

Q1 2016 Earnings Call

Company Participants

- Fernando Musa, Chief Executive Officer
- Pedro Teixeira, IR Controller and Project Finance Director

Other Participants

- Adam Rodriguez, Analyst
- Felipe dos Santos, Analyst
- Hassan Ahmed, Analyst
- Ingrid Furtado, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time we would like to welcome everyone to Braskem's first quarter 2016 earnings conference call.

Today with us we have Fernando Musa, CEO; Pedro Freitas, CFO; and Pedro Teixeira, IR Controller and Project Finance Director.

I'd like to inform you that this event is being recorded and all participants will be in a listen-only mode during the conference presentation.

After Braskem remarks are completed, there will be a question-and-answer section. At that time, further instructions will be given.

(Operator Instructions) We have a simultaneous webcast that may be accessed through Braskem's IR website, www.braskem.ir.com.br. The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call on the website. A reminder that questions, which will be answered during the Q&A session may be reported in advance on the website.

Before proceeding, let me mention that forward-looking statements are being based under 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 the 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 will 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 participation in another Braskem earnings conference call. Today we will be commenting on our results for the first quarter of 2016. We would like to remind you that pursuant to the Brazilian Federal Law, the results presented in today's presentation reflect the adoption of the International Financial Reporting Standards. The financial information in today's presentation was reviewed by an independent external auditor.

Now let's go to the next slide, where we will begin our comments. On Slide 3, we present the highlights of the first quarter of 2016. In Brazil, resin consumption came to 1.2 million tons, increasing by 8% from the last quarter of 2015. Braskem's sales followed this trend and amounted 708,000 tons, increasing by 4% when compared to the fourth quarter 2015.

Braskem's crackers operated at an average capacity utilization rate of 89%, in line with the same period last year and 6 percentage points higher than the fourth quarter 2015. To offset the effect from the Brazilian recession, Braskem exported 415,000 tons in this quarter, 62% higher than the first quarter of the last year.

The EBITDA from the operations in Brazil amounted around BRL2.2 billion, representing 72% of the Company's consolidated EBITDA.

In US and Europe, our PP plants operated at an average utilization rate of 100%, reflecting excellent operating efficiency and strong demand for PP in the US market. The volume of sales amounted to 499,000 tons, 9% higher than the first quarter of the last year.

EBITDA in the international business was BRL855 million, equivalent to \$219 million, representing 28% of the consolidated EBITDA of Braskem.

Braskem consolidated EBITDA in the first quarter was approximately BRL3.1 billion, a 106% higher than the year-ago period. This growth was mainly driven by the higher sales volume, better spread for basic petrochemicals and PP in the US market, higher volumes of resins exported, good operational performance of the US and Europe operations, and average Brazilian real depreciation of 36% between the periods.

In US dollars, total EBITDA amounted to \$708 million [ph], increasing by 54% over the same period last year. The consolidated net income in the quarter came to BRL747 million.

Braskem's leverage, as measured by the ratio of net debt to EBITDA in US dollars, stood at 1.72 times, which is the lowest level of the last 10 years and 33% lower as compared to the first quarter 2015.

On Slide 4, I will comment on the performance of the Brazilian resin market and on Braskem's sales in the first quarter.

Total demand in Brazil was 1.2 million tons of resin, 18% down from the first quarter of the last year. This is mainly explained by the deterioration in the Brazilian economy and by the atypical re-stocking effect that happened to plastic converters in the first quarter 2015.

Braskem's sales followed the market trend and amounted to 782,000 tons, 18% lower from the first quarter of the last year. Compared to the fourth quarter, resins consumption in Brazil and Braskem sales volume grew by 8% and 4%, respectively.

On Slide 5, we will comment on the dynamics of the international market.

With the contraction in the Brazilian resin market, Braskem continued to seek out opportunities in the international market to keep its cracker running at high utilization rates.

As a result of these efforts, the company exported 415,000 tons of resins, 62% more than in the first quarter of last year.

Braskem's export of basic petrochemicals came to 282,000 tons, down by 14% from the first quarter of the last year, which is basically explained by the shifting of gasoline sales into the domestic market and the priority given to export of PP against the export of propylene.

Braskem's operations in US and Europe maintained the same strong results it delivered over the course of 2015. PP spreads in the US expanded by 116% from the first quarter of the last year due to the lower propylene price as a result of oversupply, and also strong demand for PP in the US market.

In this scenario, operations in the US and Europe in the first quarter amounted to 500,000 tons, growing by 9% year-over-year.

