

## Y 2018 Earnings Call

### Company Participants

- Fernando Musa, Chief Executive Officer
- Pedro Teixeira, Corporate Financial and Investor Relations Director
- Pedro van Langendonck Teixeira de Freitas, VP Executive Officer, CFO & Director of Investor Relations

### Other Participants

- Analyst
- Bruno Montanari
- Fernanda Cunha
- Gustavo Allevato
- Lilyanna Yang
- Luiz Carvalho

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem Fourth Quarter of 2018 Earnings Conference Call. Today with us we have Fernando Musa, CEO; Pedro Freitas, CFO; and Pedro Teixeira, Corporate Financial and Investor Relations 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 session. (Operator Instructions) We have simultaneous webcast that may be accessed through Braskem IR website at [www.braskem-ri.com.br/](http://www.braskem-ri.com.br/) and the MZiQ platform where the slide presentation is available for download.

Please feel free to flip through these Slides during the conference call. There will be a replay facility for this call on the website. We remind you that questions will be answered during the Q&A session may be posted in advance on the website. Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996.

Forward-looking statements are based on the beliefs and assumptions of Braskem management and on information currently available to the conference. They involve risks or 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 the general economic conditions in this information and other operating

factors could also affect the future results of Braskem and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Pedro Teixeira. Mr. Teixeira, you may begin your conference.

## **Pedro Teixeira {BIO 19489140 <GO>}**

Hello, everyone. Thanks for participating in the conference call for the year end 2018. Let's jump straight to the Slide number four, where we talk about the main levers for this year. In terms of operational highlights, we want to highlight that 2018 was the full year of the (inaudible) unit in by year running as a flexible cracker and 18% of that unit was produced using ethane is the flexible cracker that we have in Brazil.

In terms of value creation, Braskem 2018 (inaudible) in voluntary commitment to the circular economy of plastic together with other ABIQUIM members and also along with 27 other global companies plastics value chain, founded the alliance for the end of plastic waste. Also the component involved in the construction of the new PP plant in US, reaching 48.3% of completion, and have already invested \$382 million in this specific project.

Braskem signed a wind power purchase agreement, that will allow the expansion of Folha Larga Wind Power Complex in Bahia state that EDF Renewables is currently developing. On the same environmental (inaudible) Braskem and Siemens established a partnership to improve energy efficiency in the cracker at Sao Paulo.

Finally in 2018, it was an year that Braskem opened its new office in India, aiming to develop new business opportunities and sales in this region. In regards to liability management, 2018 was an year that the company decide to prepay \$200 million of its perpetual bonds as an (inaudible) to reduce the debt interest expenses. And also Braskem closed two facilities, one with average \$225 million to finance its investments -- a portion of its investment in the new LPG plant in the US and also a facility of \$295 million with (inaudible) for regular investments of Braskem, boosting the relationship with Braskem with Italian suppliers.

With respect to credit rating, S&P and Moody's changes Braskem outlook to stable from negative which is positive and for the first time Braskem, its rate increased not as above the sovereign Brazilian rate by S&P and Braskem remains investment grade by S&P and Fitch.

And finally, Braskem open in 2018, a record free cash flow generation up to BRL7.1 billion in 2018, an increased by 187% to the same amount that we reported in 2017, and with that amount the company is proposing a dividend distribution of BRL2,670 million, which represents approximately 100% of the net income distributable to shareholders.

Moving on to Slide number five, we will begin to talk about the operational performance of each of the main regions of Braskem. So in Brazil, the demand grew in 2018 by 2% and

it is important to highlight that it was the first year of 2018 was the first year after four consecutive years whereby the PVC market increases. So it shows, in the beginning of the recuperation of the PVC market.

Sales of Braskem were down by 2% in 2018 as compared to 2017, as a consequence of the truck strike, (inaudible) from containers, the blackout, and the excess of the chlor-alkali facility that we had in the first quarter 2018. So a lot of unpredictable events affected the availability of resins[ph] and these impacted also the market share of the company that was reduced from 69% to 66% and also the availability of products to be exported.

In Brazil, Braskem total EBITDA of \$1.9 billion, 27%[ph] down as compared to 2017 and representing 61% of the total EBITDA of Braskem.

Moving to the next Slide, then we talked about the results and the operational performance in the US and Europe. In the US, the demand remains very robust, there was an increase in 2018 by 3%. However, we had several unpredictable issues -- operational issues in 2018 and planned turnarounds due to the severe winter that affect the regions and the 50 day turnaround in the Oyster Creek that affected little bit product, that's why, our sales in US were down by 9%.

