



Operator:

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's 2Q17 earnings conference call. Today with us we have: Fernando Musa, CEO, Pedro Freitas, CFO, and Pedro Teixeira, IR 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's remarks are completed, there will be a question and answer session. 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 MZiQ 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's 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 will turn the conference over to Pedro Teixeira, IR and Controller Director. Mr. Teixeira, you may begin your conference.

Pedro Teixeira:

Hello. Good afternoon, ladies and gentlemen. Thanks for participating in our 2Q earnings conference call. Let us start the presentation moving straight to our slide number three, where we will highlight the results of our operations in Brazil.

In Brazil, the crackers operated at an average utilization rate of 93%. It was 2 p.p. down when compared to the 1Q17, mainly as a result of a scheduled shutdown in our cracker in São Paulo, which lasted for approximately 12 days. Apart from that, it was a good quarter in terms of operations. There was a good performance in our crackers, and we achieved a record utilization rate production in our cracker in Rio de Janeiro, which is the one that is gas based.

The Brazilian demand recovered a little bit, it achieved 1.3 million in the 2Q17, and it was a growth by 2% when compared with the 1Q17, and a growth by 4% when compared to the 2Q16. In this quarter, the Company posted in the Brazilian market 835,000 tons of resins.



In terms of exports, the Company reduced the exports of resins by 12% when compared to the 1Q, as a consequence of the shutdown that occurred in the 2Q17, and 19% when compared to the 2Q16, mainly because the Company is prioritizing the volumes placed in the domestic market, because it generates a better margin when compared to exports.

In terms of basic petrochemicals, we have a huge production. We are exporting a relevant amount, there was an increase by 6% in this quarter when compared to the 2Q16, because of the very good margins that we are getting in the international market with this basic petrochemical products.

The operations in Brazil generated an EBITDA of R\$2.4 billion, equivalent to around US\$750 million, and this includes the results of our divestment, the capital gains that we obtained with the divestment of our former chemical distributor, quantiQ, that occurred in April. And the result in Brazil achieved 74% of the consolidated results of Braskem.

Moving to slide number four, we show some graphs that highlight the results in Brazil. We achieved an EBITDA margin in this quarter of 26%, if consider the divestment, the results as a consequence of the divestment of quantiQ, that occurred in April. Without this impact of R\$277 million of capital gains that affect the results in Brazil, in this quarter EBITDA would be 10% smaller than what was achieved in the 1Q, especially affected by the compression in the basic petrochemicals prices. In fact, the basic petrochemical prices in the 1Q were incredibly high in the international market, so it was not effectively a compression, it was just the fact that the basic petrochemical price return to their regular levels, and it happened in the 2Q, so affecting the results in Brazil in this quarter.

Moving to slide number five, we are focusing here in the results of our operations in the United States and Europe, and also in Mexico. Beginning with the United States and Europe, we made an adjustment in our nominal capacity. It was a new investment, we increase the nominal capacity of the units in Europe by 80,000 tons per year. So we are now doing a total nominal capacity in Europe of 625,000 tons per year.

The Company has been made several minor investments, revamps and adjustments over the years, and the prior nominal capacity that we were considering did not represent exactly the capacity of the Company, so we decided to made this adjustment by 80,000 per year.

Already considering this new utilization capacity, the utilization rate of the PP plants in the United States and Europe achieved 95%. It was 6% down when compared to the 1Q17, mainly because of an unscheduled shutdown of our Schkopau plant, in Germany, which lasted for 15 days. This affected the utilization rate in Europe, in the region.

In terms of sales, the total sales in the United States and Europe from these plants achieved 516,000 tons. It was a decrease by 3% when compared to the 1Q17, and an increase by 6% when compared to the 2Q16.

United States and Europe posted an EBITDA of US\$120 million, equivalent to R\$385 million, and represented 12% of the consolidated results of all segments of Braskem.



In Mexico, the PE plants operated at an average utilization rate of 83%. It was smaller than what was posted in the 1Q, when we posted 97% of utilization rate. We faced some operational adjustments, and a reduce level of resins by our suppliers in Mexico in this 2Q.

The PE production amounted to 217,000 tons, 13% lower in this quarter when compared to the 1Q, for the same reasons, but we were able to post the majority of sales in the Mexican market, so more than 50% of the total sales were allocated in the domestic market.

The Mexican facilities posted an EBITDA of US\$142 million, equivalent of R\$456 million, already representing 14% of the consolidated EBITDA of all segments of Braskem.