Slide 6 details the factors that influenced EBITDA in the first quarter of 2016 as compared to the same quarter of 2015. Braskem's consolidated EBITDA was BRL3.1 billion, growing by 106% on the first quarter of last year. This was explained by the higher volume of resins exported and sales by the operations in US and Europe, better spreads in the international market for basic petrochemicals and polypropylene versus propylene, and 36% local currency depreciation between the periods.

In US dollars, EBITDA came to \$780 million, 54% higher than in the first quarter of last year.

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Slide 7 shows Braskem's debt. Since the Mexican projects were financed under project finance, in which the project debt is repaid exclusively with its own cash generation, the project finance debt is not included in this analysis.

In this context, by the end of March, Braskem's gross debt stood at \$7.4 billion, 2% higher from December 2015. In reais, gross debt decreased by 7%, reflecting the effect from the 9% depreciation [ph] of the Brazilian currency between the two periods.

A total of 78% of gross debt was denominated in US dollars. The balance of cash and equivalents stood at \$2.1 billion or BRL7.4 billion. As a result, Braskem's net debt ended the quarter at \$5.3 billion, down 1% from the end of the fourth quarter 2015.

In Brazilian reais, net debt fell by 10%. By March 2016, 83% of the net debt was denominated in US dollars. In line with its strategy to maintain high liquidity, Braskem also maintained two standby credit facilities in the amounts of \$750 million and BRL500 million, which do not include restricted covenants on withdrawals during times of adverse market scenarios and were not used yet.

The balance of the company's cash and equivalents is compatible with its indebtedness, maturing over the next 37-months [ph]. Considering the standby credit facilities, the coverage is extended to 42 months.

The reduction in net debt, combined with the 11% growth in EBITDA in the last 12 months had a positive impact on the leverage ratio, which decreased from 1.91 times to 1.72 times measured in US dollars, 10% lower than in the fourth quarter 2015.

Note that this is the lowest leverage ratio since 2007. In Brazilian reais, the leverage ratio stood at 1.72 times, 23% down from the fourth quarter 2015.

On March 31st, the average debt term was approximately 15 years. During the period, Braskem's credit rating remained above Brazilian sovereign rate at the three main risk-rating agencies and with investment-grade rating at Standard & Poor's and Fitch.

Slide 8 shows the CapEx for the first quarter and the forecast for 2016. Braskem invested an amount of BRL746 million in the first quarter, with the majority allocated to operating investments and to the Mexican project, the latter mainly related to working capital needs and contractual obligations related to the project finance.

In 2016, Braskem should invest approximately BRL3.7 billion, with 50% of this amount flagged to the dollar related to operating investments in United States and Europe, and Braskem's investment for the Mexican project.

Of the total investment forecasted for 2016, 49% or BRL1.8 billion will be allocated to maintenance, productivity, health, environmental and safety, and operational efficiency including the disbursement for the scheduled maintenance shutdown of one of the lines at the cracker in Bahia in the fourth quarter of this year.

36% or \$329 million will be allocated to the Mexican project, and 15%, BRL537 million will be allocated to other strategic projects, including the feedstock flexibility project in the cracker in Bahia, the UTEC production site in the United States, the capture of productivity gains at the PP plants in the United States and Germany, and study for a new PP plant in the United States.

Slide 9 shows some of the details of the operations in Mexico. As part of the gradual ramp-up of the petrochemical complex in Mexico that began in December, with the startup of facilities [ph] area in March, Braskem was able to successfully complete the startup of the cracker and the specification of the ethylene.

On April 6, the petrochemical complex reached another important milestone with the production of its first lot of PE after the startup of the first high-density polyethylene plant. And on April 28th, the second high-density polythene plant in the complex started its operations as well.

The pre-marketing activities were finalized in the first quarter, with a total of around 200,000 tons sold over 350 clients and the development of sales channels in the country.

Braskem Idesa production is already being sold in the Mexican market and the first export was registered in April.

It is important to mention that Braskem's international sales network in Latin America, the US and Europe will support the export operation from Mexico.

Let's move on to the Slide Number 10, where we will comment the scenario in the world economy and petrochemical industry. World economy growth should remain moderated in 2016 at around 3.2%. Emerging economies will represent the largest portion of global growth and are expected to grow by 4.1% this year, with China's growth slowing. Meanwhile, for developed countries, the expectation is for growth of 1.9% in 2016.

In Brazil, the expectation for 2016 is for the economy to perform as bad as in 2015, with another year of negative GDP growth of 3.8%. Brazil's recession continues to impact the job market and income level.

In the petrochemical industry, the expectation is for spread to remain at healthy levels in 2016. Some volatility is possible, especially in the Asian market, with new PP capacities coming online on China, which will be counterbalanced by a more positive scenario in the US PP market, where PP spreads remain high, given the oversupply of propylene and no new capacity of PP until 2019.