In Europe, the demand was reduced by 3%, affected by the reduction in the economy growth affecting specially the automotive sector and our sales were down by 11%. There was some logistic restriction for moving a propylene, which is the feedstock that we use in Europe. In that region, US and Europe, EBITDA was down by 6%, totally \$608 million representing 19% of the total EBITDA of Braskem.

Moving to the next Slide, now we talk about the results in Mexico. In Mexico, demand remains robust, there was an increase in 2018 by 2.7%. However, our sales in the domestic market and exports were down by 18% due to the lower feedstock supply and also schedule turnaround that happened in the first semester of 2018. It is important to highlight, the breakdown of exports, we are now generally less exports to Asia and focusing more in exports to Central America. In Mexico, we posted EBITDA of \$617 million, 1% down to 2017, representing 20% of EBITDA of Braskem.

Moving to the next Slide, we talk about the corporate CapEx without considering the CapEx of (inaudible) and we invested BRL2.8 billion in 2018, BRL1.9 billion in operational assessment and the remaining amount in regards to strategic investment. From these strategic investments, the biggest amount refer to the investment (inaudible) that we are building[ph] in the US that in 2018 we acquired around \$200 million. However, we have already invested \$382 million, these facilities expect to become operational in the first half of 2020 and as of now, as of at the end of 2018, it reaches a completion rate of 48.3%.

For 2019, the expected -- it is expected that total investment of BRL3.3 billion. We need to highlight that there is an important amount to be investment in the PP plant around \$220 million for 2019. And also on the operational side, we have as many investments by

crackers turnaround that is expected to happen in the fourth quarter 2018 and also other in BRL145 million for health, safety and environment.

Moving to the Slide number eight, then we talk about the free cash flow generation of the company, so the company posted a total EBITDA of BRL11.3 billion, it helped a number with working capital, a working capital variation positive one of BRL1 billion, then it came with CapEx that 1.8 -- BRL1.9 billion that we have already discussed. 1.9 billion of interest paid, that was lower this year as compared to 2017, and an amount of BRL930 million of income tax and the 826 of strategic investment. So if we add all of these numbers, we get to a number of 7 -- around BRL7.1 billion which is a record free cash flow and it represents an increase by 187% of the free cash flow generation of the company in 2017.

Moving to the Slide number nine, it shows that the debt profile of Braskem, a leverage rates, debt profile remains relatively stable. We ended the year with a very robust cash position \$1.8 billion without counting the \$1 billion revolving credit facility that we have available for -- is the company did. It's undrawn these revolving credit facility.

The company closed the year with a net debt EBITDA ratio of 2.06, an average that term of 14 years and the cash position is available to cover the amortization of the debt for 14 years. The average weighted cost of capital with FX variation plus 5.5, which is lower than 2017 as a consequence of the liability management of the company made in 2018.

Moving to Slide number 1. We -- the company totaled a net profit for 2018 of BRL2.9 billion, 30% down as compared to 2017. An important point to highlight here is the negative impact of the FX value variation in our financing expenses. Earning expenses -- earnings per share were also down by 30%, we posted at BRL3.6 per share of earnings in 2018 and the company is proposing a dividend payment for 2019 using of BRL2.6 billion, this amount represents 37% of the free cash flow generation of the company, that the company generated in 2018 and it approved by the shareholders that it is expected to happen in April. It will represent 100% of the net income distributable to the shareholders.

Moving on, let's talk about the scenario. In general the spreads that (inaudible) product that we produce in Brazil are expected to be lower in 2019 as compared to 2018. There is a slowdown in the growth of the demand in China and also there is yet some new capacity of PE, that I still expected to enter to become operational in 2018 and this should affect the spread especially for PE It is important to highlight that on the vinyl side, it is important -- it is expect to an improve -- an improvement on the spread. So there is -- it is expect a recuperation especially on the CapEx or the prices.

On the international business of Braskem, the spreads remains very, very attractive in the US It is expected an increase by 7.5% for 2019 as compared 2018, and the company should be able to begin to capture more of these spread, once its product -- its project of a new PP facility becomes operational in the beginning of 2020.

In the US, the outlook is negative because of the lower demand. In Mexico, we expect a drop in the spread by 35% -- 36% -- 33.5%, given the higher ethane price as a consequence of tracking in the logistic restriction.

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Finally, get into the final Slide of the presentation, this is the outlook for 2019. So in terms of the spread, spreads for the product that you produce in Brazil, it's negative. It should be on average positive in US since we have more capacity in US and in Europe, and it should -- this price[ph] should be negative in Mexico for the reasons that we have already discussed.

In terms of demand, the outlook is positive in all the regions. In Brazil, the demand for (inaudible) should grow by 2.2%. and actually demand -- the growth of economy should be around 2.2% and it's important to remember that we have a elasticity, with the resin demand has an elasticity of 1.5 times, the growth of the economy.

