



Operator

Good afternoon, ladies and gentlemen. At this time, I would like to welcome everyone to Braskem's unreviewed by the auditors First Quarter of 2016 Earnings Conference Call. Today, with us, we have Fernando Musa, CEO; and Pedro Teixeira, Investor Relations and Controller 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. [Operator Instructions]

We have simultaneous webcast that may be accessed through Braskem's IR website, at www.braskem-ir.com.br in the English access 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 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, Investor Relations and Controller Director. Please Mr. Teixeira, you may begin your conference.

Pedro Teixeira

Good afternoon everyone. Thank you for participating in the first quarter 2017 earnings conference call of Braskem. Moving in our presentation to Slide 3, it is important to inform that our company continued to make progress on the required evaluations of its processes and internal controls, as announced to the market in the Material Facts dated February 22, and March 28, 2017, the Company has not yet concluded its work with the independent auditors, which has made it impossible to report the information duly reviewed by the auditors.

However, in order to keep the market informed on its operation and financial performance the company reported today its financial information unreviewed by the auditors for the first quarter of 2017.

Beginning our presentation is Slide 4 where we tackle the results of the operations of Braskem in Brazil during the first quarter. The highlight are as follows: The company reached the utilization rate in its crackers in Brazil of 95%, 6 percentage points up when compared to the first quarter of 2016 and 5 percentage points up from the fourth



quarter 2016 remembering that in the fourth quarter we had a good operating performance in the cracker in Bahia. And also in the first quarter 2017, the company run its cracker in Rio de Janeiro at a very high utilization rate with higher supply of local feedstock and also imported ethane, a small amount from the US to run its cracker in Rio de Janeiro at their even higher utilization rates.

The Brazilian demand reached 1.2 million tons in first quarter 2017. It was an increase by 5% when compared to the third quarter 2016 and the demand became stable when compared to the fourth quarter 2016. The company's market share expanded by 2%, the company sold in the Brazilian market 844,000 tons, which represents an increase of 8% from first quarter 2016, above the increase, the overall increase of the market that represents an increase in its market share.

The results of export were very positive as well. The company increased its export of resins by 3.5%, as compared to the first quarter 2016 and the export of basic petrochemicals increased by 27% when compared to the first quarter 2016. The EBITDA generated by the facility and the operations in Brazil reached \$761 million and represented 61% of the consolidated EBITDA of the company.

Moving to Slide 5, I just want to point out the true graph on the lower side of this slide. The first one shows the evolution of the EBITDA in Brazil and there is an increase in EBITDA margin from 18% to 25% of the operation and its operations in Brazil and an important factor here aside of the good utilization rate and the La Porte exports was the fact that the price of these petrochemicals went very up in the first quarter then the margins in Brazil were pushed from 18% to 25%.

The resin spread on the lower side of the slide shows that the spreads were somehow stable during this quarterly increase just by 1%. So the main impact here was the margin generated by the petrochemical, the basic petrochemical sentiment in Brazil.

Moving to Slide 6, we again are going to talk a little bit about the results in U.S., Europe and Mexico. Beginning with U.S. and Europe, the utilization rate in those regions reached 101%, 1% higher than the first quarter of 2016 and 4 percentage points higher as compared to the fourth quarter 2016, remembering that in the fourth of last year there was a gradual shutdown of Marcus Hook unit, a facility that we have in U.S.

In this quarter, we reached a new record of sales in U.S. and Europe. We accounted a 534,000 tons and increased by 7% when compared to the first quarter of 2016, 6% when compared to the fourth quarter of 2016. The EBITDA of U.S. and Europe together represented 17% of the total EBITDA of the company and equivalent to \$188 million. It is an important we reported in January, the new plant in La Porte, Texas helped begin its operations to produce the UTEC resin, which enables the company to better serve clients in North America as well as in the Europe through export from U.S.

In Mexico, the PE plants operated at an average utilization rate of 97%. So the company is kind of reaching what was expected. The total production was 260,000 ton if we analyzed this we will get a reach to a million tons of production in a given year. So, it is very close to a 100% of the capacity of the new complex. In terms of sales in this quarter, we sold 264,000 tons so we were able to sell more than what was produced and there was a reduction in the inventory levels in Mexico. And the Mexico



complex reached an EBITDA of \$171 million representing 15% of the company consolidated segment.

Moving to Slide 7, just to highlight two factors on the US and Europe. On the US and Europe front, first the sales, the record of sales from 500 an average of 500 in the latest of quarter of 2016 to 534 in the first quarter of 2017 and also these lines will increase in the EBITDA generation from a 103 to 188 in the first quarter 2017.