Moving to the last slide, in 2016, Braskem's management will focus in Brazil on the operational efficiency of plants for serving the domestic market, exporting any volumes not sold in the domestic market, conducting maintenance shutdown on one of the lines at

the Bahia cracker in the fourth quarter, the feedstock flexibility project in Bahia, and evaluating new opportunities for diversifying its feedstock profile.

In the US and Europe, the focus will be on taking advantage of the positive spread in the United States, driven by stronger PP demand and oversupply of propylene, and seeking new opportunities for growth in PP, based on competitive feedstock in the US.

In Mexico the focus will be on ensuring the startup of the third low-density polyethylene plant, the operational stability of the complex, sales in the Mexican market and strengthening relationship with local clients, and converting exports in synergy with the various other Braskem operations in US, Europe and South America.

In terms of liquidity and financial health, the focus will be on cash generation and ongoing implementation of program to cut fixed costs with potential annual and recurring savings of BRL400 million.

That concludes today's presentation. Let's go to the Q&A session.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions). Mr. Adam Rodriguez [ph] with GBM would like to make a question.

Q - Adam Rodriguez

Hello, everyone, and thank you for taking my call. Until now you've been able to unload your products in the international market. If the situation in Brazil continues, do you believe you will be able to continue to sell your products abroad or could you see Braskem reaching a saturation on those markets?

And secondly, this quarter you've had record-breaking margins. I would like to know your outlook on profitability, mainly do you see these margins as sustainable? And also, a follow-up. What's your outlook on polypropylene margins in the US? Thank you.

A - Fernando Musa {BIO 17592170 <GO>}

Good afternoon, Adam. This is Fernando Musa. Starting with your question about exports outside of Brazil, given the weakness in the domestic markets, we have increased significantly the volumes shipped outside of Brazil to other regions. We have been very successful in doing that, not only from a logistics point of view, but also from a value creation point of view, in particular whenever we're sending products to our operations in the US and in Europe, where we have a very strong local presence, with production plants, large teams directing the clients on a day-to-day basis.

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So our ability to move product, especially in those two regions is very differentiated. And, we could take even more volumes towards those regions and from there serve a very diversified base of clients that we already serve today.

On top of that, other regions have large markets and large -- therefore large needs for imports. So we do not see any short-term limits to our ability to put product in the international market. Even with the start of the Mexico project, which is happening as we speak, we do expect to start exporting some product out of Mexico, and this product will also be absorbed by our operations, both in South America as well as in the northern part of the hemisphere, with US and Europe taking some of these products.

As far as the margins, we see spreads in the market -- in the international markets have strengthened in the first quarter. We do expect the spreads to be basically in line with the last year for 2016, some volatility during the year, some products being a little bit more affected to the negative side, others to the positive side.

The important message is that, globally the spreads should have similar profile as far as average price compared to the previous year.

The one challenge could be the appreciation of the real, which because of our large cost base in Brazil, any weakness in real is helpful for our margins. Any spreads in real will impact the margins.

But, given our increased presence in the international markets, we believe that this effect is somewhat minimized by the strength of the operations in the US, in Europe, by the start of Mexico that will start contributing to margins and cash flow with the ramp-up that is going on right now.

Q - Adam Rodriguez

Okay. And can you comment on the polypropylene margins in the US? What's your outlook?

A - Fernando Musa {BIO 17592170 <GO>}

The polypropylene margins in US have been very healthy up to now. The expectation of the market, if you look at the value drivers from a demand and supply point of view as well as from major consultants is that the margins should stay very healthy.

We do see a very strong demand, very competitive with propylene. So margins have increased and should stay healthy as we go forward, and this will be leading to an increase to around \$700 to \$780 per ton over the next couple of years.

Q - Adam Rodriguez

Okay. Thank you very much for your time, and congratulations on an excellent quarter. Thank you.

Operator

(Operator Instructions) Ms. Ingrid Furtado from Global would like to make a question.

Q - Ingrid Furtado {BIO 15474754 <GO>}

Hi, Fernando. First of all, congratulations for your annual position. I have three questions for you. The first one is about the -- about -- regarding the feedstock for Braskem Idesa. Are you -- are Braskem getting all the ethane you need? And if the answer is no, do you have the plan B outside to get more ethane?

A - Fernando Musa {BIO 17592170 <GO>}

Ingrid thank you for the congratulations. As far as the feedstock for Braskem Idesa, our complex is in startup and ramp up mode, and so is the infrastructure that it is investment on the Pemex side to provide us with the ethane. Right now, this process is in ramp-up. So today we're not receiving 100% of the contract. But, as our plants evolve and as the infrastructure on the Pemex side evolves, we believe this number will be reached in the near future. Based on this, we don't have a plan B developed right now.