Slide number six shows some highlights about the United States and Europe businesses. I am going to just focus on the spreads, that are very regular and stable, in the range of US\$570 in the United States, and around US\$500 in Europe. There was an increase in spreads due to the greater demand that we faced in the 2Q in Europe. However, in the results of the Company, the EBITDA decrease from US\$188 million in the 1Q to US\$120 million in the 2Q17. We had the Schkopau unscheduled shutdown, and also some inventory effects that affected the results in this region.

Moving to slide number seven, it shows some highlights of the Mexican operations. You can see the impacts that we face in the operational rates, from 97% to 83%, and, in an average, in the utilization rate in Mexico, year-to-date, we have 90% of utilization rate, and we expect a more stable utilization rate over the following quarters.

The graph on the left-lower side of the slide shows the EBITDA, that achieved US\$142 million, equivalent to an EBITDA margin of 52%. Spreads, on the right-lower side of the slide, show the decrease by 5% when compared to the 1Q, as a consequence of the new capacity of PE that is coming on stream in the United States.

Moving to slide number eight, it shows the consolidated results of the Company. EBITDA reached US\$945 million in this quarter, equivalent to R\$3 billion, it was an increase by 10% when compared to the 2Q16, mainly because in the 2Q16 we did not have Mexico facilities full operational, what we have right now, and also, it was impacted by the capital gains of our divestment of quantiQ, that occurred in April.

The net income of the Company reached R\$1 billion, and year-to-date the net income already amount to R\$3 billion, which is equivalent to R\$3.6 per share of Braskem.

I will skip the net debt, the leverage ratio. I am going to talk about it later, in the following slide. It is important to remember that the Company already paid R\$607 million to the authorities. There were two payments that occurred this 2Q: one to the SEC, equivalent to US\$65 million, and another of CHF30 million to the Swiss authorities. And there was another payment that occurred in the 1Q, of US\$95 million to the Department of Justice.

Moving to slide number nine, it shows the increase in terms of EBITDA from the 2Q16 to the 2Q17. The results are mainly related to volumes, and these volumes came from Mexico, because in the 2Q16 we did not have Mexico full operational, it was on its



ramp-up phase. And also, the capital gains that we obtained with the divestment from quantiQ.

Moving to slide number ten, it shows the leverage and the amortization profile of the Company. The Company achieved a net debt of US\$5.1 billion, very stable when compared with the 1Q17. We ended the quarter with cash position of US\$2.3 billion, around US\$900 million were invested in USD, and US\$1.3 billion were invested in Reais.

The leverage ratio, it totaled in this quarter 1.63x. The leverage ratio is calculated by divided net debt by the last 12 months EBITDA of the Company, so it reached 1.6x in the 2Q. If you consider the liability obligations towards the authorities, the leverage ratio achieved 1.85x this quarter, very stable and very comfortable.

Moving to slide number 11, in this slide we discuss about the investments of the Company. The Company has an investment plan without considering the new investment of PP plants in the United States, that was approved by the Board of Braskem very recently. But without that we have an investment plan of R\$1.8 billion.

Among that, we have already invested R\$700 million and the majority of that was an investment in Brazil and among this investment of R\$585 million that was invested in Brazil in the 1S17, R\$59 million were related to the project to diversify stock in profile in our cracker in Bahia, which already reached 65% of completion and it is expected to be concluded by the end of 2017.

As I said, this CAPEX of R\$1.8 billion for year does not consider the new PP plant in the United States that was approved by the Board. The approved investment, the total approved investment is up to US\$675 million. We already checked how much of that will be invested in the 2S17, but we understand that it should be in the range of 15% of this amount.

In terms of capacity, this facility should reach a total capacity of 450.000 tons of polypropylene per year and the startup is expected for 2020. This new investment is aligned with the consistent strategy of Braskem to diversify its profile, because this startup will be propylene and also to expand geographically in the Americas and increase our leadership in the PP business in the United States.

Moving to slide number 12, it shows our compliance program. It is a very relevant point for us. We are viewing the evolution of the compliance program. The compliance program is formed by ten projects and it is composed by 154 initiatives, so in this 2Q, 12 new initiatives were concluded, so it was increased the number of team members in the compliance department in Mexico and in the United States.

There was a development in global training plan on the compliance for key members. There was a developing in global communication's plan for disseminating the compliance commitment to conduct its business with ethics, integrity and transparency, improving processes and the final protocols for investigating reports of violation.

In total, among the 154 initiatives, it was already completed 62, so the project is moving forward and it is a priority for the Company.



