petrochemical

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chain. In this context, by the end of February, we resumed operations at all plants where temporary production stoppage had been implemented during Fourth Quarter. And around the end of the First Quarter this year, we expect to be operating full capacity (utilization).

Braskem's management is also focused on the conclusion of the new naphtha contract with Petrobras. The contract will guarantee a new (inaudible) prices as far as the objective of reducing volatility over the long term and bringing the price in line with the (master facility).

On the green polyethylene project, construction is now in progress in order to guarantee operations (inaudible) 2011. Braskem's top management will act proactively in a strategic way while pursuing the best opportunities for operational efficiency, productivity, and (inaudible) that has the potential to maximize the Company's results and debt. I'll now conclude our presentation. Let's move now to the Q&A session.

## Questions And Answers

### Operator

Thank you. (Operator Instructions) And our first question comes from Denis Parisien from Santander. Please go ahead.

#### Q - Denis Parisien {BIO 20333702 <GO>}

Good morning, or good afternoon rather. Thanks for the call. Could you just give a little additional color, please, on capacity utilization? Did you say that you're going to reach 100% capacity utilization by the end of the First Quarter? Where is capacity utilization -- where was it at the beginning of the First Quarter? And where is it now? And do you expect to maintain that capacity utilization throughout the year, given that you also I guess had some maintenance stoppages? And maybe you can give a little bit more color there as well.

And my second question is on the financial side. You did a great job on working capital and generating free cash flow. But yet your short-term debt increased by a pretty significant amount. Cash also increased. But your net debt increased. Your leverage increased. Your coverage declined. I'm just trying to figure out given that you generated free cash flow what the financial strategy is there. Why increase short-term debt and cash? I mean, what exactly was meant to be achieved? Or is that accidental? And just a little bit more color on your financial strategy and leverage would be appreciated. Thanks.

#### A - Bernardo Gradin

Good afternoon, Denis. This is Bernardo. Thank you for your time and attention. Regarding the capacity utilization, we had decrease in capacity utilization in November basically for destocking the chain here and mostly because the exports came really down in December and January. So capacity utilization of the (crackers) came down to 55% in December, remained at 55% in January. February, we raised capacity utilization to close to

85%. And we are starting March over 90%. We don't believe we will reach 100%. We hoped. But we don't believe we'll reach that close to 100%. But it will be over 90%, which gives us a very good cash and profitable expectations on full operations.

The main thing -- stoppages that we have this year are mainly on resins. And we should not have substantial decrease in production because we have not only stock but also we understand that the cracker or the basic material will keep on good operation utilization from now to the end of the year.

## A - Carlos Fadigas

Denis, this is Carlos Fadigas speaking. Regarding the increase in the short-term debt in the debt that will mature in 2009, it has -- it came from two different sources. First, new borrowings made close to the end of the year were for short-term maturity and the fact that the exchange rate impact increasing the real expression of the maturity in 2009. So where the short-term debt grew by BRL500 million to BRL600 million, the cash position grew two times that. So we came from around BRL1.8 billion to almost BRL3 billion.

Now regarding the strategy, the financial strategy of the Company, it has a lot to do with - we've been doing what we've been doing over the last years actually. So we have a long-term debt 11 years average life. This debt is not concentrated in any specific year. So if you look at the debt maturing, you see that it's much lower in our EBITDA in out year. And actually, for 2009, you can also count on the cash position we have.

So in our perspective, we have a very solid financial position with BRL3 billion in cash. We could always add to that the cash generation for 2009. So if we take the EBITDA from 2008 as a reference, we have more BRL2.4 billion that we can count on. And that compares with only BRL2.1 billion of debt maturing in 2009. And let alone the fact that can always renew debt, borrow debt, and extend the maturity of the debt maturing in 2009 and also naturally increase the cash generation and generate more cash than we did last year.

Regarding leverage, as we've been emphasizing the fact that our business is dollar denominated, that's the case for the selling price of the products. That's the case for the raw material. That's the case for 85% of the cost of goods sold. And that's why we've been putting most of our debt in US dollars. I believe that the leverage should be measured in the comparison of net debt to EBITDA in US dollars.

