

Y 2015 Earnings Call

Company Participants

- Carlos Fadigas, Chief Executive Officer
- Pedro Teixeira, IR, Controller and Project Finance Director

Other Participants

- Luiz Carvalho, Analyst
- Pedro Medeiros, Analyst
- Soledad Acoroni, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's Fourth Quarter and Full Year of 2015 Earnings Conference Call. Today with us, we have Carlos Fadigas, CEO; Mario Augusto da Silva, CFO; and Pedro Teixeira, IR Controller and Project Finance Director.

We would 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 this time, further instructions will be given. (Operator Instructions)

We have a simultaneous webcast that might be accessed through Braskem's IR website, www.braskem-ri.com.br. The slide presentation may be downloaded via 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 section 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 Securities Litigations Reform Act of 1996. Forward-looking statements are based on 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; 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 Pedro Teixeira, IR Controller and Project Finance Director. Mr. Teixeira, you may begin your conference.

Pedro Teixeira {BIO 20753906 <GO>}

Good morning, ladies and gentlemen. Thanks for participating in another Braskem earnings conference call. Today we will be commenting our results for the fourth quarter and the full year of 2015.

We would like to remind you that pursuant to the federal Brazilian law, the results present in today's presentation reflect the adoption of International Financial Reporting Standards in IFRS. The financial information in today's presentation has been reviewed by independent auditors.

Now, let's go to the next slide, where we will begin our comments. On slide 3, we present the main highlights of the fourth quarter of 2015. In Brazil, the average utilization rate of our crackers was 83%, impacted by the incident in Maua Petrochemical Complex, resulted in the plants being shut down for 39 days.

The Brazilian resin market came to 1.1 million tons, 17% less than the fourth quarter of 2014. Braskem's own sales followed this trend, totaling 751,000 tons. However, as a way of offsetting the shrinkage of the domestic market, resin export increased by 5% in the same period, reaching 289,000 tons. In addition, export of the main basic petrochemicals amounted to 342,000 tons, 16% down on the fourth quarter 2014, mainly as a consequence of the impact of the unscheduled stoppages of the Sao Paulo cracker.

It is worth mentioning the signing on December 23rd, 2015 of a new five-year petrochemical naphtha contract supply with Petrobras. Despite the price being set at 102.1% of the ARA International Reference Price, Braskem believes that the agreement will play an important role in reducing the substantial uncertainty surrounding the cycle, avoiding cracker stoppage at a difficult time for the industry and the Brazilian economic as they grow.

In Braskem's US and European operations, the average operational ratio was 101% in the fourth quarter of 2015, reflecting the excellent operating performance and the increased demand for polypropylene, especially in the US. This led to a new production record of 510,000 tons, 9% up on the fourth quarter of 2014 and record sales for the third consecutive quarter of 517,000 tons.

We will go now to our consolidated highlights. The company recorded an EBITDA of BRL2.234 billion and \$581 million. In comparison with the fourth quarter 2014, EBITDA increased by 65% in reais and 8% in dollars, mainly due to the 51% pure depreciation of the Brazilian currency, the higher volume of resin exports from Brazil and the performance of our US and European operation.

Consolidated net income in the quarter came to BRL158 million on a consolidated basis and BRL220 million in the benefit of existing shareholders of Braskem. The company's

leverage, as measured by the net debt to EBITDA ratio in US dollars, was 1.91 times, 7% and 26% down on the third quarter 2015 and the fourth quarter 2014 respectively. This is the lowest level in nine years.

It is also worth noting that in December the rating agency Standard & Poor's and Fitch Ratings reaffirmed the Braskem's global scale investment grade rating of BBB-, exceeding the sovereign weak rating for the first time. Braskem is now rated investment grade by all the three main rating agencies, Fitch, S&P and Moody's.

On slide number 4, we present the highlights for the full year of 2015. The Brazilian resin demand, polyethylene, propylene and PVC totaled around 4.9 million tons, 7.6% less than in the 2014. However, in the same period, Braskem's market share increased by 1 percentage point as a result of sales of 3.4 million tons, 6% down on the year before.