Moving to slide number 13, this chart shows the evolution of the expected expansions for 2017, from the newest controlled companies and what we are seeing here is that the expected amount of PE that is about to come in 2017, is reducing over time. In the 1Q16, it was expected by the consulting firms a total of 7.5 million tons of PE in 2017.

This amount was reduced by 9%, reaching 6.8 million tons, when we read the same report in the 1Q17. Now the reduction of the total expected capacity of PE, new capacity for 2017 has already reduced to 6.7 million tons. Some of the capacity was cancelled, some of the new capacity was postponed, so the total capacity, in fact, what happened is that the total capacity that we expect for 2017 is lower than what we expected a couple of months ago.

This is positive to the point that the impacting spreads for PE — that we have now — should be a bit lower than what we expected in the prior quarters.

Moving to slide number 14, and now we are getting to the end of our presentation. This slide aims to show how we see our business in the 2S17 when compared to the 1S17. So, beginning in terms of volumes in Brazil, the market increased by 4%. We expected the demand in Brazil to increase, but it should increase a bit less than the 4%, as an average we expect for the year around 2%, 3%, when compared to 2016.

It affects the spreads that affect the Brazilian region, we expect the PP spreads to remain resilient and stable, with the new capacities that are coming in line in the United States for the 2S17, we expect a little bit pressure of PE spreads in the 2S. Spreads for PVC should recover a little bit, that is our expectation and spreads for basic petrochemicals in 2S should be smaller than in the 1S17. That was extraordinarily high in the 1H17.

Moving to United States and Europe, in terms of demand it should be roughly stable. In the United States the demand is growing a little bit higher than in Europe, but we do not expect too much movement in this region, but we do expect an improvement in the spreads of PP, especially in the United States with a new capacity of propylene, so putting some pressure reduction in our fixed stock costs with a new capacity of propylene in the United States, it should generate better spreads of PP in the region.

In Mexico, the market remains very healthy. Spreads in the region should be pressured by the new capacity of PE in the region, and that is pretty much how we see the evolution of our key business over the next half of the year.

And finally, moving to the last slide, it shows our four main concentrations of the Company, the main priorities. The first one is related to productivity and competitiveness.

The focus of the Company is on the operational and commercial efficiency. Second, fixed stock diversification, the Company is already doing, and the consequence of that are the facilities in Mexico, so the Company, on the long run, is expected to have a lower concentration in terms of fixed stock on Nafta and a greater concentration in terms of gas.

And also, expand the global presence, with gains in scale, especially in PE and PP, and the new investment of PP in the United States is an example of that as well. And the fourth concentration is the foundation of all the other concentrations and it is related

to reputation and government. This is a priority for the Company and it will have to strengthen the image and reputation.

Thanks for hearing the presentation. I am going to move now to the Q&A session.

Sarah Leshner, Barclays:

Hi. Thank you very much for the call and for picking my questions. I have two quick questions. One is regarding the utilization rate in Mexico. Can you provide more details on how it was the Pemex under contract and how that will be corrected going forward?

And my second question is regarding the shareholder agreement between Petrobras and Odebrecht that entered into negotiations last month, if you are able to provide us with more details on both questions?

Fernando Musa:

Thank you, Sara, for your questions.

Talking first about the utilization rate in Mexico, the challenge we face in the 2Q came from two sides – first, we had our side, some issues identified during the previous months that we were running really hard, so we decided to invest some time to fix and improve it. And at the same time, Pemex faces some challenges on their operational efficiency and effectiveness, especially around their fractionation, that led to a reduce supply for a few days.

Those key topics have been addressed. As we move forward into the 3Q, July and August, we see the utilization rate going back up towards something that is closer to what would be expected given where we are in the ramp-up curve of the project.

I would say that the 1Q was actually an outlier in the sense that it is extremely rare that you start up a project of this size and complexity and reach such a high utilization rate as we had in the 1Q. It was a coincidence and a very positive scenario all over where everything worked perfectly well. And unfortunately this is not how those plans work; there's always something happening somewhere.

So we take the average of the 1H which is somewhat in the 90% range in Mexico, compare it to the utilization rate that we have been delivering in Brazil, which is in the 92%-93% range. I would say that this is a good proxy for what to expect going forward as mentioned before. Those small improvements and fixes have been done in our hands and Pemex performance has been improving as they fixed their operational problems on their end.