And if you look at slide eight, there we present a net debt over EBITDA that came down from three times -- roughly three times -- to 2.89. So we are now at around 2.9 times. And again, we feel that's a comfortable leverage to have. And as we have reduced investments, as we have finished the consolidation of the industry in Brazil, what I believe will happen is that we will see a very quick deleverage of the Company over the next years as we capture the benefits of the acquisition and as we have no significant investment to be made in the short term. Then we're going to be ready with a deleveraged Company for new opportunities coming down the road.

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**Q - Denis Parisien** {BIO 20333702 <GO>}

Thank you for the very detailed responses. I guess our model seems to have a couple of things that don't quite coincide with your numbers. So we'd appreciate it if we could speak to you offline later after the call. And we certainly appreciate your responsiveness. Thanks.

**A - Carlos Fadigas**

Thank you.

**Operator**

(Operator Instructions) It appears we have no further questions at this time. We'll now close the Q&A session and turn the call over to Mr. Bernardo Gradin for final considerations. Sir, you may go ahead. I'm sorry, sir. We actually do have another question. We had someone pop into the question queue real quickly here. Eduardo Vieira from Credit Suisse, please go ahead with your question. Mr. Vieira, is your phone on mute? We're unable to hear you.

**Q - Eduardo Vieira** {BIO 3087009 <GO>}

Can you hear me now?

**Operator**

Yes.

**Q - Eduardo Vieira** {BIO 3087009 <GO>}

Okay. Sorry about that. Hi. Thanks for the call. Could you develop a bit more on your working capital structure going forward in terms of -- I noticed inventories and supplies turnover increased considerably. Is that -- can you give us an idea of what will be sustainable level for that? Is there -- is it -- on the supplier side, is there a negotiation with Petrobras for longer term of payables? And where do you see those levels for working capital for '09?

**A - Carlos Fadigas**

Eduardo, this is Carlos Fadigas speaking. First of all, the increase in accounts payable, in suppliers, has to do with the exchange rate variation over payable (targets) to the US dollar. So this is mostly (inaudible) naphtha. So it's not naphtha. But from Petrobras, currently, we see only -- we have only 15 days to pay Petrobras. Once we finish the negotiations on naphtha price, we will start negotiations on trying to expand the payment terms with Petrobras. But currently, we get better payment terms from imported naphtha.

This important naphtha, the payables are denominated in US dollars. And therefore, the exchange rate variation led to an increase in the accounts payable through the suppliers. On top of that, we've been able to negotiate in the Fourth Quarter better terms, even better terms, in terms of imported naphtha. And we do expect to sustain the current



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levels at the imported naphtha and hopefully improve the payment terms with Petrobras, leading to a better support from suppliers through Braskem, meaning more cash from suppliers in our hands.

Regarding (inaudible), the reduction in production level in December, in January were made to reduce inventories in the Company. We did buy more naphtha in the end of the year, although we had the plants running at 55% utilization rate. That's because the price of naphtha was at very low levels. But regarding the most important inventories, meaning the inventories in resin, we were focused in reducing the inventories and freeing up more cash to the Company.

So the levels in accounts receivables and accounts payables we had by the end of the Fourth Quarter in December are sustainable. And we actually do hope to keep improving the Company performance in working capital.

**Q - Eduardo Vieira** {BIO 3087009 <GO>}

Okay. That's great. Thanks. And if I may, when do you expect -- what quarter do you expect to be the bottom in terms of margins in 2009, at First Quarter?

**A - Carlos Fadigas**

It's very hard to forecast that, Eduardo. We don't give this kind of guidance in the forecast. What I can tell you is that we do expect volume levels to improve over the year. And we do expect international margins to keep improving. And they've been improving since November last year. So therefore, we expect to have an upward trend in terms of EBITDA. But it's very hard to accurately determine what's the bottom and when it's going to happen. That's our forecast. It's our view.

**Q - Eduardo Vieira** {BIO 3087009 <GO>}

Okay.

**A - Bernardo Gradin**

Eduardo, this is Bernardo. What I can add to that is that we believe that December and January were the bottom as we never saw before.