Despite this downward scenario, Braskem's average cracker utilization rate was 89%, 3 percentage points up on the previous year, reflecting the company's healthy operational performance, with record in basic petrochemical production. Given this scenario, throughout the year Braskem sought opportunities abroad, leading to a new record in exports of resins, which increased by 28% over 2014.

On the feedstock front, the year was marked by the execution of two important contracts; in August for the electricity supply with CHESF and on December 23rd, 2015 for the supply of naphtha with Petrobras.

In the US and European business, the average polypropylene's operating rate was 98% in 2015, 6 percentage points more than the year before, led by the unit in the United States, which posted record production.

The construction of the petrochemical complex in Mexico by the controlled company Braskem Idesa closed the year 99% completed. The utilities area is already operational and the main feedstock already on the site to ensure the startup of the cracker and the beginning of the polyethylene production.

The consolidated highlights were, in 2015 Braskem posted a record EBITDA in reais and US dollars, totaling BRL9.3 billion and \$2.8 billion, 67% and 17% up respectively on 2014. This result was mainly due to the following factors; a good operational performance, healthy levels of resin spreads in the international market, increased export volumes from Brazil, the excellent performance of the international unit and the average depreciation of the Brazilian currency.

In line with its cost reduction strategy, Braskem implemented a program with 11 work fronts, including process improvement and structural optimizations, generating potential recurring savings of BRL400 million for the year, which should be fully achieved in 2017. In 2015, the initiatives generated recurring gains of BRL156 million.

Thanks to astounding results as a consequence of a strong operating performance in Brazil, the United States and Europe operations, Braskem's preferential share recorded third highest appreciation of all shares listed in IBOVESPA index, moving up by 66% in the year.

On slide number 5, we will discuss the performance of the Brazilian thermoplastic resin market and Braskem sales in the fourth quarter and the full year of 2015. Thermoplastic resin market totaled 1.1 million tons, 17% down on the fourth quarter 2014 as a consequence of the slowdown of important sectors of the Brazilian economy such as services, construction and infrastructure. Braskem sales totaled 751,000 tons in the fourth quarter 2015, 12% less than in the fourth quarter 2014.

In the year as a whole, the Brazilian thermoplastic resin market totaled 4.9 million tons, a reduction of 7.6% over 2014. Braskem's own sale came to 3.4 million tons, 6% down on the previous year, which led to an increase in the market share by 1 percentage point in the period.

On slide 6, we will comment the dynamics of the international market. Even the shrinkage of the domestic resin market in 2015, throughout the year Braskem pursued export opportunity as alternative to maintain a high utilization rate of its Brazilian crackers. As a result, the company's annual resin export increased by 28% to 1.4 million tons, while export of the main basic petrochemicals totaled 1.5 million tons, 1% more than in 2014. Braskem's activities in United States and Europe performed exceptionally well in 2015, thanks to their operating performance with record production, high petrochemical margins and increased demand for polypropylene fueled by economic growth in the US.

Also, polypropylene spread in US increased by 163% during 2015. This happened as a result of an oversupply in propylene, which is the feedstock for production of polypropylene. This oversupply led to lower prices of propylene in US. On the other hand, the demand for polypropylene remained high in the US during 2015 and no new capacities are expected to come on-stream before 2019.

On slide number 7, we present the factors that influenced EBITDA in the fourth quarter 2015 in comparison with the fourth quarter of the previous year. Consolidated EBITDA stood at BRL2.2 billion, 65% up on the fourth quarter 2014 due to the higher resin export from Brazil, record sales by the US and the 51% pure depreciation of the Brazilian currency. EBITDA in US dollars came to \$581 million, 8% more than the fourth quarter of 2014.

On slide number 8, we present the comparison of EBITDA in the full year of 2015 with the full year of 2014. Consolidated annual EBITDA amounted BRL9.4 billion. The improvement over 2014 was due to a good operating performance, higher export volume from Brazil and the performance of operations in US and Europe. Further positive impact came from the healthy levels of resin spreads in international market and the 42% average depreciation of the Brazilian currency, EBITDA in dollars stood at \$2.8 billion, 17% up on the year before.

