

Q2 2011 Earnings Call

Company Participants

- Carlos Fadigas, CEO
- Luciana Ferrara, IRO
- Marcela Drehmer, CFO, IR Director

Other Participants

- Denis Parisien, Analyst
- Gustavo Gattass, Analyst
- Thais Aleluia, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's Second Quarter 2011 earnings conference call. Today with us we have Carlos Fadigas, CEO, Marcela Drehmer, CFO. And Luciana Ferrara, IRO. (Operator Instructions)

There will be a simultaneous webcast 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 on the website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Braskem management and on information currently available to the Company. They involve risks, uncertainties. And assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions. 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 Ferrara, Braskem's IRO. Ms. Ferrara, you may begin your conference.

Luciana Ferrara

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Good morning, ladies and gentlemen. I would like to thank you for participating in yet another Braskem quarterly earnings conference call. Today we'll be commenting on our results for the Second Quarter 2011. First, we would like to remind you that, pursuant to Federal Law 11638 of 2007, the results presented herein reflect the adoption of international financial reporting standards, IFRS. In addition, unless stated otherwise, Braskem's consolidated results reflect, for all periods stated, the pro forma consolidation of 100% of the results of Quattor Participacoes and Sunoco Chemicals, which were acquired in April 2010.

The financial statements also include the proportional consolidation of Refinaria de Petroleo Rio Grandense and the full consolidation of Cetrel as of the Second Quarter this year, with the figures for the first six months of this year retroactive to January 2011. The information in today's presentation was reviewed by independent external auditors with the exception of Sunoco Chemicals for the First Quarter 2010.

Let's go to the next slide, slide three, where we will begin our comments. This first slide presents the highlights of this quarter. Braskem's net revenue in Second Quarter '11 was \$5.2 billion, showing growth of 18% when compared to the First Quarter of this year and 39% when compared to the Second Quarter last year. This growth reflects the higher price of resins and basic petrochemicals in the Second Quarter 2011, following the trends seen in international markets.

In the first half of this year, from January to June, net revenue was \$9.7 billion. This value is 31% higher than the net revenue generated in the same period 2010. Braskem posted record high EBITDA of BRL1.2 billion in the Second Quarter '11, which can be explained by the better contribution margin in this quarter. Over the last 12 months, EBITDA was also a record high, reaching \$2.5 billion or BRL4.2 billion. Braskem is committed to financial solidity.

This can be seen in the net debt EBITDA ratio of 2.3 times, presented on June 30th, a 3% decrease from that which was presented at the end of March, 2.37 times. And a 19% decrease from that presented a year ago, 2.84 times. This improvement demonstrates the Company's goal of keeping the leverage ratio between 2.5 times, along with the decision of keeping most of Braskem's indebtedness denominated in dollars which balances the negative impact on EBITDA, given the real appreciation, with a positive effect of interest in debt reduction over net debt.

The achievement of an investment-grade credit rating allowed Braskem to tap new markets. In July 2011, Braskem announced the \$500 million per year bond issue with a yield of 7.25% per annum and a coupon of 7.125% per annum. The proceeds will be used to pre-pay short and medium-term debt, in line with the strategy to restructure the Company's debt profile. Regarding the synergies from the Quattor acquisition, of the BRL377 million estimated to be captured this year, BRL163 million were already captured in these first six months, with these gains coming mainly from industrial and logistics fronts.

Lastly, in line with the Company's growth plan, Braskem announced at the end of June, the acquisition of Dow Chemical's polypropylene business for \$323 million. With total PP

surpassed of 1,050,000 tons a year and plans for locating in the United States and Europe, the acquisition represents an important step forward in Braskem's international expansion process. In addition to the global expansion of industrial assets, Braskem also gained an important portfolio of products and clients and the synergies that will come once integrated with current operations. Therefore, you can see that this is an operation that's in line with Braskem's strategy to expand and create value.

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Moving to slide four, we can see the performance of the Company's main segments in the Second Quarter compared to that of the previous quarter. Revenue in US dollar improved in all segments in relation to the same quarter of last year. In the case of polyolefins, total sales remained stable when compared to First Quarter 2011. Revenue in US dollar was, however, 8% higher, supported by the higher practice in the period.

