

**Operator:**

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's 3Q19 earnings conference call. Today with us, we have Fernando Musa, CEO; and Rosana Avolio, Head of Investor Relations.

We would like to inform 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 session. At that time, further instructions will be given. Should any participant need assistance during this call, please press \*0 to reach an operator.

We have simultaneous webcast that may be accessed through the Braskem IR website at [www.braskem-ri.com.br](http://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 the 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 Securities Litigations Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of the Braskem management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to the future events and therefore, depend on the 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, Rosana Avolio, Head of Investor Relations. Ms. Avolio, you may begin your conference.

**Rosana Avolio:**

Good afternoon, everyone, and thank you for participating in Braskem earnings conference call. Today, we will present the 3Q19 results. So we are starting our presentation.

Let us go to slide three, in which will present the highlights in the period. First one, in the 3Q, Braskem posted a consolidated recurring EBITDA of US\$389 million, in line with the 2Q19, due to lower spreads in the international markets, which were partially offset by higher sales volume arising from Brazil and higher PP sales in Europe.

Free cash flow generation of the Company was US\$101 million, and considering that the financial leverage measured by the ratio of net debt-to-EBITDA stood at 2.8x in USD. Other highlights in the year is the Extraordinary Shareholders' Meeting held on October 3<sup>rd</sup>. It was approved a distribution of R\$667 million of the minimum mandatory dividend for the fiscal year of 2018 to be paid by the end of 2019.

Another highlight, which was very important for the Company, was with the filing of the 20-F forms for fiscal years of 2017 and 2018. Also with the SEC, the trading of Braskem American Depositary Shares was resumed on NYSE.

Also in October, Braskem placed US\$2.25 billion in bonds in the international markets, making the largest bond issue in Braskem's history. In November, including the liability management strategy of the Company, Braskem also issued R\$550 million in commercial papers due in up to five years. Those proceeds are being used primarily to repay other shorter-term, medium-term debt and higher cost debt as well.

In terms of value creation, the construction of the new PP plant in the United States reached 78% and ended of September with investment to-date of US\$523 million. To conduct the pre-market activities for the new PP plant, in 2019, Braskem U.S. imported already more than 110 kt of PP from Braskem Brazil. The start-up is estimated for the end of 1H20

Other initiatives of value creation, Braskem Idesa is investing US\$2.4 million in infrastructure for the Fast Track solution that we are calling, which consists of importing ethane from U.S. in order to allow the cracker to run at higher utilization rates. The beginning of the import is expected before the end of 2019, and this project will increase the reliability of our supply.

Moving on slide four, we will comment on the operations in Brazil. In the quarter, the operations in Brazil continued to be affected by the downside of the petrochemical industry, with the petrochemical complex operating at 85% of average utilization rate.

On the other hand, resin demand in Brazil market grew by 7% over the 2Q due to seasonality. In the same period, Braskem sales increased 6% with a market share of 65%.

EBITDA was 38% higher than the 2Q, to US\$231 million as a consequence of higher spreads of base petrochemicals and also PVC and lower prices of key feedstocks of the Company.

Moving to slide five, we will comment on the situation in Alagoas. We have been dividing the subject in fronts. The first one is the operational front. The Company is now temporarily operating into a non-integrated business model. The average PVC utilization rate stood in the quarter at 57%, an increase over 2Q due to the normalization of EDC imports, which is the feedstock to produce PVC. And as a result of that, PVC sales also increased, amounting 123 kt in the quarter.

On the technical side, we are conducting two fronts. The first one is to identify the causes of the geological phenomenon and for that, the Company is hiring several studies by specialized and independent experts and those studies are still ongoing. And the second front is, right now is in discussion with the authorities is related to measures for the definitive shutdown of salt mining activities.

Moving to the legal front, we have, right now, R\$100 million frozen and R\$6.4 billion in insurance bonds. We have, as well, R\$2.7 billion frozen, but for that, we are waiting for the release, because we already replaced that for insurance bonds.

In terms of the Labor Court injunction, on October, the judge denied the freeze of R\$2.5 billion. And right now, we still have a pending Federal action in the Company, which is still being analyzed by the judge.

