

Y 2016 Earnings Call

Company Participants

- Fernando Musa, Chief Executive Officer
- Pedro Freitas, Chief Financial Officer and Investor Relations Officer
- Pedro Teixeira, Investor Relations, Controller and Project Finance Director

Other Participants

- Caio Carvalhal, Analyst
- Felipe dos Santos, Analyst
- Frank McGann, Analyst
- Hassan Ahmed, Analyst
- Pedro Medeiros, Analyst
- Vincent Falongo, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we'd like to welcome everyone to Braskem's Non-Audited Fourth Quarter and Full-Year 2016 Earnings Conference Call. Today with us we have Fernando Musa, CEO; Pedro Freitas, CFO; and Pedro Teixeira IR, Controller and Project Finance Director.

We'd like to inform you that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Braskem remarks are completed, there will be a question-and-answer section. At that time, further instructions will be given. (Operator Instruction) We have simultaneous webcast that may be accessed through Braskem's IR website

at www.braskem-ri.com.br and the Engage-X platform, where the slide presentation is available for download.

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

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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. It could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Pedro Teixeira, IR, Controller and Project Finance Director. Mr. Teixeira, you may begin your conference.

Pedro Teixeira {BIO 19489140 <GO>}

Good afternoon, ladies and gentlemen. Thank you for participating in the conference call of Braskem to discuss the results of the fourth quarter 2016 and the full year of 2016. As the company informed its shareholders and the market that it has decided to postpone to March 29, 2017, the filing of its audited financial statements related to the fiscal year of 2016. Due to the conclusion of the global settlement with the authorities announced on December 21, 2016, the company has been converting necessary analysis of its internal processes and controls, which have impacted the progress of external auditors' work.

So in order to keep the market informed on its operational and financial performance, Braskem decided to proceed with a release of its non-audited results, which are of course subject to adjustments and changes upon the release of the company's final audited financial statements.

So beginning the presentation on slide number four, we will discuss about the highlights for the Brazilian operations of Braskem. So in Brazil, the demand for the resins PE, PP and PVC have reached 1.2 million tons in the fourth quarter, 13% higher than the fourth quarter of 2015, and a decrease of 6% when compared to the third quarter of 2016, due to the regular seasonality of the period.

In 2016, the total demand reached 4.9 million tons, 1% lower than in 2015.

The average cracker utilization rate for 2016 reached 92%, 3 percentage points higher than the last year and it was an historical record for the company. In terms of sales in domestic market, the company achieved in 2016 3.3 million tons of resins sold in the domestic market, 1 percentage lower than in the last year due to the demand retraction in 2016.

In terms of exports, 2016 was a year of record. We increased the exports of the company by 24% comparing 2016 with 2015, mainly in the first semester of the year; and we exported 1.7 million tons of resins in the whole year. In terms of EBITDA, the operations in Brazil achieved an EBITDA in 2016 of BRL8.5 billion, which accounts for 74% of the consolidated segments of the company.

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Moving to slide number five, I would like to highlight and discuss in more details about the graphs that appears in the low side of the slide. So from the left to the right, we have the evolution of the EBITDA in the operations in Brazil. We achieved an average EBITDA margin around 17% in the whole year. The margin was a bit lower in the fourth quarter, mainly due to the regular seasonality in the fourth quarter, which is usual -- weaker than the other quarters.

But also there were some very non-recurring events, punctual events that happened in the fourth quarter. We had a provision of -- environmental provision of BRL180 million. We have our process and we had to maintain our provisions updated and we updated the environmental provisions in the fourth quarter in the amount of BRL880 million, which caused some difficult to compare the results of the first quarter with the other quarters of 2016.

Another important point to highlight is the evolution of the spread, which is the graph that appears on the lower right side of the slide. The international spreads had affected Brazil, there was a decrease by 13% in the fourth quarter, mainly driven by the fact that the naphtha price increases from \$365 per ton to \$422 per ton, and it was a reaction of the naphtha price as a consequence of higher oil price. These led to a decrease in the spread, international spreads that affected results -- the spread in Brazil.

Moving on to slide number six, and here we are going to discuss the results of our US/Europe business and also Mexico complex. In US and Europe, the average utilization rate in 2006 (sic - 2016) was 100%, 2 percentage points higher than 2015. We had in the fourth quarter of 2016 a scheduled shutdown, maintenance shutdown in one of our facilities in Marcus Hook, Pennsylvania and these caused a reduction on this quarter of utilization rate to 95%, which is still a very good, very high level.

In terms of volumes, in this quarter, there was a decrease by 3% compared with the fourth quarter of 2015, especially because of the shutdown in the facility in Marcus Hook. In 2015, the total amount sold in Europe and our products produced in Europe and US reached 2 million tons, 2% higher than last year, with a great operational performance and strong demand, especially in the US.

In terms of EBITDA, the fourth quarter accounted for an EBITDA \$103 million, equivalent to BRL340 million. And in total, in the full year of 2016, US and Europe represented in \$696 million, which is equivalent to around 20% of the consolidated segments of the company.