The demand is very strong in US and so we are being able to achieve better results. The margins in the US and Europe are relative stable, 3% down in US, 3% high in Europe in an weighted average between the region it would be slightly decreased quarter-on-quarter.

Moving to Slide 8, this gives a little bit more information about the operations in Mexico. As you can see here on the graph on the top left side of this slide, it shows a very robust utilization rate in the range of 97% to 94% since December last year. We have an average utilization rate in Mexico of 97% this quarter. And on the right side of the slide you can see that there was an important increase on the amount of products placed in Mexico.

We also increased the amount exported because we did produce more than as compared to the first quarter 2016. However, we increased more the amount placed in Mexico and that what we expect to occur in the future than what the company gets stable than more it would place product in the next quarter of export generating a greater value to the company.

The EBITDA margin reached 67%, so the company benefits by the different - by the spread between PE in the US that reaches \$1.1 per ton, \$1,191 per ton and the same price in the region, the Noble Group referenced that was \$173 per ton generating a widespread of almost \$100,000 per ton.

Moving to Slide 9, the consolidated results of the company were very fast in here, just to point out that EBITDA reached \$1.1 billion in this quarter equivalent to \$3.6 billion in reais. So it is 45% greater than what we achieved in a year ago. The consolidated net income of the company at a parent level reached 1.8 billion reais and with such a good result and production rate the company were able to leverage, so we reached among that EBITDA ratio in US dollars up 1.57, one of the lowest that we had during the last 10 years.

The company also paid this quarter around \$95 million referring to the portion of the US Department of Justice under the global segment that was executed with the authority banking with December 2016.

On Slide 10 it shows the comparison of the first quarter 2016 EBITDA and the EBITDA generated in the first quarter of 2017. As you can see here what played in favor of the company was the greatest volumes sold and in all regions in the U.S. and in Europe and Brazil, especially in Mexico we had a project reaching a higher utilization rate and also a contribution margin that to a very positive with an important contribution from the basic petrochemical spread.



On Slide 11 it shows the cash balance, the cash equivalent balance of the company that has reached \$2.2 billion in the quarter and with a very smooth amortization portfolio of its debt. We have a gross debt of \$7.4 billion and a net debt of \$5.2 billion with an average term of 70.1 and an average cost of 5.64% per year.

And on the chart on the lower side of the slide you can see that the leverage has decreased from 1.68 to 1.67 without considering the effect of the global settlement, but considering the global settlement as the debt as an additional debt obligation of the company, even though there was a decrease from 1.96 to 1.82 times. The company remains investment-grade by Fitch and S&P.

Moving to Slide 12, it shows the investments that the company did and it considers the operational investment from a data shutdown and its [indiscernible] subsidiary that contribution to the Mexican project. The company invested in this quarter around 285 million reais attributable to 16% of the total amount expected to be vetted in the full year of 2017.

Two important contributions in the amount invested, 20 million reais was related to the feedstock diversification project that we had in Bahia that reached a completion of - with the completion of the ratio of 39%. And in Europe, we can highlight an investment of \$8.7 million, which is related to the service of a new PE facility in United States that is yet to be approved by the board.

Moving to Slide 13, we have the PE capacity expansion, the forecast for 2017, the forecast of 2017 has increased from 7.5 million tone that were expected to come online on the first quarter of 2016 to \$6.8 million that is now expected to come online in 2017. The decrease was mainly driven by postponement of the project that were expected to become operational in 2017 in India and in China.

This lateral review by the spread expected for 2017 by the consulting companies. The spreads for 2017 were expected to be in the range of 560 when we were in the first quarter of 2017, now we will revise it to around \$700 per ton. For the full year of 2017. Moving to Slide 14, this slide tries to demonstrate how we perceive the first quarter 2017 and what we expect to occur in the nine months of 2017. So we have and review in a volume perspective a result that were in line with the fourth quarter 2016, there was an increase in comparison to the first quarter 2017, but the volumes were in line which were posted in the fourth quarter of 2017 and we expect that these volumes, the demand in Brazil gradually increased over the following quarter, especially in the second semester of 2017.

In Brazil, we had a very positive effect from the basic petrochemical spread. You see however we understand and we expect that these two spreads will be reduced in the following quarters, PE and basic petrochemicals. On the other hand, we expect that the spreads for PVC will increase over the next - over the following quarters, given the lack of investments of new PVC plants worldwide.