In the case of vinyls, total PVC sales grew by 12% this quarter, while soda sales rose 7%. Both increased supported by recovering production volumes. Given the higher prices, revenue in dollar grew by 19% in relation to First Quarter 2011. In basic petrochemicals, Braskem's total ethylene and propylene sales grew by 8% in comparison to this year's First Quarter, while butadiene sales grew by 9%, reflecting the gradual recovery in capacity utilization of the cracker by year, which had been affected by the power blackout in February.

In the high oil price, the schedule maintained stoppage and the high yields of natural gas instead of naphtha, pressure of the price of ethylene and various cracker co-products. These generated a positive impact on the good performance of basic petrochemicals. The international business segment registered revenue growth of 18%, influenced by the higher polypropylene price.

Moving to slide five, we show the performance of Brazil's thermoplastic resin market along with Braskem sales performance by sector. Brazil's domestic demand in the Second Quarter posted a moderate growth of 2% when compared to Second Quarter 2010, reaching around 1.2 million tons, influenced by the high market volatility and the expectation of lower price in international markets, which was reverted in July.

Meanwhile, Braskem sales came to 764,000 tons, remaining stable in relation to the previous quarter and to the same period last year and continued to suffer impacts from the recovery in capacity utilization rates in the period. The highlights, in terms of performance this quarter, were the consumer goods sector and the construction sector.

Imports maintained a relevant market share of 29% for polyolefins and 37% for PVC, reflecting the shortfall in the PVC market, where import volumes exceeded 100,000 tons. In the stronger real, the higher volume of imports offered in the region during the period, taking advantage of the window of opportunity at ports that enjoy incentives, which grants IPMS[ph] tax credit, a practice that was recently ruled unconstitutional by the national financial policy council, or CONFAZ. This year's strategy includes recovering a portion of this market share.

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Moving to slide six, we have the performance of our EBITDA when compared to the previous quarter. Consolidated EBITDA was a record of BRL1.15 billion, growing 25% from the previous quarter, with positive impact from the higher sales volume of BRL50 million and from the contribution margin of BRL263 million. The increasing resin and basic petrochemical price, which was in line with international market trends, offset the higher raw material prices. 4% depreciation of the real in the period generated a negative impact of BRL84 million, composed of a negative impact on revenue of BRL376 million and a positive impact on costs of BRL292 million.

Let's go to the next slide, slide seven, where we have the variation EBITDA between Second Quarter of this year and the Second Quarter of last year. Once again, despite higher raw material price, the contribution margin had a positive impact of BRL381 million, influenced primarily by the better resins and basic petrochemical price, which followed the upward trend in price in international markets. Currency translation generated a negative impact of BRL231 million, composed of a positive impact on costs of BRL800 million and a negative impact on revenue of BRL1.31 million, which resulted from the appreciation of 11% in the real against the dollar between the two periods.

Let's go to slide eight, where we have Braskem's debt position on June 30th. Braskem's gross debt stood at \$7.9 billion, increasing by 2% from the balance on March 31st. In Brazilian real, gross debt stood at BRL12.3 billion, with the reduction of 2% explained by the depreciation in the dollar of 4.2% in the period. The portion of dollar-denominated debt stood at 60%. The balance of dollar-denominated cash and financial investments decreased by 4% to \$1.7 billion. In Brazilian real, this decline was slightly more significant, 8% to BRL2.6 billion.

Note that this cash position represents the coverage of debt amortization for 21 months and after including the standby credit line of \$350 million, this coverage increased to 27 months. Of the total debt, only 10% will mature this year. As a result, Braskem consolidated net debt closed in the quarter at \$6.2 billion, up 4% from the amount registered at the end of the First Quarter this year. Measured in Brazilian reais, net debt stood at BRL9.7 billion, in line with the balance in March this year.

