



**Operator:**

Good afternoon ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's second 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.

We would like to inform you that this event is being recorded and all participants will be in 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: <http://www.Braskem-ri.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. 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 and could cause results to differ materially from those expressed in such forward-looking statements.

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

**Pedro Teixeira:**

Good afternoon ladies and gentlemen, thank you for participating in another Braskem's earnings conference call. Today we will present our results for the second quarter of 2016.

We'd like to remind you that, pursuant to federal law 11,638/07, the results presented in today's presentation reflect the adoption of International Financial Reporting Standards. The financial information in today's presentation was reviewed by the independent external auditor.

Let's go, please, to the next slide, which will present the highlights in the period. In Brazil, the highlight was the resins market, which came to 1.2 million tons, expanding by 3% on the first quarter. Braskem's sales grew 8% to 846 thousand tons, with a market share gain of 3 percentage points.



Resin exports also grew in the period, by 21% compared to the second quarter of last year and 9% compared to the first quarter of 2016, amounting to 454 thousand tons. Exports of key basic petrochemicals came to 379 thousand tons, growing by 6% on the prior-year period.

The crackers in Brazil operated at a capacity utilization rate of 94%, 1 percentage point higher than in the same period last year and 5 percentage points higher than in the first quarter 2015. This good performance was influenced by production from the gas-based cracker in Rio de Janeiro, given the higher supply of feedstock in the period.

EBITDA from the operations in Brazil, including exports, amounted to R\$2.3 billion, representing 75% of the Company's consolidated EBITDA.

Meanwhile, in our PP operations in the United States & Europe, the highlights were the average capacity utilization rate of 103%, reflecting the excellent operating efficiency and strong demand for PP, especially in the United States. Sales volume in the quarter came to 504 thousand tons, advancing by 2% on the second quarter of last year.

EBITDA in the United States and Europe was US\$212 million, or R\$745 million, accounting for 25% of consolidated EBITDA. In the second quarter of last year, the segment accounted for only 8% of consolidated EBITDA.

With higher production volume, inventory building and the launch of sales, the petrochemical complex in Mexico began to be considered a reportable segment, generating EBITDA in the quarter of R\$7 million.

Braskem's consolidated EBITDA was approximately R\$3 billion, representing growth of 15% year over year and stable compared to the first quarter. In USD, EBITDA came to US\$858 million, 10% higher than in the first quarter.

In April, Braskem paid dividends of R\$1 billion, which is the highest amount it has ever distributed, and corresponds to 32% of net income in 2015. Even with the dividend payment, the Company's corporate leverage ratio measured in USD ended the quarter relatively stable at 1.79x.

On slide 4, we comment on the performance of the segments in the Brazilian market. Brazil's total resins market reached 1.2 million tons, expanding 3% from the first quarter. Compared to the second quarter of last year, the market remained relatively stable.

Braskem's resin sales in Brazil grew by 8% compared to the prior quarter to 846 thousand tons. Braskem's resin exports also grew in the quarter, by 9% compared to the first quarter.

A highlight was the average cracker capacity utilization rate of 94% in the quarter, which was 5 percentage points higher than in the first quarter, given the higher feedstock supply at the gas-based cracker in Rio de Janeiro.

The international resins spread weighted by Braskem's production in Brazil stood at



US\$646 per ton in the quarter, an increase of 5% on the prior quarter. For basic petrochemicals, the spread was US\$343 per ton, up 1% from the first quarter of this year.

As a result, EBITDA in Brazil, including exports, amounted to R\$2.3 billion, growing by 6% sequentially. This EBITDA represented 75% of consolidated EBITDA.

Moving on, slide 5 comments on the United States & Europe business unit. The operations in the United States and Europe delivered important results in the second quarter. PP sales volume in the quarter came to 504 thousand tons, growing by 2% on the year-ago period, with strong demand from the US auto industry and healthy demand in countries such as Italy, Germany and the United Kingdom.

PP spreads in the United States stood at US\$742 per ton, down 14% on the prior quarter, reflecting the higher volume of PP imports into the country in the period, and 55% higher compared to the second quarter of last year. The average price of US Gulf propylene, the main feedstock used by the units in the United States and Europe, was US\$720 per ton, up 5% on the prior quarter.