And it is important to mention that the Company has been also collaborating with the authorities in the region implementing several actions, such as soil monitoring using GPS,

installation of meteorological station to forecast weather variations including rainfall and other actions that the Company has been doing since the beginning of this year.

So moving on to slide eight, we will talk about U.S. and Europe business units' results. In the U.S., PP demand was 1% weaker than in the 2Q, reflecting the economic slowdown ~~and our sales decreased because of that, decreased by almost 1% influenced by the in the country in all categories, because of that, almost decrease that is why 1% increased by~~ scheduled shutdown of PP plants.

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In Europe, the demand has fallen 4% over the 2Q due to seasonality with the European summer. In the other hand, Braskem sales grew by 20% due to higher availability of products, influenced by the resumption of propylene supply, which was impacting the last quarter.

And in this quarter, U.S. and Europe EBITDA declined almost 15% over the 2Q impacted by the decline in PP spreads in U.S. towards the softening decline. We saw softening decline explained by the higher propylene prices in the region due to scheduled and unscheduled shutdowns in U.S.

Moving to slide seven, we will present results of Mexico, our JV. The PE demand in Mexico was 3% higher than the 2Q due to seasonality as well. The average utilization rate of the plant was 72%, same level of the past quarter. Total volume was 1% lower than 2Q due to the strategy of the Company to prioritize sales to more profitable regions such as the U.S. and Europe, combined with the reduction in exports to Asia. As a result of that strategy, EBITDA for the 3Q in Mexico was 9% higher than the past quarter.

Moving to slide eight, where we show the accumulated cash flow, free cash flow of the Company, in the 9M19, Braskem posted consolidated EBITDA of R\$6.5 billion. From this EBITDA, R\$2.2 billion were related to non-recurring events. As the vast majority of such non-recurring events happened in the first quarter and are related to PIS/COFINS taxes revenue, as explained before, therefore, deducting such nonrecurring events, the 9M EBITDA of the Company was R\$4.3 billion.

Braskem had a positive impact of working capital of R\$2.2 billion, mainly in the 2Q of 2019. Maintenance CAPEX of Braskem was R\$1.1 billion. And then, interest paid accumulated to R\$1.6 billion since the beginning of the year, and we paid as well R\$0.4 billion of income tax.

Strategic investments, here, the best part is related to the new PP plant in U.S. amounted R\$0.7 billion. Adding all these numbers, Braskem had a positive free cash flow before debt of R\$2.8 billion, a very strong free cash flow that would represent a 14% return for all the investors.

Moving to slide nine, corporate debt of the Company, Braskem ended the quarter with a cash position of US\$2.3 billion. Summing up the revolving credit facility of US\$1 billion that the Company has, the cash position of Braskem reached US\$3.3 billion. So this is the liquidity available for the Company.

Such amount of US\$3.3 billion is sufficient to cover the debt service of the Company during the next 43 months, without considering any cash generation of the Company.

And then, moving to the next slide, we show you the picture of our debt profile considering our issuance of our bond of US\$2.25 billion, plus the R\$550 million in commercial papers. We show the picture considering those two issuances of the Company.

The proceeds from that will be used mainly to repay shorter-term and higher-cost liabilities, including the 2020 and 2021 bonds, as you can see the reduction on the bars here, and to partially tender the 2022 and 2023 bonds.

As a result of that, the average debt maturity term was around 18 years and the Company cash balance increased by US\$680 million. With that picture, the new liquidity position is sufficient to cover the payment of all liabilities of Braskem coming due in almost 100 months.

Moving on, we are going to talk about petrochemical scenario. Here we bring the resin's utilization rate, which is a good proxy for the petrochemical scenario and its spreads. Usually, when the utilization rate is higher than 87%, we face a tight petrochemical market and, in the other hand, when it is lower than 84%, we face a low market, lower spreads.

We are going to start talking about PP global utilization rates. That utilization rate affects our operations in U.S. and also in Europe, and partially in Brazil. This scenario is still positive, although new CAPEX is expected to come online, operations will remain strong, and as a consequence of that, the spreads will be staying very stable healthy spreads.

For PVC, which affects operations in Brazil, we produced 0.7 million tons of PVC in Brazil. The trend is positive, since PVC capacity utilization continues to be positively impacted by the resin ~~utilization-utilization~~ rates and spreads. We are not seeing new capacity coming. Actually, since the past five years, we have been seeing utilization rates growth, and that means very good spreads.