In the US, the growth of the economy should be around 2.5% in the grow -- in the erosion[ph] should be a bit less 1.6% and the elasticity in that region is a little bit lower than it is in Brazil. It's a more major market, it's one time.

In Mexico, the growth is expected to be 2.1%, the growth of the economy and the elasticity in demand in Mexico it's 1.5 times. It is too important to highlight that utilization rates for 2019 should be better, especially in Brazil and US Whereby in 2018, we had several unpredictable events like such as the trucker strike, the blackout in Brazil, the accident that faced in the chlor-alkali facility in the first quarter of 2018, and some outage that we have in our facilities in US for (inaudible), that we don't expect to happen again in 2019.

In Mexico, we expect the same level of ethane supply, so we are not considering better utilization rates. All-in-all, we expect EBITDA for 2019, relatively stable as compared to EBITDA that posted 2016.

So let's move to our Q&A session.

## Questions And Answers

### Operator

(Question And Answer)

Thank you. The floor is now open for questions. (Operator Instructions) Mr.Gustavo Allevato from Banco Santander would like to ask a question.

### Q - Gustavo Allevato {BIO 18933135 <GO>}

Hi, guys. Good afternoon. I have three questions. So the first one regarding the operation in Brazil. I'd like to understand the reasons for four points of market share loss during this fourth quarter compared to the third quarter. So the 63% is well below with past the desired level the company had in the past. If I'm not wrong, it was about 7%. So I want to know, try to understand the reasons?

Bloomberg Transcript

The second question is regarding the issues that affected production in United States, Europe, and Mexico in 2018, are they totally solve[ph] it?

And then lastly, focusing the recycle of plastics that a company mentioned in the release. How it could impact the demand for resins in companies during for the next two years, and also the investment of \$1.5 billion for the (inaudible) company joined[ph] you the company (inaudible) participate in these investments or not? thank you.

## **A - Pedro van Langendonck Teixeira de Freitas** {BIO 19740578 <GO>}

Hello, Gustavo. I'm going to start with the market share loss by commenting, I think that it's important to look this an aggregate and not focus too much on the month-by-month, especially the back end of the year, when we have a lot of challenges from an inventory building or not by client. And in this fourth quarter, given the significant drop in oil prices, that happened in the middle of the quarter, it generated a lot of behavior[ph] on clients to postponed purchases.

And if you look at the market share in Brazil when the alternative supplier is imports that have a longer lead time for decision making, so product drive that were decided two, three months before. So, I would encourage you to look more on the overall picture. 2018 was indeed a year where we loss some market share, but a lot because of our challenges on the production side, that led to a small reduction overall in market share, we had for the year 66% compared to 69% the previous year. And also as we said in the previous calls, we've the startup of a lot of two polyolefins plants in the US, it is expected that we would suffer increased imports of in Brazil from the US and therefore generating a small challenge for us in market share.

Second about the production in the US and Mexico as (inaudible) mentioned, the US was a lot about the winter, very severe winter in Texas in the beginning of the last year, which was not the case this year. So, we're not suffering as much from that point of view and a pretty large turnaround that took longer than we anticipated as one of our plants in this year, we don't have any major turnaround. So yes we do expect that, these issues in the US are behind us.

As far as Mexico, it was all about the supply of ethane by PEMEX and PEMEX took a series of actions during the year -- last year to improve its ability to import ethane into the country as well as to work on some of the challenges and bottlenecks they have in their own system for productions in terms of production of ethane. We do expect that the situation now is stable, we don't expect it improve the significantly. It's important to highlight that in 10 year period from 2009 to 2018, the local production of ethane in Mexico was reduced by 30%. So it is a period with limited availability of ethane, and we do expect it to be stable, therefore similar situation next year compared to this year.

Finally, on the recycling side, this is a topic that is gaining a lot of attention with the media, with consumers, with brand owners, and of course with our industry and we've been addressing it as Braskem and as an industry in different ways. The expectation is that recycled plastic will increase its share of use in the plastic applications as time goes right.

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The challenge right now is from a quality and availability of recycled resin to enable it to be a perfect substitute for the virgin resin and this is one example of action that Braskem is taking (inaudible) invest in the evaluation and development of recycling technology to improve quality of the recycled product to enable it to be at more parity with the inversion[ph] cost .

So yes, there will be an impact on demand but as we continue to have expectations for relevant growth. I would say that the recycling would take a part of the growth. So transplant will continue to need to grow, regular virgin production needs to grow as a part of the market growth will be fulfilled more relevant part of the growth will be fulfilled by recycled resin going to the future.