EBITIDA growth of 3% in the last 12 months, combined with the stability net debt in reais, given the appreciation of this currency and the maintenance of a large portion of debt denominated in dollars, led to a decrease in financial leverage. This can be measured by the ratio of net debt to EBITDA in the last 12 months, going from 2.37 times in the First Quarter to 2.3 times in the Second Quarter, in line with Braskem's objective of maintaining leverage ratio at around 2.5 times.

When expressed in US dollars, the leverage ratio stood at 2.47 times, decreasing 2%. The average debt ended the Second Quarter at 10.3 years, down from the average term of 12.4 years at the end of the First Quarter, basically due to the exercise in April of the co-option on the perpetual bonds issued in 2006 in the amount of \$200 million and at a cost of 9% per annum.

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In the same period, Braskem carried out a liability management operation that involved the issue of \$750 million in bonds due in 2021 and used the proceeds to buy back around \$400 million in securities issued by the Company, whose costs were less attractive. At the end of July, Braskem also issued \$500 million in bonds due in 2041 with the use of 7.25% per annum and a coupon of 7.125% per annum. These were the first issues carried out by Braskem with a 30-year term and made it possible to tap a new profile of investors.

Considering the prepayments from the liability management operation and the ones to be made using the proceeds from this last issue, the Company will be able to lengthen its average debt term to 12 years, while maintaining its average debt cost at competitive levels, 6.1% in US dollars and 83.9% of the CDI in Brazilian reais.

Moving to slide nine, represent the synergies from the Quattor merger. The capture of synergies in the first six months of this year was BRL163 million, with gains mainly on industrial and logistics fronts. This resulted from the high operational efficiency led by the optimization of production in crackers, with the high production of products such as gasoline and butadiene, the reduction in the number of resin grades. And the better integration of planning from the first and second generation operations.

In 2011, the Company expects to capture BRL377 million in annual and recurring EBITDA, with the figure rising to BRL495 million in 2012. Industrial and logistics fronts are where the highest concentration of synergies has been identified. On the industrial front, the highlights were the planning improvement in the production and sales of cracker co-products, such as aromatics and butadiene, improvements in the sales mix at second generation plants with a reduction in the number of grades per plant. And the centralization of asset maintenance planning by optimizing team and scheduled stoppages.

On the logistics front, the gains were mostly due to better planning of sales, distribution, storage activities. On the supply front, the highlights were the integrated purchase of imports and the renegotiation of third party contracts.

Moving to slide ten, we provide more details on the acquisition of the polypropylene business of Dow. The transaction perfectly aligned with Braskem's strategy of growth with value creation and its clear interest in expanding the Company presence throughout the market in Americas. This transaction also provides the benefits of expanding the Company's industrial operations to Europe, given that these plants are located in Germany, the most solid country in the European economic block and the world's fourth largest economy. The combined capacity of the business of 1.60 million tons a year is divided across four industrial plants, two of which are located in the United States and two in Europe.

The capacity in the United States of 505,000 tons a year has made Braskem the country's leading polypropylene producer in one of the world's largest consumer of thermoplastic resins market. By becoming the leader in this segment in the United States, Braskem aims to become the preferred supplier of its clients leading to market share gains and, in the future, gaining price advantages as well. In addition, the product portfolio

acquired a complement around, with important market share in the region's packaging and on all other[ph] segments.

Meanwhile, the presence in Europe provides access to a new client portfolio, which could offer synergies in the commercial area for the products offered by Braskem. Regarding synergies as the result from this transaction, Braskem should capture \$140 million in net present value. The fronts identified the related optimization of products, raw material purchase. And logistics. In the near future, we expect to provide a timetable in more details on the capture of these synergies.

Let's go now to the last slide, slide 11. On the last slide, we present the outlook for the industry in the areas where management is currently focusing on. The expectations for the global petrochemical industry in the second half of the year point to a recovery in the resin-naphtha spread when compared to the Second Quarter.

The main factors influencing this scenario are the scheduled shutdowns in Asia and the recovery in regional demand, the continued instability in operations in the Middle East with problems in gas supply associated with oil production in the region, the low operation rate, the operational problems in Europe. And scheduled and unscheduled shutdowns in the United States.