In Mexico, we achieved higher utilization rates in our PE facilities. We achieved 73% of utilization rate, which is 10 percentage points higher than in the third quarter 2016. We had a maintenance in our facilities of our ethane supplier and even though with these maintenance in the facilities in our ethane suppliers, which led to a lower utilization ratings in our facility in October. The average was few -- pretty much higher than what was the rate for the third Q 2016. In the year, the utilization rate stood at 42%, which was in line with the ramp up schedule that we planned for the complex for the year.

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In terms of sales; PE, we sold, in 2016, 432,000 tons, of which 46% was channeled to the Mexican market and the rest was exported to several other -- that including Asia, Europe, Central America and US. And the EBITDA generated by Mexican project in 2016 was a \$165 million and taking consideration that the average utilization rate of the year was 42%.

Moving to the next slide, it shows with a bit more detail the results in US and Europe. On the graph on the up right side, it shows that there was a contraction in the spreads in the US by 5%, with an increase in the propylene price in US, there was some restriction in terms of supply of ethane in these last two quarters. But overall we consider that the market is oversupplied in terms of propylene and we expect that the spreads at least over again over the next years, next quarters.

In terms of EBITDA, the EBITDA of this quarter was lower because of the construction in the spread and, of course, because of the maintenance shutdown that happened in Marcus Hook -- in our facility Marcus Hook.

In Mexico, moving to slide number eight, we are bringing here a slide that shows the operational rate and more (inaudible). And let's begin to look in this graph in October, where we achieved our smaller operational rate of 44% and these was achieved such a lower rate was because there was a stoppage for maintenance in our supplier. So with this stoppage for maintenance in our supplier, we use this time to also stop our facilities, make some adjustments, and improve the capacity of the company. So, with that, we were able to quickly recover and achieve very much high utilization rate and especially in December when we achieved an operational rate of 97%, which is very much important. Less than one year after the startup of the project, we are able to say that we achieved very high utilization rate in the Mexican projects. We've made a very anxious for what we're going to see for 2017.

In terms of sales, sales are growing gradually and following the production. So in the first quarter, we sold around 200,000 tons, part of that in Mexico, part of that exported, and just reinforced the EBITDA margin of this project. So in the fourth quarter 2016, we achieved an EBITDA margin of 48%, much higher than any other region that Braskem has, that's because it's a gas-based project, that's because we have a very competitive feedstock agreement for this complex.

So moving on to the slide number nine and here we are going to talk about the consolidated results of the quarter and the year. On the quarter, we achieved a EBITDA of \$730 million and in the quarter, in terms of dollars, we reached \$3.3 billion and BRL11.5 billion. In both case there was important increase compared to the last year; and in both case we achieved a record EBITDA of the company. This was due to good operational performance in all the units, healthy resin and basic petrochemical spread in the international market, very good performance in terms of exports from Brazil, operational performance in the US and Europe were outstanding, and the Mexico projects began to contribute to the overall results of the company.

In December 2016, the company conclude a global settlement with authorities in the context of a car wash operation. And under this global settlement, the company will pay

to the applicable authorities in Brazil and US and Switzerland an amount of \$957 million, equivalent to BRL3.1 billion.

The financial leverage, the leverage of the company measured by the net debt-to-EBITDA ratio in US dollars ended the year at 1.67 times and considering the effects of the global settlement with the authorities the leverage stood at 1.95 time, so in both case anyway you measure these ratio. The ratio is very much comfortable, very much lower in terms of leverage than what we had like two to three years ago.

Moving to slide number 10, here is the comparison of this EBITDA of 2016 -- in '18 -- in '16 in US dollars. So last year we had \$2.8 billion and by several reasons; FX, spreads, volumes, greater margin, and the contribution of the Mexican project, we are able to achieve a much greater EBITDA in 2016. It was an increase year-over-year of 18%.

Moving to slide number 11, here it shows the amortization schedule of the company and the leverage. We had a -- we ended the year with a total cash position, cash and equivalent position of BRL7.3 billion. We also have available with two standby credit facilities; debt of \$750 million and BRL500 million, which leads to a total cash available for the company of BRL10.3 billion, which is sufficient to cover the debt service of around 35 months.

The gross debt -- the net debt of the company, end of the year, at \$5.2 billion and the EBITDA, the corporate EBITDA without the Mexican project reached \$3.1 billion.

As I said, the leverage ratio of the company are very much comfortable and even with the announcement of the settlement and the penalty that the company will have to pay, all the three rating agencies reaffirmed the ratings of the company. So, Braskem remains investment grade by Fitch and S&P and a sovereign rating in Moody's.

Moving to the slide number eight, and the intention of this slide is to give a summary of the settlement and everything began in March 2015 when allegations of improper payments raised to feedstock agreement with Petrobras came to public. We had the company initiate a voluntary internal investigation that was back in April 2015. In July 2016, the company -- there were allegations of new wrongdoings that the company received and the company -- from July 2016 to October, the company worked to verify and to investigate these new allegations.