**Q - Eduardo Vieira** {BIO 3087009 <GO>}

Okay. Okay. That's good, Carlos. And regarding funding for '09, what fronts is the Company working on in terms of potential source that we might see? Is the Company considering domestic or international markets? What are the alternative multilaterals? Could you talk a little bit more about funding?

**A - Carlos Fadigas**

Eduardo, first of all, we have a very comfortable position. Just to reemphasize that, BRL3 billion in cash, an EBITDA taking as reference 2008 of around BRL2.4 billion. So we have -- if we add cash in our hand and the cash generation predicted for the year -- more than

two times what we need to repay debt. Naturally, we are always working to improve the debt profile, paying the short-term debt and borrowing long-term debt.

One very good example that I can give to you is that (actually) we are right now finalizing with a Brazilian bank, Caixa Economica Federal, of BRL600 million with four years to repay this line. So that's an example of new borrowings we are making.

We don't need to access international market via bonds, issues. And we are not expecting to do that. We actually -- we haven't seen that opportunity in the market in terms of level of debt, capital markets. And we don't need. So we're going to be focused on financing the projects we have, meaning the green polyethylene plants. And we already discussed the Brazilian development bank, BNDES, to borrow money to support that investment.

We are focused on putting in place financial package for the Venezuela project. And in that regard, we are working with multilaterals, such from Italy and from Germany, international development bank, (spoken in Portuguese), and again BNDES. So this will be the focus of the financial areas, support and investments with the right funding, shift long-term funding to support investments, and always taking advantage of the opportunities that may arise in terms of borrowing new money in the domestic markets to extend the debt average life of Braskem. So that's it.

**Q - Eduardo Vieira** {BIO 3087009 <GO>}

Okay. Thanks very much for the thorough explanation. And thanks to all.

**A - Carlos Fadigas**

Thank you.

**Operator**

Our next question comes from (Juan Caverez) from Citigroup. Please go ahead.

**Q - Juan Caverez**

Hi. Thank you. Just three very brief questions -- the first one, could you just go over and remind us again what are the synergies you're expecting from Ipiranga and Copesul? How much of that will you see this year? And could you also give us some details on -- I think you're getting a loan from Caixa Economica Federal for BRL600 million. Could you go over the terms of that loan? What's the rate there? And also, could you give us some details on why your tax credit this quarter was so low? Thank you.

**A - Bernardo Gradin**

Thank you, Juan. Very good questions. The first one, we are confident that we can capture BRL200 million this year from the synergies of the Ipiranga and Copesul integration. We believe that we will accelerate in a very effective manner, especially from the Second Quarter to the end of the year. Regarding the loan of --.

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## A - Carlos Fadigas

Okay. Regarding the Caixa Economica Federal loan, it's a four-year transaction with one-year bridge period. So the average life is around three years, the average life of this loan. It's a real denomination credit line. And the cost has a reference to the Brazilian interest rate that we call CDI. And it's 117.5% of the CDI, meaning that it's roughly 1.2 percentage points above the CDI. And we have -- and we also have a structuring fee that is going to be paid to Caixa Economica Federal of 0.25% paid upfront.

Regarding the tax credit, we had a very good tax credit on the Third Quarter of 2008. And we were very conservative in accounting for a tax credit over the Fourth Quarter. The tax credit we get when we have an accounting loss like we had in the Fourth Quarter is the present value of the benefit of not paying income tax in the future when the Company posts positive results. We felt that we should keep some of this benefit through the future instead of accounting them all in 2008. So we had BRL500 million in the Third Quarter -- around BRL500 million of tax benefit in the Third Quarter. And we felt it would be more conservative for us to account only for BRL12 million in the Fourth Quarter and save this benefit to be accounted in the future years.

## Q - Juan Caveréz

Great. Thank you.

## Operator

(Operator Instructions) Our next question comes from (Christian Woman) from (JCAM). Please go ahead.

## Q - Christian Woman

Hi. Could you update us on the status of the negotiations with Petrobras on the pricing formula for naphtha and other feed stocks, please?

## A - Bernardo Gradin

Good afternoon, Christian. Thank you for the question. We believe that we will have the closure of the negotiations very soon, as soon as by March. And both teams, Petrobras and Braskem, firmly believe that we'll be able to sign a contract in March. I cannot disclose the details of the contract because (they're binded) for confidentiality in the contract clause.