The points that warrant attention continue to be related to risk of a deceleration of demand in emerging countries along with a higher volatility in the case of prices, which are affected by factors exogenous to the world supply and demand balance, such as financial difficulties in the weaker economic scenario in the US and Europe. The strong demand for resins at the end of 2010. And the volatile scenario in the world economy ended up impacting growth in the domestic thermoplastic resin market in the first half of this year. However, the expectation for demand in the second half of year remains positive since the period is seasonally high.

In this scenario, Braskem remains focused on supplying the Brazilian market and working together with clients to strengthen the Brazilian petrochemical and plastic chains. Another priority focus continues to be capturing synergies and constantly adding value to their positions which were already executed. This was the case in 2010 with the operational improvement of both Quattor in Braskem America. In the future, this will include the recently acquired polypropylene business.

Seeking to ensure its leadership in the Americas, Braskem retains an added short and medium term priorities, the conclusion of the previous expansion expected to start up in May 2012. And the completion of the project financial opportunity in Mexico, aimed at obtaining the final investment decision from the board of directors by the end of this year and studies to expand supply in Brazil through the use of gas and potential new projects in US for the better use of competitive raw materials from shale gas. That concludes today's presentation. Let's go now to the Q&A session. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) We have a question from Thais Aleluia from Credit Suisse. Please go ahead.

Q - Thais Aleluia {BIO 17540373 <GO>}

Good morning. Thanks for the call. If you could talk a little bit about imports. What were they before the First Quarter -- the % -- as a percentage of the domestic market and when do you expect that percentage to go down from the levels in 2Q 2011, please?
Thank you.

A - Carlos Fadigas

Okay, Thais. Thanks for your question about imports. The level of imports in the Second Quarter of this year was roughly around 31%. With that, we are combining all of this as three main resins. This number historically, if you go back -- actually, if you go back one year, this 31% would go down to 25%. So the first and Second Quarters of 2010, we had a level of imports of around 25% of the domestic market.

So that was near market share. And if you go back a few more years, you find the level of imports inside Brazil roughly around 20%. This number is different. If you go by resin, the number for PVC is a big one and that's mainly because Brazil is not self-sufficient right now in PVC. So the number that I gave to you, that was an average for the First Quarter of 31%. In PVCs specifically, the number is 37%.

And if you go back one year like I did with the other resins, this number would be roughly 30%. So PVC has always been higher because Brazil is not self-sufficient. We do believe this number will come down to, actually, nine months from now when we start -- we have the start up of the new PVC plant in Brazil. And we believe we can and we should go back to the level of 20% to 25%. It's going to take some time. It depends on the trend on the US dollar. That would depend a lot in the reduction of the debt incentives given right now to the imported resins. But that, I would say, would be our goal for us in terms of market share of imported resins.

Q - Thais Aleluia {BIO 17540373 <GO>}

Okay. Thank you. And then, as far as acquisitions go, do you -- are you still looking at other opportunities in the US and in Latin America?

A - Carlos Fadigas

Well, in Latin America, you would not find a lot of attractive assets. And by that, I mean assets that would significantly contribute to a bigger size of the company -- a more competitive company. There are few, very few assets in Latin America that could be of Braskem interest. But nothing material going on right now.

In terms of North America, I would separate Mexico from the US. Mexico, this strategy is purely through greenfield. And in the United States, we've been growing in polypropylene

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through acquisitions. As you know, we made two acquisitions over the last 15 months. And right now we're working on the propylene strategy to feed all these plants. That's been more of a focus. But I would not rule out all the potential acquisitions in the PP -- polypropylene space.

In the polyethylene space, we are -- we have been study the feasibility of a greenfield project, especially because the gas in the US, ethane, is very competitive right now and that could justify the construction of a new ethylene, polyethylene complex. Acquisitions within this space are less likely to happen, especially because of the high price of the assets in these areas.

Q - Thais Aleluia {BIO 17540373 <GO>}

Okay. Thanks. And one last question. If we are -- were the operational problems normalized already in this quarter? When are we going to see the -- going to see results already normalized for all the non-recurring events that happened in this first half?