And with the evidence of wrongdoing, the company initiated formal negotiations with the Brazilian and US authorities that was in October 2016. The company also made a tax adjustment, a voluntary one, that was back in November 2016. And finally in December last year, we were able to close a global settlement with the authorities in US, Brazil, and Switzerland and we are going to have to pay BRL3.1 billion.

Approximately BRL1.6 billion we will pay during the first and the second quarter of this year once we have the confirmation, the homologation of the notification of the agreement with the authorities and BRL1.5 billion will be paid to the federal prosecutor in Brazil in six annual installments adjusted by the IPCA, which is inflation index in Brazil beginning in

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January 2018. An important point to reinforce is from the total amount, around BRL2.8 billion will be paid to the federal prosecutors in Brazil and a relevant portion of that will be available to indemnify third parties for the damages caused by the wrongdoing.

The status of the settlement. In Brazil, it was approved by the 5th Coordination and Review Chamber, which already produces civil effects. So, it's still subject to homologation by the judge of the 13th federal branch of Curitiba. In US, the Department of Justice had taken its final decision in last January 2016 and SEC, we are still waiting for the final decision standing by the competent court, which we expect to happen pretty soon. And in Switzerland, the agreement is finalized, so no further actions are required.

The settlement requires some additional verification. The company will have a monitorship during a period of three years, that could be extended for one year more if necessary. And the company is required to improve its anticorruption compliance program. A lot of improvements were already done in 2016. More details about what has been done, what was implemented and what will be implemented is detailed in the financial release of the company.

Moving to slide number 13, the investments of the company, we reduced by around 20% from what we expected and what we really invested in 2016. An important portion of this reduction was due to FX effects. An important portion of the CapEx of the company are related to investment in US dollars. And when we accounted this in reais, this amount becomes lower. We also did some optimization and prioritization in terms of operational and strategic projects that were expected to happen in 2016 were kind of canceled or postponed. This led to a lower amount -- lower final amount.

For 2017, there should have -- even a greater reduction in total amount to be invested, mainly because we do not expect to make additional contributions to the Mexican project. The Mexican project is already running. And as I said, as you were able to see a very good operational rate. So because of that no additional investment in Mexico and the total investment expected for the year should be around BRL1.8 billion.

Moving to slide number 14, it shows how we view the future in the petrochemical sector. And the future is very well predicted, if we look at the global utilization rates. Beginning with PE, we expect to see a reduction in the utilization rate, due to the entrance of the new capacity that will start up in late 2017, beginning of 2018 in the US gas-based ones. And this should -- and these lower operational rates should put some pressures in the PE spreads in the international market.

In terms of PP, we see some kind of -- some new capacity will be entering in Asia, but will be in progress. And in the US no new greenfield projects was announced to become operational in the short term. So, we do not expect a construction or an increase in the operational rate. So, some level of stability.

In terms of PVC, since no new capacity have been announced for quite a long time, the operational rate should improve very importantly in the following year, which should lead to higher spreads in the future.

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In the slide number 15, we've brought here a new slide that shows how we see the scenario and how these would affect the three regions of geographics of Braskem, where Braskem at. So in terms of volume, domestic volume in Brazil, 2017 should be better than 2016, because we expect an increase in the demand by around 2% this year and we are coming from a very best year, 2015, we had a decrease in the demand around 7.5%. 2016, there was an additional contraction of 1%, so 2017 should be better.

US and Europe, we don't see much movement year-over-year, so the organic growth should continue in both regions, which is somehow positive. In Mexico, that's important. 2016 we have an average operational rate of 42%, but in the end of the year we are getting very much close to around 90%. So we expect an important impact from additional volumes from the Mexican project.

In Brazil, in terms of spreads, negative for PE, PP stable and PVC and basic petrochemical positive in US, it should remain stable year-over-year. And in Mexico, the spread by definition should be positive, since we have a very positive feedstock agreement, which contemplates an important discount over the things that we consume in this complex.

In terms of FX, that would negatively impact the result in Brazil. The reais got appreciated and the cost of the reais in Brazil got higher in US dollars, so that is negative for the company. However, on the other hand, in Mexico, the Mexican peso got depreciated. So the Mexican cost in peso in Mexico gets less relevant. So one thing should help to the other.

So as a summary, the company is geographically diversified. We made, say, in 2007, movement in different direction in terms of resource, separate here for the Brazilian operation, some kind of visibility in the US and Europe and a much positive year for Mexico.

In terms of the strategic direction in Brazil, we have finished our Flexibility Project in Bahia, which would enable a portion of the company to be run using gas if needed. In US and Europe, we have to stabilize UTEC production and we have a feasibility study for our new PP facility in US. And in Mexico, the goal of the year is to really stabilize the complex to run at its highest capacity possible, highest operational rate possible, and driving a lot of results for the company.

The key concentration of the company, moving to the next slide, was one, productivity and competitiveness. So focus on operational and commercial efficiency. Feedstock diversification, number two. So we aim in the future -- sometime in the future to have a more diversified feedstock, in terms of 50% naphtha, 50% gas, and also have an even higher geographic diversification, expand our global presence outside of Brazil and gaining scale in PE and PP.