But I can tell you that, of course, we are very optimistic that this will not only give us a different view on how to prepare ourselves for the cycle, but also to adjust to the entire chain a more predictable formula. So I cannot give you details because I'm binded. But we're optimistic that not only we'll sign the contract in March, but that it will be beneficial to Braskem.

## Q - Christian Woman

Okay. And without trying to go into details, but you estimated what kind of an impact it would have on your EBITDA line or your gross margin line?

### **A - Bernardo Gradin**

I can't tell you that. I'm sorry. I think that we'll see that along the year. But by giving that information, I'll not only give guidance but also give you an idea on how that contract will go. Sorry.

### **Q - Christian Woman**

No, that's okay. I understand. Thank you.

### **A - Bernardo Gradin**

Thank you.

### **Operator**

(Operator Instructions) Our next question comes as a follow up from Denis Parisien from Santander. Please go ahead.

### **Q - Denis Parisien** {BIO 20333702 <GO>}

Hi. Thanks for taking my follow up. Can you give us a little bit of color on what you believe to be the inventory position of your clients, both domestically and in the foreign sphere? How do you see them as we stand now going into the end of the First Quarter in terms of their inventories? And can you give us an idea of what you believe the percentage of imports in Brazil will look like at the end of this year, therefore what your market share might look like?

### **A - Carlos Fadigas**

Thank you, Denis. We believe that it always regards the segment to be talking about. So there are segments and clients that already on real demand already destocked for the last three months. But there are also segments, especially agriculture and durables in Brazil, that still have some stocking and are still in the move of destocking and probably will remain so until the end of March.

We think that we'll only see a real demand in Brazil for resins in March, maybe April. But the positive side is that we saw in spite of the decrease in demand in December and January some segments replacing imports, especially because of the exchange rate variation advantage that Brazilian producers now have against the dollar-based producers. So we think that on the same line, we will have less imports this year than we had last year. We understand that there will be some additional offer from places that we didn't see before, maybe because of a cash movement of destocking also, maybe because other markets are closed.

But because of the crunch in the credit line for exports, we think that in addition, of course, to the argument of having more favorable exchange rate, we think that we'll be

better positioned than we were last year. If you remember the first semester of last year when the exchange rate was BRL1.6 to dollar, we're talking about more than 50% increase from that time to today. We really had a hard time on competing on our exports and having a flow of imports. I think that that changed substantially for this year.

So I'm trying to give you an answer. We think that imports will be under 20% this year in Brazil.

**Q - Denis Parisien** {BIO 20333702 <GO>}

Under 20% by the end of this year.

**A - Carlos Fadigas**

Yes.

**Q - Denis Parisien** {BIO 20333702 <GO>}

And you mentioned the difficulty in obtaining trade lines. Does that also apply to Braskem? Does that apply to perhaps some smaller competitors that perhaps would've been exporting and since they're not exporting are increasing supply in the domestic market because they're having difficulty obtaining a working capital and trade lines to export? Is that what you meant by the potential for seeing some additional supply from areas where you didn't see it before?

**A - Carlos Fadigas**

Yes. We're not having problems on credit or for export lines. On the contrary, we were able to raise our capacity utilization exactly because we are able to export now more than we were able to export in November, December, and January.

We saw a constraint on the line for clients and smaller producers or companies that are in different conditions than Braskem is. And we are trying to take the advantage of enabling some of our clients through our own export lines for the manufactured products that they have.

**Q - Denis Parisien** {BIO 20333702 <GO>}

Is that domestically, in foreign markets, or both? Sorry.

**A - Carlos Fadigas**

Both.

**Q - Denis Parisien** {BIO 20333702 <GO>}

Both. Is that becoming a serious problem in terms of constraining demand, the credit available to your clients?

**A - Carlos Fadigas**

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If I can make a comment on that, the main effect from that came last year. The destocking in the production chain came from the fact that they had to generate more cash because they had difficulty in accessing the credit market. And that's one of the reasons why the chain reduced inventories. And therefore, we saw reduction in demand for resin.

