



Operator:

Good afternoon, ladies and gentlemen. At this time, we'd like to welcome everyone to Braskem's Non-Audited 4Q and Full-Year 2016 Earnings Conference Call. Today with us we have Fernando Musa, CEO; Pedro Freitas, CFO; and Pedro Teixeira IR, Controller and Project Finance Director.

We'd like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After Braskem remarks are completed, there will be a question-and-answer section. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

We have simultaneous webcast that may be accessed through Braskem's IR website at www.braskem-ri.com.br and the Engage-X platform, where the slide presentation is available for download.

Please feel free to flip through the slides during the conference call. There will be a replay facility for this call on the website. We remind you that questions, which will be answered during the Q&A session, may be posted in advance on the website.

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

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Braskem. It could cause results to differ materially from those expressed in such forward-looking statements.

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

Pedro Teixeira:

Good afternoon, ladies and gentlemen. Thank you for participating in the conference call of Braskem to discuss the results of the 4Q16 and the full year of 2016.

The Company informed its shareholders and the market that it has decided to postpone to March 29, 2017, the filing of its audited financial statements related to the fiscal year of 2016.

Due to the conclusion of the global settlement with the authorities announced on December 21, 2016, the Company has been conducting the necessary analysis of its internal processes and controls, which have impacted the progress of external auditors' work.



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

Beginning the presentation on slide number four, we will discuss the highlights of the Brazilian operations of Braskem. In Brazil, the demand for the resins PE, PP and PVC have reached 1.2 million ton in the 4Q, 13% higher than the 4Q15, and a decrease of 6% when compared to the 3Q16, due to the regular seasonality of the period.

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

The average cracker utilization rate for 2016 reached 92%, 3 p.p. higher than the last year and it was an historical record for the Company.

In terms of sales in domestic market, the Company achieved, in 2016, 3.3 million tons of resins sold in the domestic market, 1 p.p. lower than in the last year due to the demand retraction in 2016.

In terms of exports, 2016 was a year of record. We increased the exports of the Company by 24% comparing 2016 with 2015, mainly in the 1H of the year. We exported 1.7 million tons of resins in the whole year. In terms of EBITDA, the operations in Brazil achieved an EBITDA in 2016 of R\$8.5 billion, which accounts for 74% of the consolidated segments of the Company.

Moving to slide number five, I would like to highlight and discuss in more details the graphs that appears in the low side of the slide. So from the left to the right, we have the evolution of the EBITDA in the operations in Brazil. We achieved an average EBITDA margin around 17% in the whole year. The margin was a bit lower in the 4Q, mainly due to the regular seasonality in the 4Q, which is usually weaker than the other quarters.

But also there were some very non-recurring events, punctual events that happened in the 4Q. We had an environmental provision of R\$180 million.

We have our process and we had to maintain our provisions updated and we updated the environmental provisions in the 4Q in the amount of R\$880 million, which caused some difficult to compare the results of the 4Q with the other quarters of 2016.

Another important point to highlight is the evolution of the spread, which is the graph that appears on the lower right side of the slide. The international spreads had affected Brazil, there was a decrease by 13% in the 4Q, mainly driven by the fact that the naphtha price increased from US\$365 per ton to US\$422 per ton, and it was a reaction of the naphtha price as a consequence of higher oil price. These led to a decrease in the spread, international spreads that affected the spread in Brazil.

Moving on to slide number six, and here we are going to discuss the results of our U.S./Europe business and also Mexico complex.

In the U.S. and Europe, the average utilization rate in 2016 was 100%, 2 p.p. higher than 2015. We had in the 4Q16 a scheduled shutdown, maintenance shutdown in one of our facilities in Marcus Hook, Pennsylvania and these caused a reduction on this



quarter of utilization rate to 95%, which is still a very good, very high level.

In terms of volumes, in this quarter, there was a decrease by 3% compared with the 4Q15, especially because of the shutdown in the facility in Marcus Hook. In 2016, the total amount sold in Europe and our products produced in Europe and U.S. reached 2 million tons, 2% higher than last year, with a great operational performance and strong demand, especially in the U.S.