All of these three concentrations will be based in an important foundation for us, which increase reputation and governance, strengthening the image of Braskem and its reputation and the recognition of the company as the world leader and a national pride in Brazil.

Thank you for hearing the presentation. And I turn to the Q&A session.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Felipe Santos from JP Morgan.

Q - Felipe dos Santos {BIO 16391255 <GO>}

Thank you. Good afternoon. I'm just having some questions and follow-ups within that. I got so much cleared in the conference in Portuguese. The first one is about the dividends. You mentioned in the call in Portuguese, that the company is not considering paying any extra dividends for this year. But in one of the answers, it was in certain period [ph] if you're going to raise this point with the Board Meetings at the end of April and therefore we could have additional dividend being paid this year, is the first question.

The second, could you elaborate a bit on the spreads of PP and PE going forward? There are some market participants in US that believe that PP margins could be tightening further than what we have seen in the first quarter. And therefore the margins would be lower than rest of the industries have seen. So, could you elaborate a bit on that?

And just to -- third question, just to be clear, in the BRL1.8 billion CapEx that the company is expecting for this year, are you considering a maintenance stoppage in the third quarter? Thank you.

A - Pedro Freitas {BIO 21187627 <GO>}

Hi, Felipe. Just to make clear on the dividends, given the fact that we has a loss in 2016, we don't have profits to distribute as dividends. That's what I mentioned. As we progress during the year 2017 and we expect that the cash flow generation and results continues the course that we have been in the last couple of years, we would then have a dialog with the Board on how to allocate this cash flow, expecting the guidelines around financial health of the Company, especially around leverage. Hence, the interest of the Company of generating value in the long term through growth projects and/or opportunities. So that was the comment I made, is based on 2016 results, which were a loss, and no dividends. Depending how the results for 2017 progress, we will discuss with the Board what to do.

As far as the PP spreads, we see the impact that propylene going up more than anticipated in the couple of months in December and February. We see this as a temporary phenomenon. This in our view is more driven by a combination of few healthy demand for propylene from multiple value chains, not only PP, combined with a slight tightening of supply, given a coincidence of planned and unplanned shutdowns over there.

So this expectation for 2016 of healthy spreads around what we saw in the second half of the year comes from that belief. I just wanted to highlight that 2016 was an extraordinary

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year as far as spreads and margins were concerned in the first half of the year, given a combination of very strong growth and tightening of the market in the US, which as the year progressed, the market players facilitated the imports of PP, which helped solve the supply of PP somehow and brought down the margins to still healthy, but lower than the first half of 2016.

As far as the CapEx is concerned, this CapEx includes maintenance turnarounds and operational investments, as well as some of the strategic investments that have been started in recent year, like for example, the further continuation of the investment of the project to create the flexibility to bring ethane into the Bahia cracker. So all of those activities are included in this number.

Q - Felipe dos Santos {BIO 16391255 <GO>}

Okay. Perfect. Thanks so much.

Operator

Mr. Hassan Ahmed, Alembic Global Advisors would like to make a question.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Hi. Good afternoon. My question is, I guess, you made some comment about sort of the near-term outlook on the polypropylene spread side of things. Had a sort of similar question on the polyethylene side of things. As I take a look at the US market, we obviously had some price increase announcements for February, followed by further price increase announcements for March.

So my question, I guess, is a bit of a tricky one. In your mind, what element of these price hikes are reliant on, call it, a catch-up play with higher oil prices, or is it sort of anticipation of a relatively heavy turnaround season approaching, or is it the continuation of the robustness of polyethylene demand growth, or maybe a combination of all three?

A - Pedro Freitas {BIO 21187627 <GO>}

Hello, Hassan. So, good question. So let me address the PE side of the equation, we talked about PP in the previous question from Felipe. I think, as you said, the short-term expectation is an increase of prices. Players have announced relevant price increases for February and March. I think you mentioned three factors that are the ones I would mention, I think, and I think it's a combination of the three of them.

First, oil prices are stabilizing at a slightly higher price than last year. We have seen in the last few weeks \$56 Brent, plus or minus \$1, being very stable in that range, which puts the production cost of the marginal producer slightly higher. So this creates a base for the PE price to go up.

Second, I think there is quite a surprising balance of supply and demand in China. The Chinese market has been pretty strong in general for both resins and petrochemicals,

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which pushes prices up. And the local demand in US, with the economy continuing to be strong, drives local demand, which helps push the US price. And in the first quarter, until April typically, we have significant amount of turnaround. So I would say it's a combination of all those in the short-term. In the, let's call it, mid-term or back end of the year in 2018, we have the expectation of all the new projects coming online.

As we have seen with our project in Mexico, those complexes do have quite long ramp-up processes until we reach stability and some of the players in the US have already started to mention expectation of delays of their start-up process. So if you combine small delays in the start-up with softer, let's call it, ramp-up curve, there is a chance that the impact of this additional demand is a little bit less significant than anticipated before. It's going to depend a lot on the evolution of those startup processes and the local demand in the US, assuming that oil prices will stay in that range. If oil goes up or down, we will have a more significant impact on pricing of polyethylene.