As far as the alliance is concerned, as we disclosed and the alliance disclosed this is an effort that started with around 30 companies that we do have the expectations that more companies will join. The investment of \$1.5 billion is the sum of all investment towards the objectives as the alliance being done by the companies and the alliance. And yes, we do expect to invest in this type of actions and we will have our fair share let's call it of investments. We actually believe that proportionally our investment in those topics is going to be much higher than what would be a fair share of the \$1.5 billion. We see this topic as a crucial topic for the industry, crucial topic for Braskem. We have been very focused on sustainability since Braskem's creation and we've been investing in different formats and actions around recycling and other types of circular economy activities and those investments are more than enough to fulfill our commitment to the alliance investment goal.

**Q - Gustavo Allevato** {BIO 18933135 <GO>}

Okay. Very clear. Just going back to the third question. Trying to understand for 2019. Can you expect a market share recover for what[ph] Braskem given part of the reductions for 2018 was do some specific problems or we can expect -- I see a lot of pressure from (inaudible) products? Thank you.

**A - Pedro van Langendonck Teixeira de Freitas** {BIO 19740578 <GO>}

We do expect the market growth to be relevant for Brazil and under that context, yes, we've improved production in Brazil. We expect to recover some market share, but it's important through to remind ourselves of the polyethylene increased production in the US So yes, we do expect recovery in market share, but it's not going to be very, very strong, it's a minor, small recovery market share in Brazil, given that situation.

**Q - Gustavo Allevato** {BIO 18933135 <GO>}

Very clear. Thank you.

**Operator**

Gabrielle Ho[ph] from UBS Would like to ask a question.

## Q - Analyst

Hi, everyone. Thanks for the questions. The first one is regarding to (inaudible) ICMS inclusion in the calculation regards to PIS/COFINS The company has (inaudible) something around 450 million of non-recurring type -- of the non-recurring result in the fourth quarter '18 EBITDA due to the high tax paid during 2017 and '18. My question is how much should we expect in the equivalent[ph] basis regard this new understand on PIS/COFINS impacts?

And the secondary is regarding 20-F The company was rented by an additional extension resettle it, until mid-May to file its 2017 20-F In the case of potential be listing[ph] may you provide more color on how does it work and how it could impacted during, do you this planned out[ph]? Thank you.

## A - Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}

Hi, Gabrielle. This is Pedro Freitas. Thank you for the questions. On ICMS on (inaudible). So we took the -- we had two legal cases that were finalized last year and they were amounted to the BRL520 million of credit that we recovered in the last quarter of last year.

You asked about a recurring element going forward. We don't see a lot of that because it's credits and debits that we when we buy[ph], when we sale[ph] and then the net of what we collect and we sell to what we pay, when we buy the amount that we pay. So the legal case was about how those tax -- that tax income would be calculated.

Going forward, we don't see a lot of additional results for the company based on that. So it's just adjustment of the way that we calculate those taxes but they go to the government by the end of the day. So it's again not that relevant on a recurring basis.

On the 20-F and so the scenario is we have an extension by the NYSE until May 15 -- May 16, sorry. So we do have a line of sight to filing the 20-F before that, so we are working towards that. It is a complex process, so we cannot be 100% sure that we will get there, but I would say that we do have a plan and a line of sight to getting it before that deadline.

In the case that, we do go after May 2016[ph]. The NYSE will listed the company, what does that mean. It means that we go from the NYSE listed, so the list on the trading floor to the over-the-counter trading environment in the US and that is something that could happen very soon after May 16. And after that I mean, there is an IPO's[ph] period, so there is a period for us to discuss that with NYSE during that IPO's[ph] period if we file the 20-, our listing goes automatically back to the NYSE trading -- regular trading list. So that's how it works.

So the main implication is our shares would be -- the trading of our shares would go to the over-the-counter environment. So that's the way that just we looking works.



In fact on Lyondell, I would suggest that you ask Lyondell. I think, it's their view that would be important there.

## Q - Analyst

Okay. Thank you, Pedro.

## Operator

Ms.Fernanda Cunha from Citibank would like to ask a question.

## Q - Fernanda Cunha {BIO 20784520 <GO>}

Hi, everyone. Thank you for taking my questions and congratulations on the results. I want to follow-up on the first question. Regarding the launched in market share, so you mentioned that you might recover part of it in 2019. I just wanted to understand if this recovery will come from a stronger growth, I think, you have here on your outlook that GDP is going 2.2 and with that demand was (inaudible) of 1.5. You are currently estimating around 4% growth. So are you thinking of maybe testing up with this growth or are you planning any commercial strategy of reducing of domestic spread?

The second question I have is regarding capital allocation. You currently have leverage ratio of around 2 times, but when we include the dividends to be distributed as here your leverage ratio is around 2.5. Just wanted to understand, what level would you be comfortable with and also what your tax allocation prioritization for this year? Is it maybe to anticipate your expansion projects in US or are you still thinking about shareholders return?