A - Carlos Fadigas

Okay. We had one non-recurring event. We had blackout in the northeast of Brazil that happened the first days of February. And that affected a naphtha cracker and the polymerization plants fed by this naphtha cracker in the northeast of Brazil. Normal operations -- we reached the level of normal operations at late April, early May. And that was the only event -- the major event we had this year.

We also had an accident in the chlorine -- sodium chlorine plant in the northeast of Brazil. But it was a much shorter event that did not have a mature impact on EBITDA. So apart from these two events, nothing else. We had planned maintenance stoppage in the cracker, obviously, that has just been finished. We did that throughout the month of July and we have another maintenance stoppage forecasted for the month of November, for the cracker in Rio Grande do Sul in the south of Brazil. So we don't expect anything different -- abnormal in the third and Fourth Quarters of the year.

Q - Thais Aleluia {BIO 17540373 <GO>}

Okay, Fadigas. And if I may, one more question, what's your outlook for supply in the next -- this year and the next year and the next few years?

A - Carlos Fadigas

Are you talking about supply-demand balance?

Q - Thais Aleluia {BIO 17540373 <GO>}

Yes.

A - Carlos Fadigas

Okay. So in the short term, we see a second half of the year in which we should have more demand because of seasonality. And that should help increase the volume of sales.

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And that's the case we will review mainly as we approach the -- as we start to approach the end of the year. There has always been a stronger demand in the months of August and September and somehow in October as well. When you look at the longer-term perspective and then -- and now I'm talking about the forecast for the next years all the way to 2015, 2016, we do expect to have higher demand growing faster than the supply. And that's because a lot of projects have been cancelled and delayed in the end of last decade and that's because of the economic crisis in 2008.

And therefore, we will not have a lot of projects coming on stream over the next three, four, five years. And we do expect demand to grow faster than supply, leading to a new peak in the petrochemical side at some point between 2015, 2016. It's hard to forecast exactly when it's going to happen. But we do believe we're going to have better margins and high utilization rates going up all the way from 2011 to 2015, 2016.

Q - Thais Aleluia {BIO 17540373 <GO>}

Okay. Thank you, Fadigas. Thank you, very much.

A - Carlos Fadigas

Thank you, too.

Operator

Our next question comes from Denis Parisien from Deutsche Bank. Please go ahead.

Q - Denis Parisien {BIO 20333702 <GO>}

Hi. Thanks for the call. I'm wondering if, on the -- further on that last question and response, if you could detail for us some of the projects that were cancelled. And it seems from your presentation, the demand growth in the domestic market of somewhat 2% seems to be significantly below the usual GDP to thermoplastic demand elasticity. Could you talk about that a little bit? Are we seeing a structural slowdown in that elasticity? If not, what might have occurred? Perhaps it was an inventory cycle. If so, maybe you could talk a little bit about inventories, where you see them in Brazil and around the world. Thanks a lot.

A - Carlos Fadigas

Thank you, too, Denis. Let me start with Brazil and then move to the global market. Yes, the growth of 2% is much lower than we had forecasted initially. It's hard to say exactly what it's coming from. But we have some points that are worth mentioning. First of all, there is an inventory change over the months and that's because of the constant increase of oil and naphtha prices throughout the first half of this year.

So when that happens, customers typically tend to wait to see where the market will stabilize or even expect prices to come down at a certain point. And they try to work with as many inventories as possible so they can re-buy -- buy again raw material at a better price point. So we saw that for the first half of the year.

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The volumes we've been seeing at the beginning of this Third Quarter do not corroborate that this is -- what I'm trying to say is that we haven't seen higher-than-normal purchases from our customers to put the inventories back to original level. That could be because the CPI is still waiting to see what is going to happen and now they are waiting because of the international crisis. But we haven't seen a movement to compensate for the use of inventories in the first half of the year.

Another thing that could be influencing that number is the import of finished goods. We have a very strong currency at this point. We have a few states in Brazil that give tax incentives to imports. And therefore, that could be the case in which our customers are losing some share of the market as well. We've seen a lot of plastic come into the country in the shape of finished goods. So that's a second thing that adds to that.