The concern for the Company and also for global scenario is the ~~polythene-polyethylene~~ business. We have been seeing new capacity coming in the past years. We do expect new capacity coming in China in the coming years, combined with slower global demand. It is confirmed to us.

We have been seeing very weak spreads. We do think that 2020 probably the spread will be at the same level and a gradual recovery starting 2021.

To finalize our presentation, moving on to slide 13, we show some of Braskem's actions, showing how the Company is well prepared to face the challenging petrochemical scenario, ensuring a comfortable liquidity position without financial constraints.

Given what the Company already announced in terms of cost discipline, we already announced a reduction by US\$100 million maintenance CAPEX for 2019. Naturally, next year, because we are going to start the PP facility in the mid of next year, we will have a natural reduction on the strategic investment for 2020. We have the start-up of this new facility.

In terms of liability management, we just did our homework, the issuance of US\$2.25 billion, as I was explaining, plus R\$550 million in commercial papers for that, considering that we have a very strong liquid position that the Company can cover the payment of all liabilities coming due in almost 100 months without any cash generation.

And the third view is, regarding ~~the events~~dividends, the Company has a dividend policy that has several restrictions for the Company to pay additional dividends on top of the minimum mandatory distribution, which is 25% of the previous year net income.

For that, considering the movement of the cycle, the Company just approved the distribution of 2018 dividends, which is the 25% minimum. So the Company is prepared for the down cycle of the resins.

That concludes today's presentation. Now we move to the question answer session. Thank you so much.

**Gabriel Barra, UBS:**

Thanks for the presentation. The first one is regarding the PVC operation in Alagoas. How do you see the operations in Alagoas going forward? Are you maintaining the imports of EDC? Or is there any other possibility, for example, import salt instead of EDC?

Again on Alagoas, regarding the measure proposed to ANM by the Company, the 400 constructions, is there any forecast on how much is the cost for Braskem?

And if I may, I have another one on Braskem Idesa. How has been the project of the important terminal in Mexico? And what are the next steps for the project after the Fast Track step? Thank you.

**Fernando Musa:**

Gabriel, thank you very much for joining us, all of you. I will start with the Alagoas situation. The current operational plan is for us to find a way sometime in the 1H20 to restart the chlor-alkali plant with salts that we are going to bring from Rio Grande do Norte, another state in the Northeast of the Brazilian country.

With that, we will recover part of our integration. Today, we are importing EDC. With salt from Rio Grande do Norte that, as I said, we expect to finalize the small investment that needs to be done at the plants and figuring out the logistics, sometime in the 1H20, we expect to have the chlor-alkali plant back and therefore the EDC production back in Alagoas to serve both the PVC plants in Alagoas and the PVC plant in Bahia.

We are also working in parallel to identify an area in a rural setting outside of the ~~Mexico~~ Maceió City to go back to extracting the salt from the current reserve that exists in Alagoas State. This is going to take a little bit longer as we need to identify the right location and develop the projects to start the new mine and build the pipeline to remove the brine from this new location to the plant.

As far as the cost for the process of shutting down the current mine, we are still working on that. This decision was made late last week based on some reports that we got earlier last week. We are still discussing with the authorities the detailed work plan and activities for the shutdown of the mine whenever we have an estimate for the timeline and cost to share that with the market in the future.

And the last question is on Braskem Idesa. We are starting the Fast Track project until the end of the year. With that, we expect to have enough feedstock to run the cracker closer to its full capacity, which would lead to us to running the PE plant also close to full capacity.

It is important to highlight that this feedstock will be imported from Texas, therefore, priced at Mont Belvieu reference. And as I said, we expect to have it up and running by the end of the year here.

**Gabriel Barra:**

Okay, great. Thanks, Musa.

**Petr Grishchenko, Barclays:**

Good morning. Thanks for taking my question. I just wanted to follow-up on what you are just discussing on Braskem Idesa. In terms of this temporary solution, I did not fully understand, when do you expect to come up with a permanent solution? And basically, you are saying that starting late this year, you will run the cracker and the PE plant at full capacity, is that right?