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On slide number 9, we show Braskem's debt. Given that the Mexican project is financed on a project finance basis whereby its debt will be amortized exclusively by its own cash generation, the analysis presented here exclude this amount. On December 31st, 2015, the company's gross debt totaled \$7.3 billion, in line with the previous quarter. In reais, however, that's up by 2%. 79% of the gross debt was dollar-denominated. Cash and cash equivalents came to \$1.9 billion, equivalent to BRL7.4 billion. As a result, net debt stood at \$5.4 billion, 5% down on the third quarter 2015. Net debt in reais was 7% less in the same period. 84% of the net debt was dollar-denominated.

In line with this liquidity strategy, the company also maintains two standby credit facilities in the amount of \$750 million and BRL500 million with no restrictive covenants to withdraw during adverse market scenarios. It is worth emphasizing that the company's high level of liquidity ensures that it has sufficient cash and cash equivalents to cover the payment of obligation maturing over the next 39 months, including the standby credit facilities. This coverage comes to 45 months.

The reduction in net debt together with dollar EBITDA growth of 17% in the last 12 months had a positive impact on leverage measured by the net debt to EBITDA ratio, which improved from 2.05 times to 1.91 times, 7% down on the quarter before and the lowest level since 2007.

In reais, such ratio came to 2.23 times, down by 16% from the previous quarter. On December 31, 2015, the average debt term was around 16 years. Considering dollar-denominated debt only, the average term was around 19 years.

In 2015, Braskem maintained its investment grade with the three leading risk-rating agencies and was rated above sovereign risk for the first time by Standard & Poor's and Fitch. In December, Standard & Poor's reaffirmed Braskem global scale rating of BBB-, above sovereign risk and with the possibility of being two degrees above the country's rating. According to the agency, this reaffirmation reflects the company's strong liquidity position, solid cash generation and geographical diversification.

Slide 10 show our CapEx in 2015. Braskem invested BRL2.4 billion in the year. The difference in relation to the initial forecast of BRL2.1 billion was mainly due to the effect of the exchange rate on the translation of amount invested in dollars to reais.

Excluding Braskem's contribution to the Mexican project from the analysis, investment came to BRL1.3 billion, 3% down on the initial estimate. Of this total, around 90% or BRL1.2 billion was allocated to industrial operations, including investment related to improving operational efficiency, healthy, safety and environment, productivity and maintenance. The remainder went to other projects such as the construction of the UTEC facility in La Porte in the United States.

In 2015, Braskem's contribution to the project in Mexico totaled \$323 million or BRL1.1 billion. Construction at the complex is handled by the controlling company, Braskem Idesa, closed the year 99% completed and the utilities area is already operational. Braskem should invest around BRL3.7 billion in 2016, 50% of which is dollar-denominated and

allocated to operational investments in the US and European operations and the Mexican project. This amount totaled \$447 million.

The Mexican project itself is expected to absorb \$329 million in 2016, which will go mainly to initial working capital and to compliance with a project finance contract obligation to constitute a reserve account for the project finance debt.

Excluding the Mexican project from the analysis, 2016 investments are expected to reach BRL2.3 billion, around 75% of which allocated to investments related to maintenance, productivity, HSE and operating efficiency, including disbursement with the schedule maintenance stoppage of one of the crackers lines in Camacari, Bahia in the first quarter 2016.

The remainder will go to other strategic projects, including UTEC production in the United States, whose startup is scheduled for the second half of 2016; improving industrial productivity in polypropylene plants in the US and Germany; and studies related to potential strategic expansion projects.

Moving on to slide 11, we will comment on the global petrochemical scenario. In regards to the global scenario, the Chinese slowdown, low energy and commodity price and a gradual monetary squeeze in the United States led the International Monetary Fund to reduce its 2016 global growth estimate from 3.6% to 3.4%. In Brazil, the scenario will almost certainly continue to deteriorate with GDP expected to shrink by 3.5% in 2016, ensuring a challenging year for the chemical industry.