In this context, the unit posted EBITDA of US\$212 million, down 3% sequentially and 195% higher year over year. In Brazilian real, EBITDA was R\$745 million, accounting for 25% of consolidated EBITDA. In the same quarter last year, the unit accounted just for 8% of total EBITDA.

Moving on, let's turn to slide 6, please. The petrochemical complex was gradually commissioned throughout the first half of the year, with the startup of the cracker and specification of ethylene in March; the startup of the two high-dense polyethylene facilities in April; and the startup of the Low-dense polyethylene plant in June.

In this scenario, in May, Mexico ceased to be recognized as a project and became a reportable operating segment. The capacity utilization rate of the PE plants in the quarter stood at 32%, with the building of 74 thousand tons of resin inventories. The complex's total resin production was 83 thousand tons, of which 54 thousand tons was sold in both the Mexican and international market, which includes the pre-marketing sales for the period.

The sales price of Mexican PE is defined based on import parity in Mexico based on the price of resins in the US Gulf coast. The average price in the region in the quarter was US\$1,156 per ton, 10% higher than in the first quarter. In this context, and though still in the operational ramp-up phase, Braskem Idesa posted positive EBITDA of R\$7 million in the quarter.

Slide 7 shows EBITDA in the second quarter compared to the first quarter. EBITDA in the period was R\$3 billion, 2% lower than in the first quarter. The higher sales volume and exports in Brazil and the higher contribution margins helped to offset the 10% appreciation in the Brazilian real in the period, which affected negatively the EBITDA. In USD, EBITDA was US\$858 million, increasing by 10% sequentially.

Moving on, slide 8 shows the EBITDA in the first half of the year of R\$6.1 billion, which



was 48% higher than in the first half of last year. Growth between the periods is explained by better spreads for basic petrochemicals and PP in the United States and Europe; higher resin exports, which mitigated the lower volumes in Brazil; the performance of the operations in the United States and Europe; and the Brazilian real depreciation of 25%. In USD, EBITDA in the first half increased 21% year over year to R\$1.638 million.

Slide 9 shows Braskem's corporate debt, excluding the project finance debt in Mexico. On June 30th, Braskem's gross debt stood at US\$7.6 billion, increasing 3% from the end of March. In Brazilian real, gross debt declined by 7%, influenced by the 10% appreciation in the Brazilian currency. A total of 78% of gross debt was denominated in USD.

Cash and equivalents stood at US\$2.1 billion, or R\$6.7 billion. Net debt stood at US\$ 5.6 billion, 4% higher than in the first quarter, reflecting the distribution of R\$1 billion in dividends. In Brazilian real, net debt fell by 6%. 84% of net debt was denominated in USD.

The net debt/EBITDA ratio ended the quarter at 1.79x when measured in USD. In reais, the leverage ratio stood at 1.56x, down 9% from the first quarter, influenced by the currency's appreciation in the period. The Company's average debt term is around 15 years.

In the quarter, Fitch reaffirmed its risk rating for Braskem of "bbb-". This means that Braskem's remained above Brazil's sovereign rating at the 3 main risk rating agencies, and with investment grade for Standard & Poor's and Fitch.

Going on to slide 10, in the first half of 2016, Braskem invested R\$1.6 billion, of which R\$942 million, corresponding to US\$250 million, was allocated to Braskem's capital contributions to the Mexico project; R\$490 million was allocated to maintenance and the operational reliability of plants; and R\$121 million was allocated to strategic investments. Of the total amount in the first half of the year, approximately 69% involves investments in USD by the international businesses and capital contribution in the Mexico project.

Slide 11 covers the scenario for the ethylene petrochemical industry. The new ethylene capacities coming online in 2017 and 2018, which could cause volatility in the petrochemical supply-demand balance, will be added at a smooth pace due to cancellations and postponement of certain greenfield projects.

Based on recently revised data from the consulting firm IHS, certain new capacities originally slated to start operation between 2016 and 2018 are expected to be postponed and potentially cancelled.