Q - Ingrid Furtado {BIO 15474754 <GO>}

Thank you very much. And my other questions are the following. About the PVC export to the US, I read the report that was sent earlier. And I saw that the (inaudible) Japan, Singapore and here in the US. Can you be more specific about these exports, please, here in United States?

A - Fernando Musa {BIO 17592170 <GO>}

Well, I understand the question is about PVC, right?

Q - Ingrid Furtado {BIO 15474754 <GO>}

Correct.

A - Fernando Musa {BIO 17592170 <GO>}

Yes. So the construction market in Brazil has been falling. And we historically haven't been exporting PVC at all. But since last year, we have, because of the market conditions in Brazil, we have had to export PVC. And we've developed some clients, some distribution avenues into the US. So it's a part of the need to export from Brazil due to the fall in the market here. It's not a structural move.

Q - Ingrid Furtado {BIO 15474754 <GO>}

Okay. Do you have any specifics about volume that was exported to United States?

A - Fernando Musa {BIO 17592170 <GO>}

So in the first quarter, it's about 9,000 tons of exports to the US and 34,000 tons that were exported overall.

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Q - Ingrid Furtado {BIO 15474754 <GO>}

Okay. And my last question is about the Braskem Idesa. I also read that this first quarter you -- Braskem already exported feed from Mexico. Which countries were those?

A - Fernando Musa {BIO 17592170 <GO>}

We started the operation of the first plant late last month. We have started to access all the different channels. We sold product produced in Mexico to Mexican clients, in the different logistics, modalities. But we also started to test the processes for exports. So we've done our initial export sales to Central America.

Q - Ingrid Furtado {BIO 15474754 <GO>}

Okay. And that volume, do you -- can you disclose that?

A - Fernando Musa {BIO 17592170 <GO>}

These were very small volumes. From the start of the company, we're not disclosing this type of detail right now.

Q - Ingrid Furtado {BIO 15474754 <GO>}

All right. Thank you very much, Musa.

Operator

Hassan Ahmed [ph] from Alembic Global would like to make a question.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Good afternoon. There seems to be some debate nowadays, obviously with naphtha-based ethylene margins as strong as they are, there seems to be some debate going on as to who right now is globally setting the price for ethylene. And the question really is that there's some people in the camp that believe it's the MTO producers that are setting the price of ethylene, versus others that continue to believe that things are actually very tight. And economics have sort of flown up above a level dictated by tightness rather than sort of the marginal guy setting the price. Would love to hear your views on that.

A - Fernando Musa {BIO 17592170 <GO>}

Hello, Hassan. Thank you for your question. A very challenging one, but I'll take it. I agree with you. And naphtha crackers, with the lower oil price have enjoyed especially in the last 18 months very, very healthy margins.

Having said that, we do have around the world some smaller crackers that have uncompetitive logistics for their feedstock that contribute to a somewhat steep curve on the margins, very close to where demand for ethylene is.

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On the other hand, when we look at MTO or even CTO, especially in the Chinese market, my observation has been that all the simulations we see done internally or from consultants show that their cost position is very stable no matter what the cost of oil is or the cost of natural gas is.

But, depending on the level of oil, they are either very competitive or they can be the marginal producer as you were saying.

I don't have a detailed view of the latest cash curve globally here. But I would not be surprised if your point that MTO is now the price setter is happening.

We do see in some of the markets some tightness, and the global economy is still growing, the margins for the ethylene, polyethylene are pretty healthy in multiple regions. Even in Europe, the players are enjoying interesting margins, which used to be a region very challenged. So, I think this world of lower oil price leads the industry to a situation which is a little bit more driven by the demand and size, and a little bit less purely about the cash cost side.

It's hard to see globally a relevant tightness in ethylene. There's always some length. But when you factor in pockets of access to feedstock or the components or specific derivatives attached to one or another cracker, we do see some tightness as of today.

With the new wave of investment in the US, this might change. And this might change with a very competitive cost base from the US new plants, on top of our plant in Mexico, which is already starting as we speak.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Very helpful. Now as a follow-up, you guys obviously recently inked an ethane import contract with Enterprise. And if memory serves me correctly, it's a ten-year-duration contract. Now obviously the debate over here within the US is that, with obviously oil prices having come down as much as they have and with the rig counts coming down as they have, what was perceived to be an oversupply in ethane in the US may actually sort of bring them into an undersupply as all these sort of new crackers come on stream in the US and then more and more exports happen as well.