And the third question I have is regarding the Mexico project. I just wanted -- there has been some changes in your accounting specially for the books under the other revenues. I just wanted to understand, what would be the recurring EBITDA for this project? And second what is your forecast for these utilization rate for this year on the Mexico project? Given that we had seen that in January, ethane production in Mexico has also come down. So I was just trying to understand here if you're around the 80% level or more towards the 70% level? Thank you.

## A - Fernando Musa {BIO 17592170 <GO>}

Hello, Fernanda. I'll start with the market share and then (inaudible) talk a little bit more about the dividend and I'll come back with the Mexico. So, the market share is a combination of a couple of factors. The First one is what you described, I mean higher growth in the local markets where being the local producer with the plant here inventory on the ground put us in a better position to capture growth.

Second as I said, part of the loss was the significant decline in prices globally in the fourth quarter that was really fast and led to decision making that it's easier, faster to cost purchases from us then to stop imports that are on the (inaudible) coming to Brazil. So this is part of the rebound we expected some and go back to normal in this inventory management by those of the chain.

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And third, I mean, we've been developing a series of innovations in product development, improving our ability to compete from quality service point of view. So we do believe that we are continuously doing this and that this will contribute for us -- for our ability to recover. We're not planning to cut prices to recover market share. We have a healthy balance between the market share we have and the price point that we have, and as I said, the expectation of recovery is it's more contribution of the factors, I mentioned before.

So I'll hand over to Pedro, on the dividend and I'll come back on the Mexico,

### **A - Pedro van Langendonck Teixeira de Freitas** {BIO 19740578 <GO>}

So Fernanda, on the dividend -- I would say, there are several factors that affected the decision on the dividend proposal. We had the strongest cash flow ever for Braskem last year. So a very good cash position together with very comfortable debt position. We don't have any significant short-term pressure in terms of debt maturing.

So put together, very strong cash flow, no big issue in terms of liability management, and added on top of that, we also -- the biggest investment that we have going forward is the Delta project in the US, which is on track and is also -- already I mean, the financing for that has already been arranged. So really going forward, we do see that this trade-off between cash flow and ability to pay dividends and investments that we have going forward. All of that gives us a very comfortable equation in terms of paying dividends.

On top of that, we have last year approved dividend policy which gives us the guidelines for paying dividends and what that policy said is that we should maximize dividend provided that on a forward-looking basis, looking at the current year plus two years ahead. We are comfortable that we will not cross the 2.5 net debt to EBITDA threshold.

So we did that exercise and the projections that we have showed that we will not reach the 2.5 net debt to EBITDA threshold. So we don't expect to cross that line, and the analysis showed that we could pay, I would say, higher dividend yield[ph]. But compared to the cash flow, if you go back to last year for example, we paid a little bit more than 100% of the 2017 cash flows. This year we're playing less than 40% of the 2018 cash flow.

So this all shows that it's a very, I would say, comfortable situation and we really did put a lot of thought on how to approach this. Given that the company is generating a lot of cash, we thought that would be the right approach towards our shareholders.

### **A - Fernando Musa** {BIO 17592170 <GO>}

And going back to the Mexico question. As mentioned before, the supply situation in Mexico was challenging in 2018. We do expect that situation in 2019 is going to be similar. So availability of local ethane is too challenging but (inaudible) did some actions towards improving its ability to import ethane into the country and this is already operational. So we do expect to be at (inaudible) that we had in 2018. We've an expected lower volatility on a day-by-day or months-to-months availability. So as far as recurring EBITDA, we don't provide guidance, so we wouldn't share any regarding EBITDA

## Q - Fernanda Cunha {BIO 20784520 <GO>}

Okay, Thanks you, guys. Thanks a lot.

## Operator

Mr.Peter from Barclays, would like to ask a question.

## Q - Analyst

Hi. Good afternoon and thanks for taking my questions. It's Peter (inaudible) with Barclays. First question, I wanted to follow-up on the Mexico situationally[ph]. You did described, what you mentioned PEMEX potentially ramping-up imports but is this a scenario where maybe PEMEX is not able to grow supply and you have to import ethane for the cracker, I'm just curious, is there an alternative that you can think of?

## A - Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}

Hello, Peter. Yes, this is something that we've been evaluating. We have a contract with PEMEX that supply that theoretically supplies a 100% of (inaudible) that past two year have shown. PEMEX is facing challenges to fulfill its obligation from a volume available here to us and we see a very positive move that they are working on imports. But as you all are aware, we already are in the business of moving ethane into a cracker. We last year produced 11% of the ethylene in Bahia cracker using ethylene imported from Texas. So we have been looking at what are other options of moving ethane into our cracker on top of the solutions that PEMEX is looking for from an imports point of view.