Having said that, I remain optimistic about the growth of the resin market in Brazil. And that's mainly because we don't see this trend of imports going on indefinitely and especially because we've been working and the Brazilian government has been working very hard to find a way to cut these import incentives. And that's relevant. Brazil has an import tariff of 14%. The tax benefit accounts for -- it gives back to the importer 9% of the price of the imported product. So in a certain way, it compensates two-thirds of the import tariff. So -- and that happens in every single sector. We've been seeing products come into the country through these specific ports.

And we've seen all kind of goods coming through the country. So that's one thing that will reduce the level of imports going forward. And at a certain point -- it's hard to forecast exactly when -- but at a certain point, the -- companies are exporting to Brazil have to refocus on their domestic market as their domestic market improves at a certain point in the future. We were hoping for a better dynamic inside the US and Europe so producers from those regions could sell more domestically. Not the case right now. You were about to ask something?

Q - Denis Parisien {BIO 20333702 <GO>}

Yes, I was just going to ask the -- could you explain a little bit more exactly what the incentive structure is that you're talking about for imports? How are importers getting back 9% -- there's a 14% tariff and they're getting back more than 50% of that through certain ports.

A - Carlos Fadigas

Yes.

Q - Denis Parisien {BIO 20333702 <GO>}

And it's somehow related to the pack. Could you just explain how that works?

A - Carlos Fadigas

Yes, yes, yes. In Brazil, you have a value-added tax that is charged by the states, not by the federal government. And this value-added tax varies between 12% and 18%,

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depending on the state and depending where I'm moving these products. So a few states in Brazil -- very few -- I would say, three states that have been leading this -- that have done that, they are giving back to the importer 9% of the 12% value-added tax they have the right to charge.

So if you import -- I'll give you the name of one of them. The state of Santa Catarina, if we import through that state, you get a discount of the value-added tax that you can keep as an importer. And out of the 12%, you can keep 9%. So they are not giving back the import tariff that's charged by the federal government. But the end math is exactly the same because you are talking about getting back 9% out of the value-added tax. So it's a state tax given back to the importer. But the final concept is exactly the same.

Let me comment then on your first question about supply-demand global. And I will mention Brazil. Let me talk about the global supply demand. We have -- we're working with a forecast of 3% average growth rate on capacity from 2010. We view 2010 as the starting point to -- through 2015. So with that, we have an ethylene capacity growing from 142 million tons to 165 million tons.

At the same time, we do expect demand to grow at 4.6%. So supply growing at 3%, demand growing at 4.6%. So global demand would move from 120 million tons to 151 million tons and that should help the utilization rates to move from roughly 84% utilization rate -- average global utilization rate should -- close to 92%. And as utilization rate moves up. So does the spread in ethylene and polyethylene. So on the global scenario, we do see -- we hope we're going to see better margins as we see more demand than capacity coming to the market.

Q - Denis Parisien {BIO 20333702 <GO>}

Where specifically were projects cancelled?

A - Carlos Fadigas

Well, I'm talking about --

Q - Denis Parisien {BIO 20333702 <GO>}

I'm sorry, were those numbers for polyethylene, did you say or for --?

A - Carlos Fadigas

The numbers that I mentioned in terms of million tons is for ethylene, as a building block -- as the most important building block for polyethylene and for PVC. Right? So the numbers that I gave to you, they're based on ethylene.

When I talk about projects that were cancelled, I'm talking about two factors that led to that. The first one, if you could remember, back in 2005 and 2006, there was a very big concern about the projects coming on stream in the Middle East. So everybody talked about them and everybody expected a big trough in the petrochemical cycle because of this huge capacity.

That -- what we actually saw at the end of the day was a gradual process of projects starting operations. And a lot of difficulty from -- a lot of problems faced by the countries in the Middle East to actually operate these capacities up close should be a potential. So it actually -- the threat never really materialized in the way we were forecasting before. But the fact that there was a lot of projects coming on stream prevented people from -- prevented several countries from adding new capacities.