So I think that the worst is behind us now in terms of the credit. I think the worst effect has already been shown in the income statements of these companies and of Braskem with the destocking. And we do expect now to have more credit lines available, not only to the big companies, but mainly to the smaller companies and to our clients. And that could benefit Braskem on the other hand because we could see the return of the inventories level in the value chain coming back to the previous levels and more consumption of resin as a consequence of that.

### **A - Bernardo Gradin**

Adding to Fadigas' financial view, I'd like to provide you with a more (commercial) view of that. We see that as a fantastic opportunity, a fantastic opportunity because, yes, most small, medium, and even some large clients in Brazil saw a constraint in credit -- substantial constraint in credit -- in November, December, and also in January. And Braskem was able to fulfill the needs of our clients on financing some of the production chain. And that stabilized the clients substantially for January, February. And some contracts that we didn't have before we have now.

So we saw that as an opportunity to add service to our clients and (step in) in the chain. And we're seeing very positive consequences of that move. So we see that more as an opportunity than as a problem for our clients and for us, of course.

### **Q - Denis Parisien {BIO 20333702 <GO>}**

That's an interesting way to look at it. But does that not also imply that you're taking on more credit risk, that you're becoming a financial intermediary to some degree?

### **A - Carlos Fadigas**

Well, we have always provided some credit to the clients. So we know the clients. We have a credit analysis area because we have around -- between BRL2 billion to BRL3 billion in accounts receivables from these clients. And what you have to bear in mind is that we are the preferred creditor of all these companies. We supply them with the raw material they need to run their plants, to run their business. So we have always a privileged position, one, because we know their production level. We know the company. We know the volumes and therefore their result, and secondly, because they need to keep their relationship with us not only to have access to product but to keep their plants running.

So the risk is more in the sense that we always have the benefit of being the first ones paid by the client. And on top of that, you have to add the long-term term relationship and knowledge we have of the business, the knowledge we have of the management and so on because simply that's our business. That's what we have to know the business with them. So we don't see a lot of risk there.

And again, coming from the financial side, I would add the fact that we have interest rates associated with the payment terms we give them. They are higher than the ones we have to pay when we discount these receivables with the financial market.

In a Company of the size of Braskem with the credit quality we have, we pay lower interest rates than they pay. So there is also a positive spread between the cost we charge to the clients, the interest cost, and the one we pay to the bank. So the risk is not that low. And the return is a very good one. On the commercial side, as Bernardo mentioned, as we get close to the client and the financial side as well with the interest rate.

#### **Q - Denis Parisien** {BIO 20333702 <GO>}

Those are all very good points. But can you tell me did your overdue or non-paid receivables increase in the Fourth Quarter and into the First Quarter at all due to the financial dislocations?

#### **A - Carlos Fadigas**

There is a natural trend in overdue. And we know that for a long time, again, by being in the business for a long time, the Fourth Quarter is always worse because we have the 13th salary in the Brazil that's an extra salary paid at December that puts some pressure in the cash flow of the Company. And the pattern we have seen this year is pretty much the same we saw last year. And these numbers are coming down again in the First Quarter, just as we saw in previous years.

So again, there is some seasonality in these numbers. And the seasonality has showed up again naturally in December. And we don't see anything materially different than what we had in previous years. So we are monitoring this quite closely. And you're right. That's an area of attention. We are paying quite close attention to that. But we haven't seen anything different from what we've seen before in this area apart from the fact that we are closer to the client and expanding some more credit to them.

#### **Q - Denis Parisien** {BIO 20333702 <GO>}

Great. Thank you. If I might, one final question -- what are you seeing on the supply side? Despite the downturn in the cycle, of course, there's been some projects that secularly or structurally have been in the pipeline for some time, some of them meant to come on stream this year in Middle East, Africa. What does the supply side of the equation look like? Thanks.

#### **A - Bernardo Gradin**

That's a very good question. We think that the new supply that will come from Middle East and Asia will happen, probably with a delay of three months or six months. But the plants will come. We're talking about maybe 14 million tons for the next year and a half or two years.

But we also see that a number of plants in Europe and the United States are going idle. And we think that quite a few plants will not come back. So there will be some compensation I think on the supply side. And we'll see -- maybe we'll see or have a good surprise this year. We are expecting the slowdown. And we're expecting the cycle as we're doing our homework for the last two years, building cash and enforcing a more close and tightened relationship with our clients.