In terms of EBITDA, the 4Q accounted for an EBITDA US\$103 million, equivalent to R\$340 million. And in total, in the full year of 2016, U.S. and Europe represented in US\$696 million, which is equivalent to around 20% of the consolidated segments of the Company.

In Mexico, we achieved higher utilization rates in our PE facilities. We achieved 73% of utilization rate, which is 10 p.p. higher than in the 3Q16. We had maintenance in our facilities of our ethane supplier and, even though with this maintenance in the facilities in our ethane suppliers, which led to lower utilization ratings in our facility in October, the average was still pretty much higher than what was the rate for the 3Q16.

In the year, the utilization rate stood at 42%, which was in line with the ramp up schedule that we planned for the complex for the year.

In terms of sales; PE, we sold, in 2016, 432,000 tons, of which 46% was channeled to the Mexican market and the rest was exported to several other destinies, including Asia, Europe, Central America and U.S..

The EBITDA generated by Mexican project in 2016 was a US\$165 million and taking consideration that the average utilization rate of the year was 42%.

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

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

In Mexico, moving to slide number eight, we are bringing here a slide that shows the operational rate month after month. And let's begin to look in this graph in October, where we achieved our smaller operational rate of 44% and this was achieved, such a lower rate was because there was a stoppage for maintenance in our supplier. So, with this stoppage for maintenance in our supplier, we use this time to also stop our facilities, make some adjustments, and improve the capacity of the Company.

So, with that, we were able to quickly recover and achieve very much high utilization rate and, especially in December when we achieved an operational rate of 97%, which is very much important. Less than one year after the startup of the project, we are able to say that we achieved very high utilization rate in the Mexican projects, which made us very anxious for what we're going to see for 2017.



In terms of sales, sales are growing gradually and following the production. So in the 4Q, we sold around 200,000 tons, part of that in Mexico, part of that exported, and just reinforced the EBITDA margin of this project.

So in the 4Q16, we achieved an EBITDA margin of 48%, much higher than any other region that Braskem has. That's because it is a gas-based project, that's because we have a very competitive feedstock agreement for this complex.

So moving on to the slide number nine and here we are going to talk about the consolidated results of the quarter and the year. On the quarter, we achieved a EBITDA of US\$730 million and in the quarter, in terms of USD, we reached US\$3.3 billion and R\$11.5 billion.

In both cases, there was important increase compared to the last year; and in both cases, we achieved a record EBITDA of the Company. This was due to good operational performance in all units, healthy resin and basic petrochemical spread in the international market, very good performance in terms of exports from Brazil, operational performance in the US and Europe were outstanding, and the Mexico projects began to contribute to the overall results of the Company.

In December 2016, the Company concluded a global settlement with authorities in the context of a car wash operation. And under this global settlement, the Company will pay to the applicable authorities in Brazil and US and Switzerland an amount of US\$957 million, equivalent to R\$3.1 billion.

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

Moving to slide number 10, here is the comparison of this EBITDA of 2015 and 2016 in USD. So last year we had US\$2.8 billion and by several reasons; FX, spreads, volumes, greater margin, and the contribution of the Mexican project, we were able to achieve a much greater EBITDA in 2016. It was an increase year-over-year of 18%.

Moving to slide number 11, here it shows the amortization schedule of the Company and the leverage. We ended the year with a total cash position, cash and equivalent position of R\$7.3 billion. We also have available with two standby credit facilities of US\$750 million and R\$500 million, which leads to a total cash available for the Company of R\$10.3 billion, which is sufficient to cover the debt service of around 35 months.

The net debt of the Company ended the year at US\$5.2 billion and the EBITDA, the corporate EBITDA without the Mexican project reached US\$3.1 billion.