So my question is, obviously you can't give me sort of very specific details with regards to the contract, but are these contracts or this contract that you've structured, is it a relatively fixed price contract, meaning that, if a situation does arise five years out where all of a sudden we see a huge sort of run-up in ethane prices here, will you still have locked into a price?

A - Fernando Musa {BIO 17592170 <GO>}

That was an interesting point. My point of view on that is that it's not about the contract; it's about an investment to create the flexibility at one of our crackers to make arbitrages in the future, given specific pricing at specific times. So we are investing in creating the capability at the cracker to crack ethane. This is today a naphtha-only cracker. So we are

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adapting part of the cracker to be able to crack ethane. We're adapting the logistics so that we can take the ethane that will be shipped by boat [ph] to Bahia and therefore transport it from the terminal into the cracker. And we have the ability under the contract that is market-price-indexed, we have flexibility to resell the ethane. So, if naphtha is the most competitive, we'll crack naphtha. If ethane is competitive, we'll bring as much ethane as possible. If ethane is not competitive because it's expensive, it means somebody wants to buy it.

So we have a lot of flexibility. The concept of the project was more around creating flexibility so that we can play an arbitrage game than locking in a long-term contract for the ethane market.

Q - Hassan Ahmed {BIO 7430123 <GO>}

It makes complete sense. Thanks so much.

Operator

We have Felipe dos Santos from JPMorgan would like to make a question.

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

Yes. Thank you, everyone. Just another question to follow up on the call in Portuguese. First one, can you give us an update on the state of the allegations and the class actions in -- that are happening in US?

And also, can you give us some color regarding the feedstock agreement with Pemex? I know that the contract is not open, but any direction that you could give us would be really helpful. Thank you.

A - Fernando Musa {BIO 17592170 <GO>}

Around the class action, and this is the process that started some time ago, based on some allegations by the plaintiffs around the volatility of the share price. We have been in a dialog through the courts with the plaintiffs. We have a motion to dismiss presented some time ago that was retrieved because of the amendment of the plaintiffs' requirement.

The plaintiffs are supposed to put a new -- rectify their claim in the upcoming days. We still believe that this class action has no merit and will provide another action to dismiss. This process will continue. It's due process in the legal system in US. These are common -- not common, these are frequent events in the legal system in the US, and we will defend our interests as best that we can.

As far as the feedstock contract for Braskem Idesa is concerned, this is a long-term ethane contract. Its price is indexed to the non-value price with a discount. It is a 20-year contract. It has a series of provisions that have been included to protect our investment. It is a very significant investment and therefore it has strong penalties [ph] and strong

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guarantees around take-or-pay penalties in the case of no delivery that provide the right incentives to align the incentives so that return is guaranteed from the supply point of view.

It is a very structured contract because it was a relevant and crucial part of the project finance agreement that had the scrutiny of 17 banks understanding the contract so that they were comfortable to take the project risk.

The contract includes a very minimum list of force majeure events from Pemex point of view. Therefore, we believe it's a very strong contract that provides the base for very good competitiveness for the local market, for the North American market and therefore globally.

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

That's great. Thank you so much.

Operator

(Operator Instructions) I'll turn over to company for closing remarks.

A - Fernando Musa {BIO 17592170 <GO>}

I would like to thank all of you for listening to our conference call. This is, both Pedro Freitas, our new COO [ph] and myself, the first time we had to interact with most of you. So this is the first of a series of hopefully very productive dialog. I want to end the call and the Q&A session with a message around our overall strategy.

The transition that we are undergoing now in leadership is the consequence [ph] of a series of achievements that marked the -- what one might call the end of a cycle, where the figures delivered on significant achievements, with record results, reduced leverage of the company, significant improvement in productivity, relevant expansion of the presence in the international market. Finally, the startup of Mexico, which is a key milestone that led to the timing of the transaction -- the transition. The future of the company is one of continuity in the quest for delivering our strategy.

Our strategy has different pillars, starting with, making sure that all our operations are very productive and competitive globally, a continuous search for growth opportunities outside of Brazil to continue our path towards a more global company, all of that while making sure that we're managing our financial health, making sure that our balance sheet is strong so that we can act if and when the right acquisition opportunity or investment opportunity is presented to the company.

So I would like to thank you all. And I'm very excited by the challenges that the shareholders have asked me to lead. Braskem has a very good management team, very good teams in all the current regions we operate in.

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And I'm very sure that with the dedication and motivation of this great team, we will continue towards a new cycle of growth in profitability, in productivity, in competitiveness and of our -- the expansion of our global footprint. Thank you all.

Operator

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

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