In regards to the dynamic of the oil market, the United States and the European Union have removed their sanctions on Iran and the tone will be set by the country's return to a market that is already oversupplied. This aspect is positive for the competitiveness of the naphtha-based petrochemical players.

In the petrochemical sector, spreads should remain healthy in 2016. There may be some volatility, especially in the Asian market with new polypropylene capacity coming on-stream in China, offset by a more positive scenario in the US polypropylene market, whereby polypropylene spreads are still high with oversupply of propylene and no new capacity of polypropylene until 2019.

Moving to the last slide, Braskem's strategy for 2016 remains based on geographical and feedstock diversification, strengthening our customer relationship, development of the Brazilian petrochemical and plastics chain, the opportunity [ph] of operating efficiency and the maintenance of financial health and cost discipline.

The main priorities for 2016 include, in Brazil to ensure operating efficiency to supply domestic demand and export the surplus volume; to implement a maintenance stoppage in one of the crackers lines in Bahia in the fourth quarter of 2016; to evaluate opportunities for feedstock diversification; to defend an industrial policy that, together with the fiscal austerity policy, leads to a gradual recovery of the Brazilian industrial competitiveness factors.

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In US and in Europe, capitalized positive spreads in the US polypropylene market, with the increase of the demand and oversupply of propylene in the market. And also seek polypropylene growth opportunities from competitive propylene in US.

In Mexico, the focus will be on the startup of the cracker and the polyethylene plants to sell the polyethylene in domestic market, consolidate the relationship with clients in the Mexican market, and also to export from Mexico benefiting from synergies with the existing operations of Braskem in US, Europe and South America.

From the financial standpoint, our focus will be on cash generation and continuing to implement the expense reduction program, generating potential recurring savings of BRL400 million per year, which should be achieved full in 2017.

That brings us to the end of our presentation and we will now go to the question-and-answer session.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Mr. Luiz Carvalho from HSBC.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Hi, Fadigas, Mario and Pedro. Just a quick follow up on the -- from [ph] the previous call. The first question is, if you have an idea what will be the EBTIDA impact on the -- to the program at -- stoppage that you forecast to do on the Bahia cracker in the second half of this year?

And the second one, if you can provide us a bit of the update about the class action in US. I mean I think it -- I don't know if you know what's the stage in terms of timeline and when do you expect to have more details about this process? Thank you.

A - Carlos Fadigas

Hi, Luiz. I can give you the base numbers on the planned stoppage in Bahia and then you can try to extrapolate from that the EBTIDA impact. If you need further information or help on this extrapolation on this calculation, the investor team of Braskem will be more than happy to help.

But the big numbers are -- this cracker has the capacity of 1.2 million tons. There are two ethylene lines there. We are stopping one of them, so it's approximately 600,000 tons per year, 50,000 per month. It's going to stop for 40 days -- so let's put it 45 days to do a easier math, 75 KT of ethylene.

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And actually, as it's a pending stoppage, we are going to work to be completed prior to that so that we minimize the impact. So I wouldn't go straight to the 75 KT compared to the total ethylene and do a direct subtraction on the EBITDA (inaudible) capacity to be inventory. And actually, we have also to take into consideration that whatever volume we lose, we are going to probably be taking out of the export of resins regarding -- and selling that within the next month.

So it's a much -- much it's a more effect when you take into consideration we're going to be giving up on the worse sales and also leading to an inventory to accommodate for that. If you take into consideration our total ethylene capacity, it's something around 2%. So when you add this other considerations, it's not a mature effect, volume for the stoppage. Regarding the class action, I don't have all the details. It's going through -- it's going its course. A few weeks ago, we filed the so-called motion to dismiss, in which we sent in the best interest of Braskem. We show what we believe that there are no grounds for this lawsuit, for this action. Naturally, we focus on the balance sheet and we state that if there were improper payments made, therefore the balance sheet was not accurate and therefore they are -- would have the right for some kind of compensation.