So, in Brazil we expect the EBITDA generation for the following quarter to become smaller than what was posted in the first quarter of 2017. In the US and Europe we have a very stable situation, very stable demand. PP spreads were slightly lower than in this quarter, mainly pressured by US spreads, but we expect this spread in the US to



become greater and new refineries have come in line again. They had stopped for maintenance in the first quarter 2017 and the new EHP facility - there will be new EHP facility that shall become operation by the end of the first semester and beginning of the second semester of 2017.

So we expect that the level of EBITDA for US and Europe to become relatively stable over the next quarters. In Mexico we expect to push more volume to the demand to allocate more volume to the domestic market as compared to explore this - should generate a greater amount of value-added sales prices in Mexico are better than this for prices to some region, especially to Asia, where we still are exporting an important of our products from exporting and import and I see an important amount of volume from Mexico.

Likewise in Brazil, the PE spread in the region in US should reduce by the end of 2017, so spread in Mexico we expect that it will be reduced over the next quarters. In general, we expect somehow some level of stabilization in the EBITDA generation in Mexico.

Turning to the last slide, these are the key concentrations of the company. First one, the company is concentrated in productivity and competitiveness and to focus to be in the first quartile operator. [indiscernible] is another key concentration to have a very well balance between naphtha and gas production and also geographically a diversification to expand the global status we gained in the scale and the PE and PP and to have contributions from international operations above 50% as you could note there in the presentation that results from outside of Brazil represented 32% on a consolidated basis.

So the intention of the companies to grow these, gain scale in PE and PP. And all of these three key concentrations will be founded on reputation and governance. So, the company intends to - the key objective which is to trend [indiscernible] reputation advancing in many of its initiatives in terms of appliance with an ability innovation as people management.

Thank you all for your attention, and I invite you to participate in the question-and-answer session.

Question-and-Answer Session

Hassan Ahmed, Alembic Global:

Good afternoon gentlemen. Obviously a strong quarter and you highlighted a couple of interesting things.

One was the strength within the sort of basic petrochemicals segment, you talked about expanding steps and the like and thereafter you talked about a certain degree of compression in the near term, so at least in my mind, as I take a look, obviously, the raws did what they did and the sort of ethylene polyethylene what they did in 1Q, but I think a large part of the story was also what co-products did, right.

I mean obviously butadiene was very strong as was propylene through the course of 1Q, which since then seems to have come down fairly hard. So, a two part question



about that, one is what is your near-term view about the direction these co-products take, 2Q, 3Q? And the second part of that is that, is this a signal for ethylene pricing to go up? And what I mean by that is, that obviously global utilization particularly for ethylene remained very strong.

So if co-product values come down that means the margin compresses and if it does in an environment where utilization rates are not at 90% globally that in a turnaround period as well that could potentially signal a rise in ethylene prices in the near term. So would love to hear views about these two points.

Fernando Musa

Good afternoon everybody, good afternoon Hassan. I think as you said, the 1Q was pretty exceptional in the sense that co-products have been very strong driven by series of factors butadiene as you mentioned was a special place, totally in the US also spiked significantly. And they have returned to more normal pricing and therefore more normal spreads since the end of the quarter, so my expectation for the back end of the year is that, it will revert to a normal spread.

If we understand normal spread we see with the oil prices where or what have been recently, and therefore it is similar to slightly better than the average of last year for the co-products.

As far as the ethylene pricing, I think here there is a combination of the co-products, but also the start-up of the plants that are ethane-based only, which would put pressure on the PE pricing. So for the integrated players it is going to be more about the integrated PE margin, and for the non-integrated you are probably right, ethylene pricing could be rising in US and Europe in the near term, given the core products pricing reduction in potentially putting over more stress on the ethylene to polyethylene spreads going forward.

Hassan Ahmed:

Very helpful. Now as a follow-up moving slightly upstream, obviously we saw a certain degree of strength on the propane side of things within the US in particular and a variety of things and obviously oil was muted but it seems that you saw heightened sort of export demand out of the US for propane, but thereafter through the course of call it January, February, March propane was rising and now that too has moderated a bit.

And as I hit there and look at the amount, so two things that is reaching my mind, one is obviously the oil side of things, the E&P guys keep drilling in the US, so obviously more and more NGLs keep coming out and the second part of it is that here in the US at least you have seen that there has been a fair amount of gas processing capacity that has been added.

So, again, slightly related to the first question as well, I mean with these dynamics with oil sort of co-relate at or above US\$50 a barrel, Brent, with the amount of gas processing capacity that exists in the US, despite sort of increased use of LPGs across the globe and more and more propane sort of exports out of the US, don't you think that barring sort of huge price in oil prices, don't you think that propane prices would be



relatively tepid going forward? And in line with that would provide some sort of upside cap to ethane pricing here as well.