On the shareholder agreement, Petrobras and Odebrecht made a public announcement stating that they have decided to discuss changes, their objective, they have stated to adapt and identify ways to unlock and create value for all shareholders of Braskem through governance improvements. This is a dialogue where Braskem's management team is not a direct participant. It is a discussion between the shareholders.



At some point, in the future, we will be involved given the fact that Braskem, as the object of the shareholder agreement and intervening party, is the co-signer of the agreement. But this involvement will take place in due time, and my expectation is that this is going to be once they have reached the decision among the two of them about what changes, if any, they would like to implement. So, as soon as we receive information from the shareholders, we will communicate the relevant information to the market as we get them.

Sarah Leshner, Barclays:

Great. Thank you very much and congratulations on the results for the quarter.

Fernando Musa:

Thank you.

John Haugh, Morgan Stanley:

Hey. Thank you for the call. I just wanted to do one quick follow-up. At the end of the quarter and the Director has approved the polypropylene plan taxes. Can you go over where you are in this stage and additional study in the feasible stage. When do you plan to start the investment? And what kind of financing options are you expecting going forward? Are you looking to take on a partner? Maybe get's omefurther information on that.

Fernando Musa:

Hello, John. Thank you for your question. So just a quick recap: this is our sixth production line in the U.S. in the polypropylene business. It will be built port side, where we already have another propylene line. And we also decided where we will build our new pipeline which is a high molecular weight polypropylene line. It is a very large site where we have enough land and utilities and infrastructure available to support that new investment.

This project has been evaluated for the last couple of years. We have gotten a final approval from the Board to go ahead in June. We have finished what is called feed from Engineering detailing, which is the first phase of engineering. We have already signed an EPC contract - engineering procurement and construction - with one large construction company, or EPC company. This has already been signed.

We are pretty advanced in the detailed engineering and in the procurement phase in which basically all of the items have already been purchased. The purchases have been placed. And a couple of weeks ago, we have started to purchase some of the bulk material as well that came to be bought after buying the items for the large equipment.

We expect to have construction starting over the next two to three months on the sites. We are finalizing part sof the subcontracting that the EPC companies are going to do with some specialty work that is related to the beginning of the construction. So I would say that the project is migrating from an analysis phase to an execution phase really fast, and as I mentioned detailed engineering has already started, most of the development and procurement activity is done, and the construction should start soon.



Aside the structurer of the project, we do not intend to have a partner. This is a US\$600 up to US\$675 million investment, which is something that Braskem's balance sheet can finance. It is an additional to a current business – an additional line into our larger site, so not only don't we see the need to bring a partner, but this would work if we decided to do so. It would add significant complexities given that it is part of a larger business, part of a larger site. Although issues could be dealt with, complexities would be added.

So it is a very different situation from the Mexico project where we have no business. It is a new country for us where having a local partner would make a lot of difference. For this one, we do not need a local partner. We are the local operator. It is a significant investment, but it adds into a business that has been running for many years with five other sites around the country.

Pedro Freitas:

John, just to complement on the financing, the Board has approved the project considering corporate funding by Braskem, so any reduction in the capital cost we are able to achieve through, for example, special funding arrangements, will be accretive to the value of the project.

We are looking at usual alternatives for this type of project, such as ECA funding, so that will most likely be the resource of funds for the project. And we are also looking at other alternatives, but, as a whole, all of these alternatives will add value on top of our perception of the value of the project as approved by the Board.

John Haugh, Morgan Stanley:

OK. Thank you very much.

Operator:

Since there are no further questions, I will turn the floor back over to the Company for closing remarks.

Fernando Musa:

I would like to thank all of you for joining the call. This was a very positive quarter with a combination of good results from an operational and financial point of view, important movement in the strategic side of the approval of the investment of the US. And a dialogue with the auditors and therefore the publishing of our financial statements in regard to the 2016 balance sheet.

As a complement of that, I would like to mention that today is a special day in Braskem's history. It is our 15th year anniversary, and it's a moment where after a very positive, productive, successful first 15 years we are ready for continuation of the deployment of our strategy, and we decided to mark that date, that event, that transition with a modernization of our brand, our visual entity.

You might have noticed in the presentation that the logo has been adapted, and this is part of a broader repositioning and restatement of the brand, which will basically reinforce our core values, our core beliefs around a way of thinking, a way of



challenging ourselves, a way to search for better solutions for supply chemistry and plastic.

And doing that, we are truly following the core of our strategy is our people on our hands, but interacting with people, our clients and suppliers, and providing services, products, solutions for people in the society towards having a better life.

Thank you very much for participating, and I'm looking forward to talking to you in the 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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