After we filed the motion to dismiss, they presented their arguments and now the judge will decide rather this will go on or not depending on their -- based on the arguments of both side and make that judgment. So that's where we are. From this point on, it's the judge's decision. And actually we always mentioned -- we've mentioned that in the past, if anyone is concerned with this specific lawsuit which they have to take into consideration first of all the amount of shares we have outstanding, how much of that is traded in the US and how much money could someone have lost in this supposed depreciation of the share price, even though it has come up after that.

The only reason I'm mentioning this point is that people tend to go straight to the other very known class action in Brazil, which is the class action of Petrobras. And there you are comparing a company that had billions of dollars of market cap in loss -- that, and had a huge portion of its shares in the capital market.

Braskem had 20% of this share in the market, not a big portion of that in the New York Stock Exchange. And the variation [ph] in share price wasn't so mature. But having said that, it's up to every individual to do his own math and try to figure out what will be a potential loss. And actually, I have to work to avoid any loss that could come from that and actually I will hear both the legal teams to avoid the action -- the class action itself in any relevant way that it could bring. So that's how we will hear and I think that's as much as I can comment on that.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Okay, pretty clear. Thank you.

A - Carlos Fadigas

Thank you, too.

Operator

Our next question comes from Mr. Pedro Medeiros from Citigroup.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Thanks for taking my question. Good morning, Fadigas, Mario and Pedro. I have a couple of questions and some follow-ups from the Portuguese version of the call. The first one is, if you could comment a bit more about the results from the cost optimization program launched in 2015 both from a qualitative and a quantitative point of view. How has the program delivery in 2015 influenced the original estimates made for savings by the end of 2016? Is there a chance it would increase those savings or reduce? And if -- any color on that side will be positive.

The second question is actually more of a confirmation related to fourth quarter results and if you give more color on the contracts signed for gasoline sales with Petrobras which recently you signed. Was there any gain in the quarter that we would consider one-off when looking at the international gasoline prices because of this contract and if you don't mind commenting whether there is any opportunity or restriction for the company to use its port infrastructure for liquids to import fuel into the country and benefit from the current spreads to domestic prices?

Third question is, free cash flow has been quite strong in the last few quarters and given the company's guidance for 2016 CapEx, the startup in Mexico and the comments you made in the Portuguese version of the call about the outlook for positive spreads in 2016. I would like to understand how management has been considering the application of the company's cash flow?

We saw a positive increase in 2015 dividends. You have commented that greenfield investments, they are under analysis would consume -- that would consume capital in 2016, 2017 or not, that largely you could find dedicated competitive funding in the market. Can you comment a bit further on how do you consider your free cash flow allocation from here? Should we expect management to increasingly dedicate time to M&A or to a new investment cycle or potentially even an increase in shareholder capital return?

And I just have one last very quick follow-up and confirmation about the Mexico project startup. It might not be important, but is there any potential contribution from the utility facility in the Mexico project in terms of EBITDA and any specific contribution to be potentially reported in the first quarter? That's all. Thanks.

A - Carlos Fadigas

Thank you, Pedro. Let me start with the cost optimization program we have and give -- get back to the base numbers, right. It has reached a level of roughly BRL150 million per year at the end of 2015. The pace is increasing. The costs -- the money saved in 2015 is actually BRL109 million to be more precise. But what's the difference between the two numbers? We have a series of initiatives of actions to reduce costs and they are being implemented gradually. Every time you have one of those implemented, you reach a new level of annualized savings. So the savings for 2015 were BRL109 million (inaudible). The

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pace at which we finished 2015 was the pace of roughly BRL150 million of saving on an annualized basis.

We are expecting to finish the year of 2016 around BRL300 million. And it's important to mention that not all of that will show up as fixed costs. Out of that, roughly BRL230 million is associated with fixed cost. There are savings of roughly \$50 million in investments that will reduce the level of investments and save money with that. So that in the income statement that cost would show up later as depreciation, but its money is going to be saved in 2016. And roughly BRL20 million of saving is associated with reduction of working capital. So that's how we plan on saving BRL300 million, BRL210 million, BRL220 million in 2016.