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



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

And with the evidence of wrongdoing, the Company initiated formal negotiations with the Brazilian and U.S. authorities that was in October 2016. The Company also made a tax adjustment — a voluntary one — that was back in November 2016.

And finally in December last year, we were able to close a global settlement with the authorities in U.S., Brazil, and Switzerland and we are going to have to pay R\$3.1 billion. Approximately R\$1.6 billion we will pay during the 1Q and 2Q of this year once we have the confirmation, the homologation of the notification of the agreement with the authorities and R\$1.5 billion will be paid to the federal prosecutors in Brazil in six annual installments adjusted by the IPCA, which is inflation index in Brazil, beginning in January 2018.

An important point to reinforce is from the total amount, around R\$2.8 billion will be paid to the federal prosecutors in Brazil and a relevant portion of that will be available to indemnify third parties for the damages caused by the wrongdoing.

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

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

Moving to slide number 13, the investments of the Company, we reduced by around 20% from what we expected and what we really invested in 2016. An important portion of this reduction was due to FX effects. An important portion of the CAPEX of the Company is related to investment in USD and when we accounted this in BRL, this amount becomes lower.

We also did some optimization and prioritization in terms of operational and strategic projects that were expected to happen in 2016 and were kind of canceled or postponed. This led to a lower final amount.

For 2017, there should be an even greater reduction in total amount to be invested, mainly because we do not expect to make additional contributions to the Mexican



project. The Mexican project is already running. And as I said, as you were able to see, at very good operational rates. So, because of that, no additional investments in Mexico and the total investment expected for the year should be around R\$1.8 billion.

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

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

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

In the slide number 15, we have brought here a new slide that shows how we see the scenario and how these would affect the three regions of geographic of Braskem, where Braskem is.

So, in terms of volume, domestic volume in Brazil, 2017 should be better than 2016, because we expect an increase in the demand by around 2% this year and we are coming from a very tough year, 2015, we had a decrease in the demand around 7.5%. 2016, there was an additional contraction of 1%, so 2017 should be better.

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

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

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

So as a summary, the Company is geographically diversified. We made, say, in 2017, movement in different direction in terms of resource, separate here for the Brazilian operation, some kind of visibility in the U.S. and Europe and a much positive year for Mexico.



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

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

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

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

Felipe Santos, JPMorgan:

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

The second, could you elaborate a bit on the spreads of PP and PE going forward? There are some market participants in the US that believe that PP margins could be tightening further than what we have seen in the 1Q. And, therefore, the margins would be lower than rest of the industries have seen. So, could you elaborate a bit on that?

And third question, just to be clear, in the R\$1.8 billion CAPEX that the Company is expecting for this year, are you considering a maintenance stoppage in the 3Q? Thank you.

Fernando Musa:

Hi, Felipe. Just to make clear on the dividends, given the fact that we had a loss in 2016, we do not have profits to distribute as dividends. That is what I mentioned.

As we progress during the year 2017, and we expect that the cash flow generation and results continues the course that we have seen in the last couple of years, we would then have a dialog with the Board on how to allocate this cash flow, expecting the guidelines around financial health of the Company, especially around leverage and the interest of the Company of generating value in the long term through growth projects



and/or opportunities.

That was the comment I made, it is based on 2016 results, which were a loss, and no dividends. Depending how the results for 2017 progress, we will discuss with the Board what to do.

As far as the PP spreads, we see the impact that propylene going up more than anticipated in the couple of months in December and February, we see this as a temporary phenomenon.

This, in our view, is more driven by a combination of healthy demand for propylene from multiple value chains, not only PP, combined with a slight tightening of supply, given a coincidence of planned and unplanned shutdowns over there. So this is the expectation for 2016 of healthy spreads around what we saw in the 2H of the year comes from that belief.

I just wanted to highlight that 2016 was an extraordinary year, as far as spreads and margins were concerned in the 1H of the year, given a combination of very strong growth and tightening of the market in the US, which, as the year progressed, the market players facilitated the imports of PP, which helped solve the supply of PP somehow and brought down the margins to still healthy, but lower than the 1H16.