Q - Hassan Ahmed {BIO 7430123 <GO>}

So now sort of continuing where you left off as a follow-up, you sort of talked about sort of the near to medium term and the influx of all of this North American capacity. I mean it seems to me that at least in the near term there are two camps out there. One side basically believes that the delays will not be that lengthy and all of a sudden with one great thud, all this capacity will start coming online and you may get, at least in the near term, a sloppy sort of market or some sort of a trough.

But there seems to be quite a lot of convergence that once we are over this, call it, hiccup, there is a bit of a capacity addition vacuum sort of medium to long term, I mean once all of these facilities come online, I think obviously, because the volatility that we've seen in oil prices over the last couple of years, no one really has come out with any further plant announcement, right.

So my question is that, let's assume for a second that we go through a short-term period, call it a year, whatever it may be, of a sloppy market, some element of troughage conditions and the like. And let's assume further that that starts getting reflected in a variety of companies' valuations as well.

So my question really is, Braskem is a bit of unique company with a unique history, where you guys have indulged in both sort of building greenfield facilities, as well as sort of going out and acquiring facilities as well.

So, what I'm trying to sort of get at is, let's assume that you have a sloppy market for a year and that's reflected in corporate valuations as well. There are a bunch of sort of at least ethylene, polyethylene assets, or at least one or two that I can think of that are up for sale. Presumably in that sort of a market they get cheaper. Now, if that were to happen, would you indulge in M&A, or would you still want to sort of carry on with sort of cost advantaged greenfield capacity utilizations?

A - Pedro Freitas {BIO 21187627 <GO>}

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Hassan, as you mentioned, our history has been very much built on successful acquisitions and integration of new assets into the system. So, if the scenario described materialize, we will definitely be very interested in looking at the opportunities. Of course, each potential deal is a very specific situation. We would be looking at the evaluation and our point of view about the future, but we also would be looking about our ability to integrate, improve the asset, and at the same time generate synergies, which has been something that we've done very successfully in the past.

For example, look at the result that we are generating with the assets in the US and Europe. I believe this is a very clear example where the results of the acquisitions have been outstanding.

So we will be open to potential acquisitions, but always as I described during the question that Felipe asked on dividends, considering the financial health of the Company and the right leverage, the balance between short-term payouts through dividends, the leverage, and growth. So if the right opportunity pops up, we will be interested in looking.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Very helpful. Thank you so much.

Operator

Mr. Caio Carvalhal from Brasil Plural would like to make a question.

Q - Caio Carvalhal {BIO 16605563 <GO>}

Hi. Good afternoon. I have two questions. One of them relates to the utilization ratio, and I would like to say more specifically the utilization ratio for ethylene and for PVC. In the case of ethylene, in the last two years, we've been seeing the utilization ratio at below 90%, while despite the issues at the beginning of 2016 and the maintenance stoppage at Bahia, we should see the full year closing at 92%.

So, my question would be how should we model, how should we see the utilization ratio for ethylene going forward? Are we likely to see the Company back to 95%, 96% or close to 90% again? And what relates to the PVC is more or less the same question. Utilization ratio for the fourth quarter was pretty high close to 100%, so my question, that compares to something around 70% to 80% in the last few quarters. So, my question would also be how should we expect the PVC utilization ratio to perform over the next couple of quarters?

The second question relates to the raw material naphtha and ethylene. There was two big changes in the Company's basic use of material in the Mexico plant and also the 15% in the Bahia cracker allowing for the utilization for ethane. So my question would be, considering the 15% being full used in Bahia and the Mexico at close to 100% ramp up, we saw 97% in December. So assuming Mexico is full ramp up, how is the share of naphtha and non-naphtha raw material in the total Company? And also how would be the naphtha participation in the cost, in the variable cost of the Company?

We knew, in the past we used a model of something like 40%, 50% of the variable cost being driven by naphtha; but with this recent change, I would like to know how is the share of naphtha when compared to the ethane now? Thank you very much.

A - Fernando Musa {BIO 17592170 <GO>}

Let me address the utilization rate question first. For ethylene, we have been doing a series of improvements in all our operations through investments and process improvements that do not require investment towards increasing reliability and efficiency at the plants. So this is a key contributor, which we expect that there is still potential for better results coming from the continuation of those efforts and the natural ramp-up of the learning curves coming from some of those investments in new procedures.

Second, Rio de Janeiro the Duque de Caxias complex has suffered over the years with lack of raw material, which in the recent months seems that the availability of ethane from the Petrobras system has increased significantly due to the pre-salt reserves and wells becoming more operational and we do expect that this increased availability of raw material will continue. The challenge to present going forward has to do first with market conditions. Second, with the continuation of strong supply by suppliers like as before I mentioned in Rio de Janeiro for ethane.

And third, the fact that our crackers go through some very relevant turnaround. Next year we have a very large turnaround in the Duque de Caxias complex and this will impact significantly the utilization rate in the areas where we have large turnaround. Having said that, our expectation is to continue to be operating above 90% in the upcoming years.