We reach the BRL400 million on annualized savings only in 2017. And the reason why it's going to take so long and that's a question I made to the team and the answer I got is that we depend on investments to be made, change to be made during maintenance stoppage of the crackers to be able to implement some of those initiatives. So we can only start saving once the cracker has stopped, the change has been made and that's when we are going to get there.

Another thing that we have been debating internally here is how we show that in the income statement, because when it goes to the income statement we typically have sales cost, you have the fixed cost of operations outside Brazil. And once it's translated to a higher exchange rate, it shows an increase in fixed cost. So let's say you have spent the same amount of money in US dollars or even saved money in US dollar, but it shows an increase in our Brazilian income -- in our reais income statement here. So the challenge is still going on and how we better show that in the income statement with several things going on at the same time, inflation, exchange rate, change in scope.

We are going to have Mexico starting up, so we are going to have more fixed costs being -- coming to the income statement. So we start looking [ph] from the audience, we will be able to show that, yes, we are saving this money and what it is.

Regarding the naphtha contract signed with Petrobras, I'm not sure fully understood the question, but let me address a few points and then if you need more information you let me know. We signed a naphtha contract. This contract does not bring with it any constrain or any obligation associated with our commercialization of gasoline. So Braskem gas obviously a large producer of gasoline, but we produce a fair amount of gasoline. It's one of our biggest volume in terms of exports. So it does not -- it's not tied to any mandatory sale of gasoline to Petrobras or anything like that.

Our team has been analyzing what's the best place to allocate the gasoline we are producing. Naturally, the local prices are very good at this point, so we are selling internally. And at this point, we haven't found a structural and meaningful operation to import gasoline to Brazil. I'm sure other companies are looking at it. Most likely the people that own the retail distribution are also looking at it. But when it comes to the port, the storage, the tanks, the volumes, yes, it can bring some volume, but we haven't found that has a meaningful import operation to be done be it by Braskem or by somebody else.

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So we are going to keep looking at these price differential. But at this point there isn't anything meaningful to be done on that front. Free cash flow that you asked, right now we have planned to use the free cash flow mainly to deleverage the company. Having said that, we have announced yesterday that we are increasing the level of investments from '15 to '16. So that has to do with, as mentioned, the end of the Mexican project, to finance that, the Mexican project; it has to do with the maintenance stoppage, the planned maintenance stoppage at our cracker, it also demands a certain amount of money; naturally, the change in exchange rate that makes CapEx now planned outside Brazil a higher volume; and some strategic projects we are going to go after.

So M&A is hard to comment. I mean M&A is something that really depends on somebody else. It's not our primary target at this point. It can always happen. That will depend on what comes to the market and we have the obligation to keep analyzing whatever comes to the market. But if you think about the cash flow generated, it hasn't included these events. This includes a little bit and also -- it also includes investment. But the balance will for now be used to reduce debts [ph] and for the reduced leverage.

It could change by any reason, M&A and anything like that, we are going to come back to the capital markets to talk about it. But at this point that's our view. We have at some point in '17 a reduction in spreads in polyethylene and we are going to keep reducing leverage at this point. But having said that, as always, we are going to keep track of what is happening and analyzing the scenario.

Regarding utilities in Mexico, we would not have contribution from the assets we have and the utility in Mexico to the EBITDA. We are analyzing opportunities around energy generation. We may have some surplus to be sold, most likely we will have. But that will also depend on price of gas, price of electricity in Mexico, how much electricity the complex is using internally. And naturally that's the main use of electricity.

And if at any point we see a more relevant surplus that will lead to a contribution in EBITDA, we will let you know. But at point I wouldn't factor that. It's not relevant and it's even hard to calculate at this point with change in gas and energy prices. But that's something we can come back in the future once we have the cracker in the complex running, once we have for sure a clear understanding of the total consumption of electricity of the complex in Mexico.

So I hope I have answered your question for -- any question you've got?

Q - Pedro Medeiros {BIO 16187063 <GO>}

That's a great color Fadigas, as always. Okay, thank you very much and congratulations for the results.