Fernando Musa:

Yes, I think if we go back to couple of the elements you mentioned, I think the last few months have been a clear demonstration of this trend of the driven E&P industry in the US, but clearly adapted itself to a 45 to 65, there is oil pricing, which is generating very strong production and we have done a lot of NGLs coming at byproducts.

So even though there was a spike in propane pricing, I'm with you that there should be abundance of ethylene and propane in the US, despite the increased capacity to export propane and the ethylene cracking will be shifting back and forth between ethylene and propane based on availability and therefore pricing of those two molecules, which kind of creates a smoothing effect on the cost in the US.

If we go back to the last few weeks, one month and a half ago, the best route for production of ethylene in the U.S. was naphtha procedure right, who taught you to see that. So now it is flipped back. But it's within a range that is pretty tight. Still very competitive no matter what the route is in US to other regions in the world, with the exception maybe of the Middle East.

So, I think, if there is no shock driving prices down for oil, we should see the abundance of feedstock in the US last for quite a while.

Now the industry, the oil industry, the oil and shale oil industry, they adapt itself, again let's call it US\$50 oil. And this is probably good news for US-based producers both for new, but also on the propylene chain because the PVH's will be competitive and therefore the propane price should be compared to it globally, which tends to be a positive news for Braskem given our very large exposure to propane in the US.

Hassan Ahmed:

Very well. Thank you so much.

Bruno Montanari, Morgan Stanley:

Good afternoon everyone. Thanks for taking the question. Just a couple of questions about the reporting schedule, given that the auditors have not signed off on 4Q and 1Q now on the lesion, one, when do you expect that process should be concluded and then second as it pertains to your debt, how much of those, the instruments you have a reporting covenant on? And are you in compliance yet with those reporting components? Thank you very much.

Fernando Musa:

Hello Bruno, as far as the work with the auditors, I would say we are in the final stages of the process.



We have been working very hard since last year with them as we have mentioned several times in our communication to the market, the dialogue is all around internal controls and procedures has nothing to do with the numbers, which we do not expect only relevant changes to the numbers and I remember that we have been communicating both for 2016 also for the 1Q.

So as far as EBITDA line, I would say soon, it is hard to pinpoint exactly when given that some of the [indiscernible] and analysis the auditors are conducting might lead to one or two additional questions and if it is a matter of doing these additional tests and as I said we believe we are close to the end of that process, but we are not over to pinpoint a specific data.

As far as that debt is concerned, we have 120 days for most of the debt has a covenant around the publication around the financial statement. Those have a 60-day period of cure, after we receive a notification and we have been working with a few ones that have asked about it and we have been discussing and negotiating with the creditors around this.

They have been very receptive given that the financial results, the differential results have been very strong, the cash flow generation has been very strong. So this is a process that we have been managing and if we are able to finalize the process with the auditors sooner rather than later this should resolve itself in the near future.

Bruno Montanari:

Great news, thanks a lot.

Frank McGann, Merrill Lynch:

Yes, thank you very much. Two questions if I might. Wanted just to follow-up on a discussion we had in the past related to ethane supply in Mexico and how you are seeing that situation right now to whether you are seeing risks over the next two years or three years that there could be potentially some restriction in supply?

And then secondly working capital which saw major increases over the use of funds rather for working capital in this quarter, I mean, there has been some deliberate decisions made from a commercial standpoint to that have led or contribute to value, just wondering if you could give a little bit more color on, what decisions you have made and why you changed now that's led to a little bit of demand for funds for working capital.

Pedro Teixeira:

Before answering your two questions, you asked for a clarification, which I might have miscommunicated.

We did not receive any notification from many creditors. We have been in dialogues with different agents to update them on the street stage of work with the auditors and as said we believe that we are again close to the end of the process and the dialogue has been very positive.



Going back to your question attaining Mexico, as we have seen from the utilization rates as the complex, our supply has been very, very stable enabling us to run very strong close to 100% of our capacity. The availability of ethane in the country is still an issue just as we call the availability of reserves is there. PEMEX has been facing some challenges given some issues at a couple of their platforms that is relevant for the natural gas flow and this has led to some curtailments that have impacted the industry, but not our projects.

Given the very strong contract that we have and over \$5 billion investment that was incentivized way back by the auction of the long-term contract by the government and PEMEX, which has created a desire by, I would say both the government and PEMEX to make sure that the project is successful and I think that data is showing that we have been able to put together a very strong project or it has been successful from an operation point of view and it is also fulfilling its ambition to serve the local markets moving upwards in the mix internally versus externally, as naturally we progress in the relationship with clients.