On the PVC side, I would say we have the same impact of improvements that are being done from a process and capital point of view generating better availability of products combined with the fact that given the challenges of the local market, we started to develop export channels for PVC and with that, we are now in a condition where if we really see the Brazilian market picking up, we would be able to sell a little bit more here but also keep our exports.

If you go back to the slide that has expected utilization rates around the world for PVC, we see this market improving so this could generate more opportunity for us to export. I would say the tendency, the trend for the PVC utilization rate is to continue towards a better utilization rate globally and therefore for us as well.

Talking about the raw material, if we project in 2016 we had 42% of the raw material in naphtha, 33% propylene, 23% gas-based raw materials for our crackers, and 3% ethanol for our green ethylene complex. As we continue to grow and create more flexibility, we should see this number is getting closer and closer to one-third naphtha, one-third propylene, one-third gas-based ethylene cracking. It will depend on, as I said, next year with the large turnaround in Duque de Caxias, it will reduce the consumption of ethane but at the same time we will start to consume ethane in Bahia and it will depend on how the timing of those activities happen. So I would say a third, a third, a third is a good proxy for the short-term and mid-term raw material mix.

As far as the percent of variable cost, I think this will depend on your estimation of the price of the different raw materials. Today, we have naphtha representing close to 40% of the total cost of goods sold for global operations. It will depend a lot on how you model price for those different molecules going forward.

Q - Caio Carvalho {BIO 16605563 <GO>}

Okay. Thank you very much.

Operator

Mr. Pedro Medeiros from Citibank would like to make a question.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay, guys, thanks for taking the question. I actually have three questions in addition to those asked on this call. So, the first one is related to the conversion of the cracker in Bahia to have flexibility of taking ethane for your ethylene production. I just wanted to understand if you can provide more color on the economics and on the proper timing for us to see that contribution to the results and whether it will then impact your basic petrochemicals production from that site.

On the economics part, any financial guidance on the naphtha to ethane spread that will make the projects economically attractive would be very useful for us to build a forecast?

My second question is related to your long-term five-year contract for naphtha supply with Petrobras. I recall that in the last renewal of this contract, there were specific triggers embedded into the contract that allowed Braskem to revise the premier discount purchasing terms and those triggers would start from the third year since the contract signature. So I'm assuming that one of these triggers is associated to crude oil prices or naphtha prices itself. So the question is if number one, this is correct?

And number two, with the current oil price on the screen assuming it would be sustained gives you the right already to basically negotiate new terms by the end of this year?

And in addition, are there any provisions on these triggers associated to polyethylene prices by any chance?

And my last question is more to understand your long-term strategy in auctions given the performance of some of your sites this year so it's more of a provocative question on that sense? We are at the stage very near the conclusion of the natural gas pipeline Route Number 3 from Petrobras and the company is finishing the EPCI contract to conclude its gas processing plant that will make up for much more ethane to be available near Braskem's site. There is a new management team working at Petrobras to adjust and keep product prices attached to international parties, which in the past have been a restriction for Braskem to look for expanding.

So my question is there any evaluation to engage in a brownfield expansion of your ethane based facility in Brazil or like perhaps the negative outlook for global polyethylene prices at this point reduces the priority list the start of the potential feedstock availability paternity. Okay. Those are my questions.

A - Fernando Musa {BIO 17592170 <GO>}

Let me start with the use of ethane in Bahia. As we disclosed, this is an investment to create the flexibility to crack the ethane. This will depend on the economics. We will be buying ethane in the US at market price. There is a logistical cost to bring this ethane into Bahia. We have our estimates for that that make it an interesting option. But as any flexibility will depend on how the different pricing for the raw material goes, but an important aspect of this is that if we convert and use the flexibility, we will have a reduction in the availability of other petrochemicals that come from the cracking of naphtha.

So it's not a simple comparison between naphtha price and ethane price, in that also the expectation for the other coal products that come from cracking naphtha. So it's a complex economics, which as I said creates the flexibility.

As far as the process for investments, we did a relevant part of the investments during the general turnaround that happened late last year. There are other investments now that are being completed especially in the connection within the cracker and the ports and at the facility at the ports to receive the vessels that will bring the ethane.

The expectation is that this investment will be finished by sometime in the second half of the year so that we will probably commission that and be fully operational early next year or maybe late this year if everything goes smoothly from an investment point of view.

On the master contract, you're correct that there are triggers that might lead to renewal of the conditions of the contract. This possibility happens in the third year of the contract. It's bilateral in the sense that both Braskem and Petrobras have this option. Those triggers are market based, but we have not disclosed the specifics of that and we do not intend to disclose the specific of that as we consider those strategic information from a competitive point of view.

As far as the third question on long-term strategy, the Company is always looking for interesting opportunities for investments. A brownfield investment is typically a very interesting one because it typically leads to investment in dollars per ton of new capacity that is very competitive, so we have been looking for opportunities like that. But new investments in Brazil are dependent on three key conditions.