A - Carlos Fadigas

Thank you, Pedro.

Operator

Our next question comes from (inaudible) from GBM.

Q - Unidentified Participant

Hello, thank you for taking my question. In the past quarters, we have seen remarkable profitability. Can you comment on your view of the sustainability of this improved margins especially in the next two to three years? Thank you.

A - Carlos Fadigas

Hi. Well, I think to comment on the margins, we have to talk a little bit by different products and different segments, right. We are coming from a year of very good margins, especially in the second and third quarter of the year with some reduction in production in Europe by some players that has naturally [ph] a tighter market, and therefore, better spreads.

Our view for spreads in 2016 for the main products we have, mainly polyethylene and polypropylene, but it applies also to PVC is that we are going to have lower margins than what we had in 2015. Nothing significant because we don't see a lot of new capacity coming to the market. And when there is more capacity coming to the market, that's the case of polypropylene in China, that's not going to affect materially the main markets where we have -- where we are a relevant player in polypropylene, mainly in Brazil and United States.

So healthy margins in 2016, a little bit lower than what happened in 2015. So that's what it is. So the -- in that regard, you asked about sustainability, we were sustainable this year. I think that especially polyethylene as you get to the end of '17 -- leads to the end of 2017, that's when we have crackers in the United States starting its operations. The forecast we have of ethylene capacity addition of roughly 2.5 million tons of ethylene in United States next year and roughly 5.5 million tons in 2018. So a lot of crackers that are being built in the US, they are going to start operations next year.

So we are going to have a partial effect of additional ethylene capacity as they start throughout the second half of the year and then the full effect mainly in 2018. That should bring prices of ethylene, and therefore, polyethylene down towards the end of 2017 and especially in 2018.

So in that regard polyethylene margins particularly are not sustainable long term. We may see some downturn in '18 and '19. And as demand catches up, improvement in margins from 2020 going forward.

For specifically polypropylene, it's a different game. We don't have polypropylene in any region. We have a very big advantage in terms of cost when compared to other regions. So there is not a shale gas effect that we have in polyethylene, we don't have in polypropylene. But we have at this point a very different margins in different regions, the

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biggest difference would be between US with higher margins and in Asia with much lower margins.

I think that we will keep enjoying better margins in polypropylene in the US, as I've mentioned, the year, next year and into 2018 because the relevant new capacity in polypropylene in US will not come before 2019. The reason for that is the pace -- no relevant additional capacity viewed at this point.

People are maybe starting construction, maybe starting planning for that, but that won't come to the market until '19. What may erode polypropylene margins in the US prior to '19 will be a higher level of imports. But that will face the logistic challenges of bringing products inside the US. Railcar, port and several other things may pose some challenge to those trying to bring higher volumes into the US. So that may have some impact, but not a big impact in the US. (Inaudible) producer in US may enjoy margins at a longer term.

Just to finalize, PVC, it's a resin -- we produce 700 KT, 700,000 tons. We've seen for several years now a lot of overcapacity that was due to China. It has depressed prices for I would say almost came in now starting 2006. But we've seen a catch-up in demand year-after-year. So we hope to have PVC margins on a -- not on a quarter-by-quarter basis, but on a year-by-year basis should go up again to better levels of margins. So long term that should improve, but coming from a very low starting point.

So, I try to -- I try, Adam, to give you an idea of how we see sustainability of margins going forward with different dynamics for polyethylene and polypropylene, in polypropylene different dynamics when we compare different regions and a specific case of PVC. So that's how we see spreads, margins going forward.

Q - Unidentified Participant

That's great, Carlos. Thank you so much for your time.

A - Carlos Fadigas

Thank you too.

Operator

Our next question comes from Ms. Soledad Acoroni, LarrainVial.

Q - Soledad Acoroni {BIO 20493137 <GO>}

My question relates to the ethylene 2021 project in Mexico. Could you give us some guidance on the production volumes, sale volumes and EBITDA margins that you expect for the current year and maybe dividend contribution to Braskem for 2016, 2017? What do you expect on that front?