In the United States, certain new capacities are suffering delays, while in China and the Asian region, coal-based projects have lost some of their attractiveness due to the lower naphtha prices. Moreover, projects are facing high investment costs and infrastructure problems.

On the next slide, we comment on the petrochemical scenario for resins. In the United States, despite some potential volatility in the near term, PP-propylene spreads should remain healthy. Propylene, the feedstock used to produce PP is suffering from oversupply



due to the higher production of propylene by refineries, the startup of two new propane dehydrogenation plants and the cracking of propane.

The new PP capacities are not expected to come online before 2018. Therefore, spreads should remain at high levels until that year. Although a final investment decision has yet to be made on the construction of a new PP plant, IHS already considers this new capacity of Braskem starting up in 2019.

With regard to new PE capacities in North America, I should mention here the startup of the Mexico project, which was the first greenfield project to be commissioned. The startup of the new PE capacities announced in the United States could temporarily pressure resin prices in the region, with this situation expected to be reversed by the end of the decade.

Braskem's main priorities in Brazil are the following: capturing operating efficiency gains in the plants to serve the Brazilian market; exporting any volumes not sold in Brazil; conducting maintenance shutdowns on one of the lines at the Bahia cracker in the fourth quarter; and completing the feedstock flexibility project in Bahia.

In the United States & Europe, the focus will be on seizing opportunities presented by the healthy spreads and markets and seeking new opportunities for growth in PP based on competitive propylene feedstock in the United States.

In Mexico, the focus will be on ensuring the operational stability of the complex; sales in the domestic Mexican market and strengthening relations with local clients; and conducting exports in synergy with the various other Braskem operations in the United States, Europe and South America.

And in terms of liquidity and financial health, the focus will be on cash generation; and the ongoing implementation of the program to cut fixed costs, with potential annual and recurring savings of R\$400 million.

That concludes today's presentation. Let's go now to the question and answer session.

**Adam Rodriguez, GBM:**

Hello, thank you for taking my call and congratulations on the results. There has been a lot of uncertainty regarding the supply of ethane from Pemex. Can you explain what would happen in a scenario, in which Pemex was unable to deliver their contractual ethane amounts? Specifically, what are the liabilities to Braskem and Pemex in this scenario? Thank you.

**Fernando Musa:**

Hello, Adam. Good afternoon, everybody. On the supply contract in Mexico, we have a very strong contract with a list of rights for the projects, which include very strong delivery mechanism. But we also have a series of protections from an operation flexible point of view.



This contract was reviewed extensively under the project finance and restructuring and led to a situation where the fact that it is a non-recourse project finance requires a very tight, very perfected guarantee around the availabilities of ethane.

So it has been approved by 17 different lenders. And we are very comfortable that the contract is very strong and that in the eventuality that Pemex does not provide us with the ethane that the penalties that they would pay would compensate for that lack of supply.

**Adam Rodriguez:**

OK. Thank you for your comments.

**Hassan Ahmed, Alembic Global:**

Good afternoon, folks. I think obviously the 2Q was a bit of an interesting quarter from a demand perspective, not just you guys domestically within Brazil, but it just seems, be it Asia polyethylene demand, be it North American polyethylene demand seem to be quite strong.

So the question I have is around inventory. Again, complicating things further in the 2Q was the fact that, obviously it was a very heavy turnaround quarter. So my question is that on one side you have turnarounds, on the other side obviously oil prices were going up, which between demand looking good and oil prices going up, obviously, polyethylene prices went up as well.

So how much do you think this - how much of this positive demand growth that we saw in the 2Q stems from an inventory build on the back of rising prices, turnarounds and the like, and how much was just true sort of organic demand growth?

**Fernando Musa:**

Hello, Hassan. I think if you look at the timing of the turnaround, a good chunk of the inventory build was done actually in the 1Q in the U.S. A part of it was at beginning of the 2Q. I would say, if we look at Brazil from a specific point of view, we see a trend in demand.

There was some restocking in the value chain by our clients that has very low inventories. So this was the component. Based on what we see in the U.S. and global markets, I would say that, I mean, this trend is coming from a turnaround season that reduced the inventories.