And then, I guess as a follow-up, obviously, Braskem Idesa entity is in the market trying to deal that, I think, I guess the point is to release dividends from the entity. Why do you need to do the deal, then if you operate the full capacity and will be able to take dividends?

**Fernando Musa:**

Petr, on the Fast Track, we do expect it to start by the end of the year. We are working on the engineering alternatives for a long-term solution. We still do not have a timeline for that. It is a priority for the Braskem Idesa team. As soon as we have the Fast Track operational, the team will dedicate their time to the long-term solution.

As far as the current offering, because there is a current offering going on, I am not at liberty to discuss any of those details that you asked. Unfortunately, given the process that is going on, I have restrictions on answering your questions.

**Petr Grishchenko:**

Got it. And I guess, maybe just generally then, you mentioned in the interview that came out this morning about certain sectors in Brazil that you are seeing stronger demand. I am just trying to understand, if you can discuss specifically where do you see kind of stronger versus softer demand next year. One of the things you mentioned was automotive, but we saw about a month that the association came out very bearish on auto production, the weakest increase since 2016. I am just curious on what success will be the drivers of demand next year in your opinion.

**Fernando Musa:**

I think the relevant aspect for the Brazilian demand next year is the expected improvement in GDP growth, given all the reforms have happened. My comment on automotive should be taken probably more in comparison to other regions where we are seeing declining production for automotive in the U.S., Europe, even China, and Brazil still has positive growth.

Yes, it is a little bit less than where it was running at the beginning of the year, but still, let us call it, a bright spot, given the reduction in industrial production in general in Brazil.

Agriculture and agribusiness continue to be quite strong and it is a competitive and comparative advantage of the Brazilian economy. And there is more and more plastics being used to support multiple aspects of the agricultural business in the country.

And we start to see some positive signals coming from consumer-based businesses, we start to see some of the retail sales improving. And there is good expectation when we talk to our clients about the impact that higher growth next year should have for several of the value chains.

The one challenging aspect continues to be civil construction. There is a good expectation for infrastructure and also for residential. But when those tend to have a big lag between any big decision/announcement and concrete increase and pickup in plastics demand.

So, if we continue to see positive announcements in the residential sector, there has been a lot of activity recently, but this usually takes several months until you start construction and then impact demand. So, for that sector, I am more conservative. It is probably back-end of 2020, beginning of 2021, when we will start to see a stronger demand coming.

**Petr Grishchenko:**

Great. That is very helpful. And then, maybe can I touch quickly on dividends? I am just trying to understand little bit better, what is your take for next year? You approved the minimum dividends of R\$670 million. For next year, what numbers do you anticipate?

And also, just wanted to clarify the complementary dividend policy. Is it referenced to net leverage, not exceeding 2.5x? And I was just wondering, is that like net leverage that you report? Is it based on total EBITDA or recurring EBITDA?

**Fernando Musa:**

So, by Brazilian law, we have to pay 25% of net profit every year as dividends. After that, the Company has discretionary part, that is what you mentioned, complementary dividends. For that portion, we published a dividend policy over a year ago.

The logic of the dividend policy is to look at the current year plus two years forward and, based on the expected results of the Company maintain a maximum leverage of 2.5x net debt-over-EBITDA.

The policy also says that if there is an interesting project and/or acquisition that is forecast for the period, that it would be okay to go above the 2.5x as long as the expectation is to come back to the 2.5x. The decision on dividend will be done sometime earlier next year after the close of the year. And with the business plan for the future years taken into consideration this decision will be made by the March, April timeframe.

As of today, at the end of the 3Q, we have a net profit of R\$124 million after the large loss in the 3Q that was a direct consequence of the exchange rate variation impact on our liabilities that are USD-denominated.

**Petr Grishchenko:**

Great. And can I ask one more question? In the item that you report, adjusted leverage for judicial deposits, that was already, technically, released; the Supreme Court announced that is supposed to be released. But as the 3Q was still frozen, is that how we should think about it, this US\$980 million that you showed?

**Fernando Musa:**

The court has frozen R\$3.7 billion, the US\$900 million plus that you mentioned. This amount a decision by the STJ, which is the Superior Tribunal Court of Justice of Brazil, saying that we should get the money back. We are dealing with the "bureaucracy of the legal system" to get the money back. So we have a superior court's order to have the funds released.