A - Carlos Fadigas

Hi, Soledad. This is Carlos Fadigas speaking. Thank you very much for your question. Let me try to address some of your questions without going straight into the numbers, because naturally some of these numbers are being tracked by our competitors. The Mexican market is a very, I would say competitive one with large US producers sending resin into the US. But let me share with you some information that will help you forecast the numbers.

First of all, we are taking this first quarter of the year to put the plants to -- the cracker and the polyethylene lines are not running at this point. We do expect to have the cracker and the three polyethylene lines running at some point between now and the end of this quarter, meaning over the next 40 days. From that point on, we are going to try to ramp up production to get to maximum production. And again, the complex is capable of producing at plus capacity roughly 1,050,000 [ph] tons and so we hope to reach -- get close to that level of production at some point between quarter three and four.

So it's hard for me to give you an exact number. But if you did regard -- the first quarter if you take into consideration, then the second quarter will be a ramping up year and full capacity will be reached at some point around between third and fourth quarter. It gives you an idea of how much we are planning to produce.

You probably have to take into consideration that we will have to build inventory. If you were to consider one month inventory of resins, that will be mathematically rough 80 KT. We've been challenging the team to have low inventory than that. So from whatever number of production we get, you have to subtract something between 80 KT and 60 KT [ph] that will be needed as inventory to manage the sales and so on. We are targeting to sell mainly in the Mexican market. We are going to be exporting as well.

Having said that, Soledad, I can't go at this point into the expected EBITDA. We don't provide guidance on EBITDA be it for Braskem, be it for a specific petrochemical complex. At this point the spread between gas and us is not as large as it was in the past. But on the other hand, the spreads on the polymer from ethylene to polyethylene, it's much healthier. So that should help us get a good margin, a good EBITDA in the cracker deals this year, 2016.

And regarding dividends, this is the initial year, they have to work on getting working capital, even inventories and most of the cash generated is going to be used to pay the project finance actually. And actually, as you can expect, the project finance ties a lot of the cash flow of this project and we don't forecast any dividend payment this year. We do forecast some doubtful payments that therefore will contribute to the reduction of overall Braskem's -- consolidated Braskem leverage as they produce EBITDA and as they generate EBITDA and reduce net debt. So that's what we can share about the Mexican project this year at this point.

Q - Soledad Acroni {BIO 20493137 <GO>}

Thank you. Thank you very much.

A - Carlos Fadigas

Thank you too, Soledad.

Operator

The Q&A section is finished. I will turn over to the company for closing remarks.

A - Carlos Fadigas

Well, we like to thank you for participating in the call. I would like to mention one point that didn't come up in the conference call, but I think it's important to mention, the fact that Braskem rating was reaffirmed at investment grade level by Standard & Poor's.

That happened the day before yesterday. Standard & Poor's downgraded Brazil from BB+ to BB. We've stayed at BBB-, so we are this point two notches above the sovereign rating of Brazil. And we believe an important part of what has sustained our rating is the operational results and also the increased cash generation outside Brazil.

We've had 42% of our revenues coming from outside Brazil in 2015. We are going to have slightly more than 50%, 51% of our revenues coming from outside Brazil in this year of 2016 as we grow production and EBITDA in United States and Europe and as we have the startup of Mexico. So that shows a strong cash flow in hard currency we generate outside Brazil and that has helped sustain Braskem as one of the very few Brazilian companies that are investment grade by the three rating agencies. So there are handful companies that have two investment grades by three rating agencies and we are one of them.

So having said that, again thank you for your participation. We are going to remain here working very hard to increase competitiveness of the current operations we have, trying to reduce cost, increase production and find the best market to allocate the Brazilian production and we are going to keep increasing the size of Braskem by investing in plants like we did in Mexico, like we are starting to do in the US with polypropylene.

And that's our commitment with the shareholders. More cash generation from the current operations and a growth strategy on top of generating the volume of cash flow helps balance Braskem and make it a more resilient cash generator.

So thank you again for participating and wish you all have a good weekend.

Operator

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

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