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

Felipe Santos:

OK. Perfect. Thanks so much.

Hassan Ahmed, Alembic Gilboa Advisors:

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

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

Fernando Musa:

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



ones I would mention, I think, and I think it is a combination of the three of them.

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

Second, I think there is quite a surprising balance of supply and demand in China. The Chinese market has been pretty strong in general for both resins and petrochemicals, which pushes prices up. And the local demand in US, with the economy continuing to be strong, drives local demand, which helps push the US price. And in the 1Q, until April typically, we have significant amount of turnaround.

So I would say it is a combination of all those in the short-term. In the, let us call it, mid-term or back end of the year in 2018, we have the expectation of all the new projects coming online.

As we have seen with our project in Mexico, those complexes do have quite long ramp-up processes until we reach stability and some of the players in the US have already started to mention expectation of delays of their start-up process.

So if you combine small delays in the start-up with softer, let us call it, ramp-up curve, there is a chance that the impact of this additional demand is a little bit less significant than anticipated before. It is going to depend a lot on the evolution of those startup processes and the local demand in the US, assuming that oil prices will stay in that range. If oil goes up or down, we will have a more significant impact on pricing of polyethylene.

Hassan Ahmed:

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

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

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

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



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

Fernando Musa:

Hassan, as you mentioned, our history has been very much built on successful acquisitions and integration of new assets into the system. So, if the scenario described materializes, we will definitely be very interested in looking at the opportunities.

Of course, each potential deal is a very specific situation. We would be looking at the evaluation and our point of view about the future, but we also would be looking about our ability to integrate, improve the asset, and, at the same time, generate synergies, which has been something that we have done very successfully in the past.

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

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

Hassan Ahmed:

Very helpful. Thank you so much.

Caio Carvalho, Brasil Plural:

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

So, my question would be how should we model, how should we see the utilization ratio for ethylene going forward? Are we likely to see the Company back to 95%, 96% or close to 90% again? And what relates to the PVC is more or less the same question.

Utilization ratio for the 4Q was pretty high, close to 100%, so my question that compares to something around 70% to 80% in the last few quarters. So, my question would also be how should we expect the PVC utilization ratio to perform over the next couple of quarters?

The second question relates to the raw material, naphtha and ethylene. There were



two big changes in the Company's, basic use of material in the Mexico plant and also the 15% in the Bahia cracker allowing for the utilization for ethane.

So, my question would be, considering the 15% being full used in Bahia and the Mexico at close to 100% ramp up, we saw 97% in December. So, assuming Mexico is full ramp up, how is the share of naphtha and non-naphtha raw material in the total of the Company? And, also, how would be the naphtha participation in the cost, in the variable cost of the Company?

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

Fernando Musa:

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

Second, in Rio de Janeiro, the Duque de Caxias complex has suffered over the years with lack of raw material, which, in the recent months, it seems that the availability of ethane from the Petrobras system has increased significantly due to the pre-salt reserves and wells becoming more operational and we do expect that this increased availability of raw material will continue.

The challenge to present going forward has to do first, with market conditions; second, with the continuation of strong supply by suppliers like, as before I mentioned in Rio de Janeiro for ethane; and third, the fact that our crackers go through some very relevant turnaround. Next year we have a very large turnaround in the Duque de Caxias complex and this will impact significantly the utilization rate in the years where we have large turnaround.

Having said that, our expectation is to continue to be operating above 90% in the upcoming years.

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

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

Talking about the raw material, if we project in 2016, we had 42% of the raw material



in naphtha, 33% propylene, 23% gas-based raw materials for our crackers, and 3% ethanol for our green ethylene complex. As we continue to grow and create more flexibility, we should see this number is getting closer and closer to one-third naphtha, one-third propylene, one-third gas-based ethylene cracking.