And also it's important to remember that, the challenges PEMEX faces is not around reserves, it's around productivity, the reserves are there, so they continue to invest and tweak on their operational system at the platform's level and also at the fractionation and transportation to improve their production, but they've been facing challenges on that overall system. So that's why they decided to invest a little bit more on the import option. But we are looking at alternatives as well either to complement and fulfill the 100% needs or eventually to work on small (inaudible) for the cracker if and when the situation on the current contract with PEMEX stabilizes at the 100% delivery.

## Q - Analyst

Thanks for that. Second question I had maybe if you could please provide some color what you see regarding the polypropylene and PDH capacity additions in North America also I saw the IHS have the polypropylene imports in the US spiked way last year. And I'm wondering, if you think that was just a temporary events given maybe restrictions on that production. You obviously listen numerous reasons for that, including scheduled shutdowns but I'm wondering like, what's your view on the margins in North America is for this year?

## A - Fernando Musa {BIO 17592170 <GO>}

Yeah. The situation in the US is clearly a situation of height[ph] on market. As far balance planned demand of PP, this is what drove belief is what drove us to the decision to invest

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last year in the -- a couple of years ago in the construction of this new plant that is coming. There are other plants already announced for (inaudible) smaller plant in (inaudible) and Exxon[ph] a couple weeks ago announced that they will start construction of a polypropylene plant similar size to ours in the US as well, which from my point of view confirmed the read that we had that the market would need at least three new polypropylene plants in the '18 to '21, '22 timeframe. And now we have (inaudible) Exxon[ph] and (inaudible).

On top of this there are a couple of projects being discussed in Canada, which would incorporate a propane to propylene PDH project together with PP lines to transform the propylene into PP. So this two -- there are currently two projects being talked about and apparently receiving funds from their sponsors. They would also help to balance the market. We do expect the spread in US PP market will see improvement in '19, because a lot of the new capacity. The first one to come on into the markets going to be (inaudible) and it's early 2020. And therefore we've the still very strong demand profile that we see the market will need imports.

One important aspect is that a good part of this import is from ourselves. We do ship product from Brazil into the US and leverage our local presence and our local portfolio of production to facilitate the process. So we do expect increased imports to fulfill that gap and from our own market share we do expect our ability to produce to be a little bit higher this year, we don't have the large turnaround and we didn't have the challenge in the beginning of the year that we've face with the winter and a couple of other smaller offset. So we do expect to have more products to locally produce and a little bit more coming from Brazil to help us fill the gap that we see the market even though very healthy demand profile.

## Q - Analyst

Got it. That's very helpful. Thank you for that. And another question I had on maybe if you can comment on liability management front. How do you think of the 2020 and 2021 maturities would you consider raising new bond in like several financing would you contemplate?

## A - Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}

So, we do have -- there's a bond maturing in 2020, but it's not a very large amount of spending about \$400 million and then \$1 billion maturing in 2021. So it's part of our discussion for this year, we're refinancing of that. It's an ongoing discussion of the company how we're going to address that and when there is also the discussion about market time, but I mean, there are several different alternatives that we can pursue doing that. I mean, we could do something here in Brazilian market which is very liquid right now. The European market looks attractive for certain types of deals as well so we're looking at the different alternatives and when the time is right we'll come to the market with those operations.

## A - Fernando Musa {BIO 17592170 <GO>}

I just want to reinforce some highlights to (inaudible). It's a 2021 question, so we have time to think and discuss this 2020 bonds, I mean, it's proportionally to expected cash flow generation (inaudible).

### Q - Analyst

Got it. And last if I may, there are some headlines recently from the government officials and Petrobras regarding their sort of incentive to do the stake. I'm curious if you can maybe provide any recent thoughts or update on the process with Lyondell?

### A - Fernando Musa {BIO 17592170 <GO>}

Okay. So on the LyondellBasell view, as we mentioned several times over last year, management is not part of the negotiations. We supported the diligence which has been completed. I think the back status update has given by Bhav[ph] Patel when the Lyondell disclosed results. So he talked about the deal, so I'll repeat, what he said that the diligence was done, it was high quality and now that they were in conversations with the (inaudible) about finalizing the dialogue between the two of them to decide how to proceed. So again we're not part of the negotiations, we're not part of the process therefore there's not much else we can say beyond what's Lyondell already shared publicly, which is the best information I have.

### Q - Analyst

Got it. Fair enough. Thank you very much and best of luck to you guys.

### A - Fernando Musa {BIO 17592170 <GO>}

Thank you, Peter.

### Operator

Lilyanna Yang from HSBC, would like to ask a question.

### Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi. Thank you for the opportunity. I actually have two questions. One is the more straightforward is it on the federal tax credits of PIS/COFINS over the feedstock. I wonder, is you see any risks of Braskem losing such credits in the near term?

The other question is again on Mexico. I actually have two smaller questions within here. The first one is well, I saw you booked again for the non-compliance of the ethane supply contract with PEMEX So could you clarify how fast the about \$90 million receivables can become cash, and how much would you say you have as of now in terms of receivables on PEMEX, because I would assume they might have grown from December to February? And related to this. Could you just let us know the update of your alternative supply road[ph] plans or something that you kind of guided you're thinking of and setting any left in the last third quarter earnings call? Thank you.

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## A - Fernando Musa {BIO 17592170 <GO>}

Hello, Lilyanna. On the federal tax credit around purchasing a feedstock in Brazil, those are what's called (inaudible). We -- there was a lot of discussion last year about the termination of that program, it ended up not being terminated. I would say that, if you listen to what the government is saying there's an expectation of dealing with some of the reforms that are needed in country. One of them around tax and the tax system in Brazil. We do expect that any of given everything that apologizes the finance minister is saying that any changes will take into consideration, the competitiveness of local Brazilian production, they see as an important factor the industrial fabric that exists in Brazil. So any changes would be somehow compensated plus mitigated, but other changes that facilitate doing business in Brazil reduced what we call the Brazil cost around infrastructure logistics or other complexities around doing business in Brazil from tack store[ph] or are the topics point of view.

So it's currently depend on what the government does and how they proceed with their reform plan. In the short-term, we don't expect in change for (inaudible). We need to continue to monitor the different reforms with the going prioritizing with the pension reform beings of the top priority now. And I think, it's going to depend a lot on how this goes that we will have more clarity on what they want to do.

As far as the Mexico situation, as I said before, we're working on alternative routes, some of them are in core partnership with PEMEX, leveraging their infrastructure, and some of them do not include any leveraging of PEMEX structure. Those evaluations are still on the way, we have not made any decision. We do expect to start to make decisions at some point this year. It depends a lot on the engineering studies and commercial compensation that we have with potential partners for those alternatives. So my expectation is that we'll have a decision from time in 2019. Some of the alternatives have very short cycle investments to be operational others take a little bit longer and this is also going to be a factor in our decision making.

As far as the liquidated damages[ph], as in the Mexico contract, I'll ask Pedro to address your question.

## A - Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}

So Lilyanna, nice talking to you. We have as of December, 2018 close to \$51 million in receivables in liquidated damages received was from PEMEX So that's what is included in the balance sheet, and we have received through the year in cash \$56 million from PEMEX So that is kind of the cash situation and the balance sheet situation regarding to them.

## Q - Lilyanna Yang {BIO 14003234 <GO>}

Thanks for your compliment. Would you give color if this amount is increasing this year or if it's relatively stable? Thanks.

## A - Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}

It's very hard to forecast. It's a function of the PEMEX supply, so it depends about anything (inaudible). And the I think, right so it depends on certain factors going forward.

In terms of cash flow, I mean PEMEX has six months to make up for the shortfall that they have. So a portion of this provision -- a portion of the shortfall they had we could make up for given with additional, I think. Given the scenario, I mean, it depends a lot on their supply situation, but again I mean it's very hard to looking forward to understand or to forecast what for the year going to be to look like.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

Thank you. If I make can I ask a quick question of CapEx. You have that in 2019 guidance, it is up when I exclude the PP project in the US So could you let us know. If there's anything that is more big and major and non-recurring, so that I can think of what is appropriate main events CapEx for 2020 and onwards. In other words, BRL2 billion or 2.5, what the right match level?

**A - Pedro van Langendonck Teixeira de Freitas** {BIO 19740578 <GO>}

So the total is BRL3.3 billion. The PP plants in the US is BRL800 million so the amount of that is a bit less than BRL2.5 billion for 2019. We do have a large turnaround in the fourth quarter of 2019 in the Northeast of Brazil, so that is relevant. Our ballpark number going forward is about \$600 million of operational CapEx every year. So that's how we're looking at it, but we do have a large turnaround in the last quarter of this year.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

Perfect. Thank you so much.

**Operator**

Luiz Carvalho from UBS, would like to ask a question.

**Q - Luiz Carvalho** {BIO 18040760 <GO>}

Hi, Musa. Hi Pedro. Hi (inaudible). Thank you for taking the question again, that's (inaudible). I Just have two quick follow-ups. The first one is related to the naptha[ph] (inaudible) an association with that Petrobras. If you have any update in terms of development, in terms of this contract. I'm going to (inaudible) the Petrobras has been mentioning that this wouldn't be an issue for them, actually to no opposed to the deal. So Do have any insight in that, would be good?