So as I said, we have very strong contract, the national interest of having a successful project is very high and the recent past has shown that the supply has been strong. On top of that the project has been project-financed with 17-banks, including multilateral reviewing the contract and I would say we are comfortable with the contract situation of course. The newer annexes able to restore a system to provide an abundance of ethane to the industry and including to ourselves and we will be able to try the limits of our clients and may be even go above 100% as we have been doing with some clients around the world.

As far as the working capital discussion, we have a series of feedstock supply contracts over the last couple of years given the need for investment in other investments we have made, little bit actions to pursue some contracts that have had longer payment terms and this would of course come from trade-off as far as pricing and the economic side of the equation.

With the improved cash flow generation in the next few quarters, the end of the investment in Mexico we have started to make deliberate actions to balance those trade-offs between term payment terms and the economic side on the feedstock and this is a process that probably it was a little bit stronger in the 1Q, combined with a series of other actions from a operational point of view that also led to a reduction of the accounts payable accounts.

If you think about the future, there was a big change as I said in this trade-off between the economic aspect and the then the financial aspect there is still some opportunities to do this arbitrage going forward, but it should be smaller compared to what we have seen in the last couple of quarters. That's it.

Frank McGann:

Thank you very much. It was very helpful.

Sarah Leshner, Barclays:



Hi I have a question on your expectations, I want to know if you know particularly the timing of cash flows we know that metric needs to be achieved before either of the shareholders of repayment of debt or will see dividend, so I was just wondering what your expectations are regarding a timeline for that? Thanks.

Fernando Musa:

We see the operational results and financial results of the project have been very strong. Having said that, most of the cash flow will be dedicated to giving the working capital and placing the financial deviations of the project finance.

We do not expect the project to distribute cash flow to the partners through the sponsors in 2017. Based on the results in 2018 and depending on the cycle and what happens with the spreads this could be something that will be discussed during 2018 which will deleverage the project more or we will decide to distribute dividends to the sponsors, is a ballot for 2018. Again, it will depend a lot on what happens to the ethane to PE spreads in the region.

Sarah Leshner:

Great. Just to clarify, you were referring to both the repayment of the shareholder loans for that timing of in addition to paying a dividend?

Fernando Musa:

Yes.

Sarah Leshner:

OK.

Fernando Musa:

Any cash flow paid out to the sponsors should happen after the end of 2017 depending on the operational and financial results.

Sarah Leshner:

OK. That makes sense, thanks.

Operator:

Thank you. I will turn over to the company for closing remarks.

Pedro Teixeira:

Thank you all for participating on the call. I hope I was clear during the presentation and dialogue. We had a very strong 1Q. This was driven by the international scenario, but also by the ability as Braskem's teams around the world to operate very efficiently



and therefore capture all the opportunities that was out there for us and to inform that we see good operational and financial results.
We had an exceptional 1Q.

We do expect that from an operational point of view. We will continue to have good performance from a spread point of view. We mentioned a couple of dimensions where you should see a small decline on those spreads in the backend of the year compared to 1Q, but we still see a healthy cash flow generation for the rest of the year.

The Mexico project which was a key strategic investment for the company and very relevant commitment is reaching stability from an operational point of view and is progressing in a strategy of increasing the volume that is used to serve local clients and as we continue to progress on that I mentioned, we will see more stability by building stronger and stronger relationships with customers close by to our operations. As we think about the PP business in the west, another relevant aspect to cash flow generation.

We expect to have a healthy year, especially given the propylene expected behavior and the market demand continues to be healthy, which contributes to our expectation of getting the final investment decision on our new PP plant given the fact that the market is still a net new portal and is expected to continue to increase the imports of PP to serve the local demand. So this is another relevant project that as we have finalized this study will be taken to the board in the near future.

Finally, I want to emphasize that we have been investing a lot of time and effort in improving our compliance systems, as part of our obligations given the global settlement, but also given our belief that this will help the company be a stronger better managed company.

We developed a compliance program that has so 150 individual initiatives as of today. Out of those 60 have already been fully implemented and we are working and the other 90 as we speak and this is a problem that we expect to evolve as we continue to implement actions we certainly be able to define new initiatives to continuing that journey to have a compliance system for the last time.

So, once again thank you very much for listening to our results, very good quarter and looking forward to talking to you at the end of the second quarter. Thanks.

Operator:

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

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