You know that we have 75% of our sales in Brazil and the region. So it's our natural homework to protect the relationship with the clients considering that we are very optimistic that Brazil is not detached or decoupled. But we think that Brazil will go this year. And the resin demand in Brazil will grow. And we think that in that sense we will be very well positioned.

**Q - Denis Parisien** {BIO 20333702 <GO>}

Thanks very much, guys.

## Operator

Our next question comes from (Elena Slobodian) from JPMorgan.

**Q - Elena Slobodian**

Hi. Can you hear me?

## Operator

We can hear you.

**Q - Elena Slobodian**

Okay. Great. Yes, just considering in the US chemicals market things are so difficult, I just wanted to get a feeling for -- and also in Brazil in Braskem, we've seen the volumes and demand come down in the Fourth Quarter. I just wanted to get a feeling for 2009 outlook as far as expectations for volume and demand.

**A - Bernardo Gradin**

Thank you for your question. We expect demand in Brazil to grow 4% in average in the resins that we sell. We're talking PE, PP, and PVC comparing to 2008.

**Q - Elena Slobodian**

Okay. And do you have any feeling for expected -- I don't know if you can disclose expected EBITDA or expected margins.

**A - Bernardo Gradin**

I'm very sorry. I can't disclose that.



## Q - Elena Slobodian

Okay. Thank you.

## A - Bernardo Gradin

Thank you.

## Operator

No further questions, Ms. Slobodian?

## Q - Elena Slobodian

No, no further questions. Thank you.

## Operator

Okay. Well, that concludes the question and answer session for today. I'll now hand the call over to Mr. Gradin for any final comments.

## A - Bernardo Gradin

I'd like to thank you again for your time and attention. It's been a very challenging time. We saw a crisis that I think very few of us have seen that before. But Braskem has been preparing itself over the past two years for the downturn in the petrochemical cycle, prioritizing liquidity, and believing that we are very well positioned, especially relative to other players in the industry, to face future uncertainties. We see more opportunities than crisis.

As I mentioned, of course, by nature of our business, margins and earnings profile remain highly cyclical and exposed to not only the chemical cycle, but also to the economic cycle. But being in Brazil and having 75% of revenues in the domestic market has been very positive to us because we are less affected by the global crisis. Brazil has reserves of almost \$200 billion, a healthy financial system. It became more competitive thanks to the devaluation of the real.

And the government has been taking right measures in terms of investing infrastructure and stimulating credit. So we are optimistic that in the next quarter we'll see demand infrastructure, especially PVC consumption coming in growth relative to last year.

We as leaders in the region have always strived to increase profitability in the entire production chain. And we believe that market for resins will grow this year, as I mentioned, 4%. Domestic demand has already shown signs of recovery in February and March. And of course, (inaudible) (timid) and still growth in credit, all of which should be enforced in the second half of the year.

The relationship the Company built with the clients grew during the crisis period. And the global petrochemical cycle is, of course, showing that we'll have a downward trend. But

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the stoppages and closures of plants in Europe and America, as I mentioned I think for Denis, partially offset the fresh production capacity from the Middle East and Asia.

In 2008, we generated BRL2.4 billion. And we're able not only to generate cash but also invest and still have by the end of the year BRL3 billion in our possession in cash. So the advantage brought on by the devalued real and with increased competitiveness in import replacement potential should offset the declining spreads in international resins in reals.

In light of all this, Braskem's management is prepared for the current scenario. We also believe that the position Braskem has in terms not only on a solid cash position but leading the chemical sector in Brazil and also, of course, in South America region align the vision of long-term -- of the (Odobras) and Petrobras shareholders will allow us to affirm the strategic path that we established to ourselves challenging ourselves to become one of the largest but mainly most profitable petrochemical companies in the world.

Thank you, again, for your attention. We hope that we were clear in our explanations and with all the observations that I made regarding the caution that we have for the cycle. We are very optimistic that we'll have more opportunities than problems with the crises that are in front of us. Thank you, very much, again.

## Operator

Thank you. This concludes today's Braskem earning conference call. You may disconnect your lines at this time. And have a good day.

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