The second point is the (inaudible) also any update on Mexico import capacity due to the PEMEX, lack of supply. Are you still considering to action to increase the ethane import capacity to feedstock import capacity for the country?

And if I may, a third question. I remember one (inaudible) thinking one Investor Days, you mentioned that in terms of the EBITDA level. We should think at bottom close to \$3 billion with the Mexican plant running at full capacity so I can put this way. With the guidance that you provided yesterday in terms of CapEx and also I mean, (inaudible) some of the fuse on the spread front. We're coming from a number of bit lower than that, actually lower than that I mean it would be (inaudible) the new Mexico utilization rate. Could you try to

give us a range where you think that and your best estimate be there for 2019 would be?  
Thank you.

**A - Fernando Musa** {BIO 17592170 <GO>}

Hello, Luiz. First on the naphtha[ph] contract. I cannot talk about any potential conversation between Lyondellbasell and Petrobras on the topic. As discussed before, we're not part of the negotiation. What I can say about the naphtha contract, relationship between Braskem and Petrobras is what I've been saying for a while now is that we have a five year contract that expires in now in two years' time.

And 2019 is the year where we start the conversation with Petrobras around renegotiation of that contract under a scenario that there's no view, and so this is a second half of the year discussion with Petrobras. It could give us 18 months to work on it until the expiration of the contract in December, 2020. So right now, it's not part of the dialogue between myself and my team with Petrobras and it should become part of it in the second half of the year.

On the import capacity, as I said before PEMEX did some improvements in their ability to import and are already operating that. We discussed with them alternatives to improve their ability to import in their own infrastructure but we are also looking at our own alternative routes for import, so we can manage the supply situation for eventually even improve it beyond the current contract supposed availability from the PEMEX contract.

And as far as your last question, (inaudible) we don't provide guidance. So what we've been discussing in some meetings with investors is a not at bottom but then a ballpark expected average cycle kind of EBITDA in the \$2.5 billion to \$3 billion been a good number for fund (inaudible). That's regards to a Mexico, if you add Mexico you will find somewhere around a bit less than 3 to 3.5.

**A - Pedro van Langendonck Teixeira de Freitas** {BIO 19740578 <GO>}

Exact.

**A - Fernando Musa** {BIO 17592170 <GO>}

So this is not a guidance, this was a ballpark average cycle evaluation for dialogue with (inaudible) the volatility that they should expect and to explain that given our new global footprint, we have more resilience and less volatility in our expected EBITDA and therefore going forward. Just want to correct, one, we did not provide guidance and two, the ballpark that we might have been discussing was not as low end of the cycle, kind of number it was more of an average expectation flash ballpark than anything else.

**Q - Luiz Carvalho** {BIO 18040760 <GO>}

Okay. Clear, thank you very much.

**Operator**



(Operator Instructions) Mr. Bruno Montanari from Morgan Stanley, would like to ask a question.

**Q - Bruno Montanari {BIO 15389931 <GO>}**

Hello. Thanks for taking my question. Just a quick follow-up on something you mentioned on the last question. Is Braskem indeed starts to develop its own infrastructure to import, feedstock in the Mexico. How does the contract with PEMEX work. In other words if you import yourself is PEMEX off hook in having to paying the take or pay or deliver pay fine. So how does one reconcile the imports versus the penalties that PEMEX has to pay?

**A - Fernando Musa {BIO 17592170 <GO>}**

Hi, Bruno. Now, the any alternative that we might develop ourselves, does not have impact on obligations by PEMEX or ourselves under the current contract. So this would be an alternative either to increase the certainty of supply or even to increase the parameter of supply of the plant. So no direct impact, there is no provision that if we are able to bring our only thing that PEMEX is off hook much or less.

**Q - Bruno Montanari {BIO 15389931 <GO>}**

All right, very clear. Thanks a lot.

**Operator**

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

**A - Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}**

I would like to thank all of you for participating in the call and for the dialogue during the year. As we discussed in the presentation and in the Q&A, we had a year of good results, very strong cash flow generation and we do expect that 2019 will lead to similar type of results given that I mean, despite a scenario where most of our products will say international spreads compression given the cycle. We do expect positive uptake from demand in Brazil, from demanding in the US and on the internal side and the challenges we face from an operational point of view that led to reduced utilization rate in 2018.

You did a loss around the \$250 million to \$300 million of EBITDA once we apply the average margin that we experienced during year and as we do not see any of those happening and do not anticipate any of those happening at this level. There is a another relevant uptick from internal improved product efficiency and effectiveness in the operational side.

So thank you very much for (inaudible) and looking forward to the next dialogue once we publish first quarter results in the couple of months. Thanks, bye.

**Operator**

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

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