As you said, it was a strong turnaround season and feel pretty good healthy demand around the world, thanks to reasonable economic situation in general around the world. Not the case in Brazil, but we are starting to see the shift towards a more positive economic environment in Brazil.



So even in Brazil, we saw in the 2Q stronger demand. And this contributed to the strengthened prices that came from higher cost, because of oil price and tighter supply because of the turnaround season.

**Hassan Ahmed:**

And I appreciate the part of the presentation where you give us your views about ethylene supply-demand fundamentals and sort of slippage in terms of the timing of capacity additions and the like.

I would appreciate your views on the other side of the equation, meaning, the feedstock side of the equation, particularly as it pertains to the NGL side.

Obviously, you guys are polypropylene producers, polypropylene to propylene spreads are quite important to you. And there seems to be a favorite debate going on right now, A, associated with potentially nat-gas prices going much higher; and then, part and parcel with that, a combination of NGL exports as well as sort of capacity additions within North America resulting in NGL supply-demand fundamentals tightening quite quickly. So would love to hear your views on that.

**Fernando Musa:**

Yes. I think if you look at what is happening on the demand side for NGLs, we see a wave of announcements of postponements. So, on the demand side it looks like there is a loosening up of the potential pressure on the pricing coming from the demand side. The data we shared comes mainly from IHS external sources. But you have been following the recent announcements by two players in U.S. last week, talking about postponements or delays in projects.

So in that sense, I think there is a positive development from the feedstock point of view, because the—

**Hassan Ahmed:**

And, by the way, it seems reflective in pricing as well, because pricing obviously for ethane went up to 0.20 to 0.23 a gallon and now seems to have come all the way back down to 0.16 again.

**Fernando Musa:**

Yes. So this is one aspect. And the other aspect is, I mean, on the availability of NGLs, with oil now in this 40 to 50 range and going back and forth. We see in many companies in U.S. announcing the restart of drilling operations, many companies adding rigs, which if you go back six months, every single month you would see and hear, the news would be even more rigs being cut, more rigs being mothballed.

And in the recent weeks, I believe almost every single week, we had a company announcing, want to put one rig back on, two, three.



So, I mean, now, we have the 40 to 50 and the development in operational costs for shale exploration and those costs going down, you are going to see a healthy stream of investments in the drilling side that will help balance the supply and make it stable to rising.

So, if you couple this with slightly lower demand internally in the US, if you couple this with slightly less pressure from the exports market, because if oil stays at this price the naphtha crackers are reasonably competitive, as we have seen in our operations here in Brazil, you could have a situation where, I mean, you have stability in NGL pricing.

Even with some increases in NGL exports, the market should balance between the supply decrease and the demand locally, and the slight decrease in exports demand.

We have heard many reports about China slowing down, TGH project; therefore, spreading more lengths with propane. Many of the US-based projects for TGH have been delayed beyond the two the one that is already operational and the second one that starts early next year. So, I am more “optimistic”, in the sense that I see a balanced availability.

And you mentioned a significant increase in natural gas prices. I do not see a significant increase, unless you are talking about 0.50 per MMBtu being significant. Yes, we could see that, but we are not going to see 2, 3, 4 of increase in the natural gas prices in the near future in my point of view.

**Hassan Ahmed:**

Very helpful. Thank you so much.

**Michael Wolcott, Barclays:**

Hi, thank you for taking my question. So first, I was wondering if you can give us a sense of CAPEX outlays for the next few years, specifically what is the scale of your investment that would potentially be involved with building a new polypropylene plant in the U.S?

And then second, now that that leverage has come down so substantially, is there a target that you would like to stay below and looking at potential new projects or M&A? Thank you.

**Fernando Musa:**

Hello. Michael. As far as the CAPEX, the Company usually invests in any given year anywhere between R\$1.2 billion and R\$1.8 billion of maintenance CAPEX and operational CAPEX to support the current operations it has. This is a number, as I said, anywhere between R\$1.2 billion and R\$1.8 billion, pretty stable, and it is a pretty good estimate for expectations for the future.

On top of this, we have the strategic projects. We just ended a stage where, I would say, where the Mexico project was a relevant part of it. So, as we talk about the future, it is





going to depend a lot on which decisions we will make around projects. We have announced a couple I would call smaller projects, like the investment in the cracker in Bahia in the North of Brazil, to create flexibility to receive ethane. That is being implemented this year and next year.