Second factor was the prices back in 2008. And we saw a lot of projects announced that later on as they did not proceed with them. I do not have -- we could provide you with the list of projects announced back in the beginning of last decade. They were published by CNAI[ph]. But there isn't one or two specific projects. I'm talking about expansions in Qatar, in Iran, in Saudi Arabia, in Asia, that has been cancelled because of that.

And that's why, when we look for the next years -- from 2010 to '15, we only have a 3% capacity coming on stream as I gave to you the numbers for ethylene and 3% is a lower rate of capacity addition. And that's the direct consequence of not so many projects being really carried out all the way to completion.

Q - Denis Parisien {BIO 20333702 <GO>}

Thanks very much for that level of detail. Obviously, the global markets are reflecting now a pretty serious concern regarding global growth, US growth. And now your core growth. There's a pretty disappointing number in France, GDP on Friday. A lot of us economists are lowering our expectations for US growth and global growth. How -- have you stress-tested your 4.6% growth number?

A - Carlos Fadigas

Well, Denis, I think that's the multimillion dollar question. You're absolutely right. That's the data to keep track of -- and we have more than one scenario. That's the base case for us. It's 4.6%. It's kind of early to try to forecast a new number, especially because all these recent -- these events are very recent. We are talking about prices that have -- brought more widespread over the last -- the next two months. And I would not like to view the forecast for the next five years based on the last two months of events.

So we're going to keep track of what is happening in the market. We've been keeping track of the growth in the US and now Europe because we do have operations there. We're going to be seeing that from the market, from inside the market. And then we join again to talk about the Third Quarter of the year, we should have a new forecast. At this point, it seems to be a bit premature to -- a bit early to come up with a new number. Let's wait a little bit and gather more information and see how the economies react to the recent crisis.

Q - Denis Parisien {BIO 20333702 <GO>}

Understood. And sorry to get you to repeat again. But you said your base case scenario has utilization rates going from what level to 92%?

A - Carlos Fadigas

84% in 2010, roughly 84%. That's utilization rates for the ethylene capacity.

Q - Denis Parisien {BIO 20333702 <GO>}

Yes.

A - Carlos Fadigas

Going all the way to -- close to 92%. Actually, 91.5% is the number we have for 2015.

Q - Denis Parisien {BIO 20333702 <GO>}

Where do you estimate -- where --?

A - Carlos Fadigas

Again ethylene.

Q - Denis Parisien {BIO 20333702 <GO>}

Where do you estimate they are at now?

A - Carlos Fadigas

They are pretty much in line what we had last year, I would say. It hasn't moved much from the range of 84% to 85%.

Q - Denis Parisien {BIO 20333702 <GO>}

Excellent. Thanks very much for all the details. I appreciate it.

A - Carlos Fadigas

Thank you, too.

Operator

Our next question comes from Gustavo Gattass from BTG. Please go ahead.

Q - Gustavo Gattass {BIO 1702868 <GO>}

I just had two questions for you. The very first of them, I just wanted to follow up on the discussion of growth and effectively touch into the discussion of margins and profitability. I know we discussed a little bit of this on the Portuguese call. But I just wanted to follow up. When you're looking ahead, what is shaping up right now seems to be a little bit of a slowdown in the pace of growth and maybe not necessarily having that much growth in the domestic market here in Brazil.

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I understood that you said that up until now you guys haven't really seen any significant change or any relevant change in the margins of the domestic business that you're seeing. What I was wondering is how do you guys think about this for the future? Is it something that you guys are expecting to see? Is it something that is not expected because there are other drivers actually pushing it up? And more importantly, are you budgeting and thinking about managing the company, assuming that things get a little bit tighter or not? And then I have a second question. But it's more of just a check I want to do with you guys as well.

Operator

Okay. Please stand by.

(30-second audio gap)

The backup line is now open. Pardon me, ma'am. Your backup line is now open. Okay, all participants please stand by. Your teleconference will resume momentarily. We thank you for your patience.

(20-second audio gap)

Okay. Pardon me. The backup line is open. Please go ahead.