It will depend on, as I said, next year, with the large turnaround in Duque de Caxias, it will reduce the consumption of ethane, but, at the same time, we will start to consume ethane in Bahia and it will depend on how the timing of those activities happen. So, I would say a third, a third, a third is a good proxy for the short-term and mid-term raw material mix.

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

Caio Carvalho:

OK. Thank you very much.

Pedro Medeiros, Citibank:

OK, guys, thanks for taking the question. I actually have three questions in addition to those asked on the Portuguese call. So, the first one is related to the conversion of the cracker in Bahia to have flexibility of taking ethane for your ethylene production.

I just wanted to understand if you can provide more color on the economics and on the proper timing foreseen for contribution to the results and whether it will then impact your basic petrochemicals production from that site. On the economics part, any financial guidance on the naphtha to ethane spread that will make the projects economically attractive would be very useful for us to build a forecast.

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

And number two, with the current oil price on the screen, assuming it would be sustained gives you the right already to basically negotiate new terms by the end of this year. And, in addition, are there any provisions on these triggers associated to polyethylene prices by any chance?

And my last question is more to understand your long-term strategy in auctions given the performance of some of your sites this year. So it is more of a provocative question on that sense.

We are at the stage very near the conclusion of the natural gas pipeline Route Number III from Petrobras and the Company is finishing the EPCI contract to conclude its gas processing plant that will make up for much more ethane to be available near Braskem's site.



There is a new management team working at Petrobras to adjust and keep product prices attached to international parties, which, in the past, have been a restriction for Braskem to look for expanding.

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

Fernando Musa:

Let me start with the use of ethane in Bahia. As we disclosed, this is an investment to create the flexibility to crack ethane. This will depend on the economics. We will be buying ethane in the US at market price. There is a logistical cost to bring this ethane into Bahia.

We have our estimates for that that make it an interesting option. But, as any flexibility will depend on how the different pricing for the raw material goes, but an important aspect of this is that if we convert and use the flexibility, we will have a reduction in the availability of other petrochemicals that come from the cracking of naphtha.

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

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

The expectation is that this investment will be finished by sometime in the 2H of the year so that we will probably commission that and be fully operational early next year or maybe late this year if everything goes smoothly from an investment point of view.

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

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

First, we need to have the availability of the raw material and the comfort that this will be reliable in the long term to justify a relevant investment. Second, this raw material needs to be purchased at a competitive price. And third, we need to have the local



demand to support the construction of any relevant expansion, because building a project in Brazil that would be 100% export focused would require a very significant discount to global market prices on the raw material.

So, we need to have demand in the local market that can take a relevant part of that new capacity. When we look at that, I would say that we have all the indications that in the mid to long-term, Brazil will have the molecules, but those molecules are 300 kilometers into the sea.

They need to be brought to the coast, which adds logistics cost. Then we need to build plants and then we need to serve local demand, which, in the last few years, has suffered a lot in Brazil, from a resins point of view, and we probably will go back to 2013/2014 total volume in Brazil, only by 2020.

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

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

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

Pedro Medeiros:

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

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

Fernando Musa:

So, on the contract, we have, as is customary in this type of long-term contract, a series of mechanisms to manage the volumes on a month-to-month or year-to-year basis. So, this is the first flexibility on the contract enables us to be flexible in the take from the supplier.



Second, we have a second cracker in Brazil that can take ethane so we have the possibility to use the ethane molecule both in Bahia and in Rio de Janeiro. So this is the second flexibility that will be used where in Rio de Janeiro we are not substituting naphtha, we are increasing the utilization rate of the complex while in Bahia, we would be substituting naphtha. So, this math will be done on a month-to-month, week-to-week basis to plan production.

And last, our contract enables us to resell the ethane, which creates additional flexibility. So, we believe the combination of the structure of the contract and the flexibility we have in our system, both are being created in Bahia, and that already exist to take more ethane in Rio de Janeiro enables us to optimize the value that we can extract from these opportunities.