And we also shared the news that we have been evaluating a new PP plant in the US. These are two examples of what I call the strategic, that is very hard to provide kind of a running rate, because it is going to depend on the strategic moves and the strategic decisions that will be approved by the Board. And as soon as they are approved they will be communicated and you will be able to incorporate that in your forecasts.

**Michael Wolcott:**

OK, thank you. And on leverage, I do not know if you had any comment there?

**Fernando Musa:**

So on leverage, we have been for many quarters now reducing our leverage when measured in USD. The way we measure is we exclude the Mexico, both Mexico results and Mexico's debt, since it is project finance with non-recourse. So when we look at that measure we ended the 1Q of this year at 1.72x of net debt to EBITDA. And now, we are at 1.79x.

There are two reasons for that increase. One is we paid R\$1 billion of dividends in April, so that represents roughly 0.1 in our leverage. And the other one is we have made a commitment to a reserve account in the Mexico project. So we moved that from available cash to another line in the balance sheet and that has increased our leverage by 0.03 or so. So, those are the two larger impacts on our leverage.

And our expectation is to continue to generate relevant cash to enable the deleveraging of the Company so that we are ready for the strategic opportunities that might come, like the ones I described, for example, the new PP plant in the US even would be a relevant investment, because it would be a world-class plant, therefore a relevant investment.

So the strategy from a financial point of view is to manage the leverage to a healthy point to enable us to act on the strategic opportunities that might come. Just an additional note, we aim this year to remain below 2, so that when the downturn in the cycle comes we do not go over 2.5x net debt to EBITDA.

**Michael Wolcott:**

OK. Thank you. That is very helpful.

**Lilyanna Yang, HSBC:**

Hi, thank you for taking my call. The number one question is on if you could provide clarity on why the maintenance CAPEX has a wide range. If I understood correctly, you



mentioned between R\$1.2 billion to R\$1.8 billion per year. So I wonder why it would be closer to R\$1.2 billion or to R\$1.8 depending on the years?

And on second question, it is also regarding your leverage target, looking at the level that you feel comfortable for the coming years and thinking that the spreads will be probably benign in the short-term. It feels like you might have room for an even higher payout, right? So, what are your considerations for increasing your payout or if you think that there are small M&A opportunities in the short-run? Thank you.

**Fernando Musa:**

Thank you, Lilyanna. And on the wide range, the R\$1.2 billion to R\$1.8 billion, it is very dependent on a year-to-year base on the turnaround at the cracker sites. So in a year where you have a large cracker turnaround, you are going to get closer to the R\$1.8 billion. In a year where you have no large cracker turnaround, you are going to be closer to the R\$1.2 billion. So that is the reason for the range.

As far as the leverage and the higher payout, as I explained before, our strategy is to maintain a healthy leverage point, so that we can act upon strategic opportunities. So, it is going to be any decision on higher payouts of the trade-out made by the Board and the shareholders, it is when the availability of strategic opportunities and their interest to receive more dividends.

**Lilyanna Yang:**

OK, thank you.

**Operator:**

I will turn over to the Company for closing remarks.

**Fernando Musa:**

I would like to thank all of you for your attention. This was another strong quarter for the Company. Despite the challenges in the Brazilian economy, we have been able to run our operations really hard in Brazil and outside of Brazil, and shift some of the excess volumes that we had in Brazil, given the low demand situation here, to the external markets, leveraging our presence in the U.S. and in Europe and the rest of South America, where we have been present for quite a while.

So this was a very good continuation to a very strong year, last year, a very good 1Q. And the expectations as we go forward are pretty positive from a spread point of view. We see a lot of stability.

If the oil price stays in the 40 to 50 range, we see a lot of stability in the spreads. And the economic environment in Brazil seems to be hitting a point of inflection, and most of the indicators that we are seeing now indicate a positive trajectory for the future, which is very good for our financial results.



So once again thank you very much for your time and attention. And for any further questions you might have, the Investor Relations team will be at your disposal. Thank you very much.

**Operator:**

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

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