First, we need to have the availability of the raw material and the comfort that this will be reliable in the long term to justify a relevant investment. Second, this raw material needs to be purchased at a competitive price. And third, we need to have the local demand to support the construction of any relevant expansion, because building a project in Brazil that would be a 100% export focused would require a very significant discount to global market prices on the raw material.

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So, we need to have demand in the local market that can take a relevant part of that new capacity. When we look at that, I would say that we have all the indications that in the mid to long-term, Brazil will have the molecules, but those molecules are 300 kilometers into the sea. They need to be brought to the coast, which adds logistics cost. Then we need to do the plants and then we need to serve local demand, which in the last few years have suffered a lot in Brazil from a resins point of view and we probably will go back to 2013/2014 total volume in Brazil only by 2020.

So in a seven, eight year period we basically had no growth in demand. In that period, our operations in Brazil have improved significantly as we discussed before and we have increased our ability to produce so that's why we're generating records in the export market because we have more products and we can't sell them here in Brazil.

So yes, we would be interested in looking at a brownfield opportunity, but we need those three conditions to be aligned so that the return makes sense for such a large investment and we're continuously looking at those opportunities not only here in Brazil, but as we mentioned before, we have a project being evaluated in the US for a new PP line that does rely on those drivers; availability of feedstock, advantaged feedstock globally, local demand growth, and the ability to build this project in sites which we are already present and therefore have a lot of synergy.

So any condition where we have this, we will be pursuing and when the engineering and feasibility studies are ready, we will take those to the Board for a decision to start the investments.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay. Perfect. Thank you so much, Musa. Let me just make a quick follow-up to the first question actually on the Bahia cracker conversion so to understand what will effectively take place. How does your contract with enterprise works? I'm trying to gauge you have flexibility, but eventually you are making the investments to run the cracker or our share of the cracker on ethane anyway.

And in the second part of that follow up is looking at current pricing conditions, let's say, for naphtha, ethane, and for your core projects on your basic petrochemical chain; you would still have a profit or you call for a profit on that conversion at this point, right?

A - Fernando Musa {BIO 17592170 <GO>}

So on the contract, we have as is customary in this type of long-term contract a series of mechanisms to manage the volumes on a month-to-month or year-to-year basis. So this is the first, flexibility on the contract enables us to be flexible in the ethane from the supplier. Second, we have a second cracker in Brazil that can take ethane so we have the possibility to use the ethane molecule both in Bahia and in Rio de Janeiro. So this is the second flexibility that will be used where in Rio de Janeiro we're not substituting propane -- naphtha, we are increasing the utilization rate of the complex while in Bahia, we would be substituting naphtha sold.

This naphtha will be done on a month-to-month, week-to-week basis to plan production. And last, our contract enables us to resell the ethane, which creates additional flexibility. So, we believe the combination of the structure of the contract and the flexibility we have in our system both that are being created in Bahia and that already exist to take more ethane in Rio de Janeiro enable us to optimize the value that we can extract from these opportunities.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay. Well, thank you so much for the answers.

Operator

Mr. Frank McGann from Bank of America would like to make a question.

Q - Frank McGann {BIO 1499014 <GO>}

Good. Thank you. Just a quick question in terms of your gas supply in Mexico, just wondering if you saw any issues there given your concerns about declines in supply and where you stand in the pecking order for supply if there were to be shortages?

A - Fernando Musa {BIO 17592170 <GO>}

Frank, we have a very strong contract that was negotiated first after the auction that led to the decision, signing the contract and therefore doing the contract. And then during the project for finance negotiations with the banks, the banks asked for a series of improvements as far as risk mitigation is concerned from Pemex, which Pemex agreed upon.

So from a contractual basis, we have a very strong contract. From the supply situation in Mexico, we are in the stabilization process of our complex. Last year we went through a ramp-up, December was a very strong production month, we started the year very strong. And as of today, we have not had any major problem with supply. We had what is typical in this type of supply client relationship with small upsides on the day-to-day basis just like we have in all our other plants with all our different suppliers; naphtha, ethane, propylene in the US.

So we had the natural normal level of operational issues on a day-to-day basis, but no issue as far as the total amount of ethane. Looking forward, the Mexican market is facing a small shortage of ethane availability for the use of the overall industry; but given the strength of our contract, the reality has been so far that we have no problems.

So my impression is that we're Number 1 in the pecking order, but this is a decision done by Pemex and as I said we have a very strong contract that has penalties and implications in the case of non-supply. So there's a strong deliverable clause embedded in the contract, which makes both the contract and the recent experience which is still new because we started the complex last year, but so far so good even in a market situation where there is a shortage of ethane in the country.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much.

Operator

Mr. Vincent Falongo [ph] from Bank of America would like to make a question.

Q - Vincent Falongo

Hi. Good afternoon, Fernando and Pedro. I have very -- three very quick questions. First of all, how much can you expect the demand for resins to grow in Brazil for 2017? Would something between here and south [ph] still make sense for something between 5% to 10% being possible?