A - Carlos Fadigas

Can we carry on with the conference call? I apologize. We had a connection problem with the Braskem phone. We are ready to carry on with the call.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Fadigas, it's Gustavo Gattass. Did you get to listen to my question or did it drop before?

A - Carlos Fadigas

I heard the beginning of that, Gustavo. If you actually could repeat, I apologize again. But if you could repeat.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Sure. The key question here, Fadigas, is, number one, how are you thinking about your margins in a scenario of slower growth market or no growth market here in Brazil? And part number two of the question was how are you actually thinking about budgeting? Have you guys actually changed something in the behavior of the Company or the plans of the Company with regards to the possibility that you're going to have a more or a tighter margin scenario?

A - Carlos Fadigas

FINAL

Okay, first of all, Gustavo, we do work with a forecast in which demand keeps growing. It grew 2% in the first half of the year. We have to understand what is going to happen going forward. But the good thing is that we've seen a healthier behavior inside Brazil than outside Brazil. So we have a GDP that will keep on growing. Even if it's 3.7%, it's growth. And we have -- what we have to do internally is to keep an eye of -- on the import of finished goods.

And in that front, it's going to be critical to work and to try to prevent the ports in some states to keep giving tax incentives to the imported resins. So the main scenario -- say, the scenario in which GDP grows in which demand grows -- it has been growing -- but we accelerate that growth by recapturing some of this market to the Brazilian resin and to the Brazilian plastic converters, taking it away from the imported products. And we should be able to do that if we have the end of some of these incentives for imported products.

We have not changed any main forecast in Braskem. We still do have the close relationship with the customers. We still do have a dominant market share position. We still do have the logistic advantage, import tariffs included. So we just had, I would say, a quarter in which sales didn't grow and we hit record EBITDA. So if we talk about the next several years from 2011 to 2015, the worst case scenario is the scenario in which a slow in global demand will make the market more even instead of a tighter market that we were expecting.

So even in that scenario, the worst possible case is one in which we have similar margins than -- of what we have right now. So it's not as positive as we want it. But it's still a fairly reasonable scenario in which Braskem should be -- could be enabled to have better-than-average EBITDA with an EBITDA margin of 16%. If you exclude the resale of naphtha and condensate, there is higher than the industry average.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Thank you. The second question that I have is perhaps a bit more accounting related, Fadigas. I don't know if this one is for Marcela or Luciana. But I just wanted to understand growth. I was trying to think about modeling you guys differently and looking about -- looking at the segment results that you are reporting. And when I was looking at the polymer margins EBIT -- not even EBITDA, I was actually seeing that you guys have roughly 5% margins only for PVC and for polymers. I just wanted to understand, from the way you guys look at it, do you think that that's a fair representation of each part of the business or is there something on the transfer pricing here that actually concentrates profitability a bit more on your crackers?

A - Carlos Fadigas

Gustavo, I'll pass this onto Marcela. Let me take this opportunity to thank you all for the call. I do apologize. I have a commitment I was unable to reschedule. So I'm going to leave the call. We have both Marcela Drehmer and Luciana Ferrara here. They will carry on with all the questions you may have. I will leave this one to Marcela. Thank you, all again.

A - Marcela Drehmer {BIO 16721570 <GO>}

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Gustavo, hello? Actually, the interest rate is exactly what you mentioned. This is the internal reference that we use as transfer site. So it really doesn't matter for us. We follow the -- our performance in an integrated basis. So we have to look at the number, including the whole change to the naphtha and to the resin. So we will look at this specific information that you are looking at. Okay?

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you.

A - Marcela Drehmer {BIO 16721570 <GO>}

You are very welcome.

Operator

(Operator Instructions) And at this time, I show no questions. I'll turn it back to Braskem for closing remarks.

A - Marcela Drehmer {BIO 16721570 <GO>}

I just want to thank you all for joining our conference call today and we hope to see you all again in the next conference call next quarter. So thank you very much for your attention.

Operator

Thank you. This concludes today's Braskem's earnings conference call. You may disconnect your lines at this time.

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