Pedro Medeiros:

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

Frank McGann, Bank of America:

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

Fernando Musa:

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

So, from a contractual basis, we have a very strong contract. From the supply situation in Mexico, we are in the stabilization process of our complex. Last year we went through a ramp-up, December was a very strong production month, we started the year very strong.

And, as of today, we have not had any major problem with supply. We had what is typical in this type of supply-client relationship with small upsides on the day-to-day basis, just like we have in all our other plants with all our different suppliers; naphtha, ethane, propylene in the US.

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

So my impression is that we are number one in the pecking order, but this is a decision done by Pemex and, as I said, we have a very strong contract that has penalties and implications in the case of non-supply. So there is a strong deliverable clause embedded in the contract, which makes us, both the contract and the recent experience, which is still new because we started the complex last year, but so far so



good, even in a market situation where there is a shortage of ethane in the country.

Frank McGann:

OK. Thank you very much.

Vincente Falanga, Bank of America:

Hi. Good afternoon, Fernando and Pedro. I have vthree very quick questions. First of all, how much can you expect the demand for resins to grow in Brazil for 2017? Would something between here and 5% make sense or something between 5% to 10% be profitable?

Second question, this quarter represented a very strong negative swing in working capital with the consumption of around R\$800 million. It seems to us it is related to the payment of taxes, but it will be great if you could give a little more color on that front?

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

Fernando Musa:

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

Vincente Falanga:

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

Fernando Musa:

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

We expect that this journey back to 2013, 2014 will take until the end of the decade around 2020 for the Brazilian market to go back to this demand level.

As far as the working capital variation, this is a consequence of managing the supply of the different contracts we have of raw materials and managing better pricing versus terms. So, this is something that is done continuously, and with the fluctuations we have seen in some of those contracts, and the fact that we have different pricing mechanisms where the impact of foreign exchange rates impacting those decisions, sometimes it will lead to improving the EBITDA and the cost position, but with some implications on working capital consumption.



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

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

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

With the decision by Odebrecht to divest from this business and the decision to divest through a break-up of the business and selling the different pieces, Cetrel was left as a standalone piece to be sold.

We were informed about the process given the relevance that this asset has for our operations in Bahia by the seller, and we started a dialog with the Board around the operational implications indicates that these assets would be managed by someone that is not an expert in the field. We started an evaluation to see if there were any players in Brazil that could bring the necessary skill set to act as the operator of Cetrel. And our conclusion was that it is a crucial asset from an operational point of view to the operation of the sites.

If it is well managed, we do not need to own it; but there is a huge risk that if we do not have the services that Cetrel provides to us, it has huge implications to a site that is our largest complex and is one where we are doing a lot of investments to increase its value contribution to the system, the flexibilization of ethane is a key indication of that.

So, the dialog with the Board led to the decision for us to make an offer and our offer was accepted for a series of reasons that we can go into the details later, if necessary. This acquisition requires a shareholder meeting approval.

This obligation comes from the legal system in Brazil as related to public companies. And because of that, we go into the second part of the question, there will be an evaluation done by us and an evaluation done by the seller, available to the shareholders once we send the confirmation and invite for the shareholder meeting.

These evaluations are being finalized because they need to follow specific procedures according to the law, and as soon as we have them, we will set up the date for that and make those evaluations available to shareholders and to the public as a consequence.



Vicente Falanga:

Thank you very much. Very well explained, thanks.

Operator:

I will turn over to the Company for closing remarks.

Fernando Musa:

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

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

2016 is a clear illustration of the strength and positive impact of this strategy and we will continue to pursue that. But this will be done with an increased emphasis on governance compliance and reputation management that the settlement, of course, had an impact on those aspects and we will continue to implement the activities that have been started last year by the Board through the creation of a Board Compliance Committee, the hiring of a Chief Compliance Officer from the market that reports directly to that committee.

So, this will be a priority going forward that we believe will help us bring forward our ability to continue to deliver on the strong results that we have seen so far.

Once again, thank you for your questions, thank you for listening, and I will see you guys next quarter.

Operator:

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

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