Second question, this quarter represented a very strong negative swing in working capital with the consumption of around BRL800 million. It seems to us it's related to the payment of taxes, but it will be great if you could give a little more color on that front?

And then lastly on the acquisition of Cetrel, perhaps if you could give us a brief explanation behind the rationale of this acquisition? And also were you wondering if the market will have access to some sort of a valuation report and when could that be available to us? Thank you.

A - Fernando Musa {BIO 17592170 <GO>}

Hello, Vincent. Just to clarify, your first question was around the resins market in Brazil? It wasn't clear, sorry.

Q - Vincent Falongo

To see if you have any expectations of how much the demand for resins in Brazil could grow in 2017?

A - Fernando Musa {BIO 17592170 <GO>}

So 2016 was another year of declining total demand in Brazil, minus 0.7%. Our expectation for 2017 is that we go back to a positive growth in the range of 2%, which is significantly higher than the expected GDP growth. But if you consider that in the last three or four years the market basically declined by roughly anywhere between 8% and 10%, so 2% is still a first step towards going back to the level that we were seeing of demand back in 2013.

We expect that this journey back to 2013, 2014 will take until the end of the decade around 2024 for the Brazilian market to go back to this demand level.

A - Pedro Freitas {BIO 21187627 <GO>}

As far as the working capital variation, this is a consequence of managing the supply of the different contracts we have of raw materials and managing better pricing versus

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terms. So, this is something that is done continuously and with the fluctuations we've seen in some of those contracts and the fact that we have different pricing mechanisms where the impact of foreign exchange rates impacting those decisions sometimes it will lead to improving the EBITDA and the cost position, but we have some implications on working capital consumption.

This is part of the day-to-day business and very dependent on which contracts, the price level, the terms of each one of the contracts, the situations around volumes on different contracts which might create some short-term noise when you look at the numbers.

As far as Cetrel, first I'm going to talk about the strategic logic and then talk about any valuation numbers that we can disclose. This is an asset that Braskem used to be the controlling shareholder. In 2012 this asset was sold to Odebrecht Ambiental, which is a company that was created by Odebrecht focused in this market of water treatment and residue treatment and waste management.

We at the time decided to sell because the situation of Braskem from a balance sheet point of view and the challenges we had towards making our capital contribution to the Mexican project combined with the fact that this buyer Odebrecht Ambiental is a very capable buyer with a lot of capabilities in that world, which have been proven right through the improvements they've done in the management of the assets led to a decision to sell that asset.

With the decision by Odebrecht to divest from this business and the decision to divest through a break-up of the business and selling the different pieces, Cetrel was left as a standalone piece to be sold. We were informed about the process given the relevance that this asset has for our operations in Bahia by the seller and we started a dialog with the Board around the operational implications indicate that these assets would be managed by someone that is not an expert in the field. We started an evaluation to see if there were any players in Brazil that could bring the necessary skill set to act as the operator of Cetrel.

And our conclusion was that it is a crucial asset from an operational point of view to the operation of the sites. If it's well managed, we don't need to own it; but there is a huge risk that if we don't have the services that Cetrel provides to us, it has huge implications to a site that is our largest complex and is one where we're doing a lot of investments to increase its value contribution to the system, the flexibilization of ethane is a key indication of that.

So, the dialog with the Board led to the decision for us to make an offer and our offer was accepted for a series of reasons that we can go into the details later if necessary. This acquisition requires a shareholder meeting approval. This obligation comes from the legal system in Brazil as related to public companies. And because of that, we go into the second part of the question, there will be an evaluation done by us and an evaluation done by the seller available to the shareholders once we send the confirmation or an invite for the shareholder meeting. These evaluations are being finalized because they need to follow specific procedures according to the law and as soon as we have them,

we will set up the date for that and make those evaluations available to shareholders and to the public for consequence.

Q - Vincent Falongo

Thank you very much. Very well explained, thanks.

Operator

I'll turn over to the company for closing remarks.

A - Fernando Musa {BIO 17592170 <GO>}

I would like to thank all of you for participating in our call. And, as we discussed before, this was a very good year from an operational and financial point of view. This was also a year that a very relevant event which led to the global settlement in December 21st that happened and impacted the Company.

But I'm glad that we are able to communicate to the market and to all stakeholders that this global settlement did not impact the operations of the Company and our ability to generate cash. So going forward, we will continue developing and executing on our strategy that has proven very successful that is based on three key pillars; productivity and competitiveness at all our assets, diversification of our raw material base, and geographic diversification.

2016 is a clear illustration of the strength and positive impact of this strategy and we'll continue to pursue that. But this will be done with an increased emphasis on governance compliance and reputation management that the settlement of course had an impact on those aspects and we'll continue to implement the activities that have been started last year by the Board through the creation of a Board Compliance Committee, the hiring of a Chief Compliance Officer from the market that reports directly to that committee. So, this will be a priority going forward that we believe will help us bring forward our ability to continue to deliver on the strong results that we've seen so far. So once again thank you for your questions, thank you for listening, and I'll see you guys next quarter.

Operator

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

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