As of today, we still do not have the money back into our accounts, but we are constantly discussing this with the court, given the STJ decision that the insurance bonds would provide protection that the courts require and there is no need for assets froze.

**Petr Grishchenko:**

Excellent. Thank you so much, and best of luck to you guys.

**Hassan Ahmed, Alembic Global:**

Good morning. First question, on the ethylene, polyethylene side of things, and a two-part question, if I may. As I took a look at 3Q earnings across a variety of sort of producers within the Americas, I think one thing that became quite clear was there was a fair degree of divergence in terms of the profitability reported by earnings based on flexibility of feedstock.

And it seems to be a recurring theme nowadays that you see extreme feedstock movements, a lot of volatility within even NGLs themselves and obviously, that continues to have an impact on the overall profitability within the ethylene-polyethylene chain within the Americas. So how are you guys thinking about adjusting to that, maybe importing more flexibility into the system, maybe more rapid sort of switching between feedstocks and alike? So that is part one of the question.

And part two of the question is, it seems that 80% of the ethylene polyethylene capacity that was supposed to come online in the Americas has already come online. And I know you flagged incremental capacity in China as a potential threat 2020 and beyond.

But China has a long history of sort of underwhelming in terms of bringing online capacity on dates on which consultants say that they bring that capacity online. So could it be that maybe we are a bit too paranoid about the near term?

**Fernando Musa:**

Hassan, nice talking to you. On the first question around flexibility, this is certainly the key point in our industry as volatility increases and different sources of feedstock appear around the world.

If a company has the flexibility, it will navigate this challenging and volatile moments with better results. As all of you are aware, we made an investment in our Bahia cracker to create flexibility, so that we can crack ethane up to 15% of the ethylene production.

The challenge we have been facing in the recent past is the problem in Alagoas, which is forcing us to run the cracker at the slightly lower rate because there is no ethylene being consumed for the EDC plant.



Under that logic, it makes it very hard to import the ethane to benefit from that flexibility given our needs for the other streams, especially propylene that if we flip to ethane just as our availability in the cluster there in Bahia and for the system here in Brazil. So, unfortunately, this investment in profitability, we have not been able to use it in the short-term.

Having said that, we continue to look at the possibility since we do plan to have the chlor-alkali plant and EDC plant back online pretty soon. We do have – we do continue to look at the opportunity to increasing the flexibility in Bahia.

This is a project that we have been looking at from an engineering point of view for a while. As it would be the second tranche, it is compared to the first one a more expensive. That is why they got a little bit longer to find the right engineering solution. So that it is competitive and therefore implemented.

We are looking at other alternatives for the other crackers. Those probably take a little bit longer to implement. What we have been doing is improving and diversifying our portfolio of contracts for naphtha, so that we can use some flexibility around the contracts.

We have different price points, price formulas for naphtha. In the propylene, we do the same thing. We have multiple suppliers in U.S. with different pricing formulas, so we can optimize based on those difference in feedstock.

As you all are aware, we have a large contract with an enterprise that is propane based, which provides us with a very strong indirect exposure to propane. So, the challenge with flexibility is that, the investment to justify itself is very tricky, if you are adapting a current plant. If the plant is built to start with the embedded flexibility, things are easier.

And the other challenge we have, especially in Brazil, is the distance to the sources of different feedstock, which creates the logistics challenge.

So, we have been working at the plants, we have been working at the contract portfolio, and we are working at logistics alternatives to increase flexibility for our system.

As far as the China capacity, I agree with you that China had a history of underwhelming as far as capacity increase. Our observation is that in the recent past, they have been pretty much on track with most of the investments they have set. So I agree that a lot of the capacity that is published by some of the consultants will probably not see the light of the day.

But even if you discount that, there is quite a lot of investments happening there, especially, integrated projects with refineries that are under construction and in the recent past, as I said, if you look at everything that is going on in the aromatics and PX chain. They have been pretty much on-time with their announcements.

So, I hope I am wrong, and therefore, they all are late or never built. It will be great news for the supply balance of the industry. But in the recent past, they have been a little bit better at delivering on what they say on average.

Given the size and the long list of investment announcements that are done there, there is some that will not be built. But still, relevant chunks of capacity coming online at a moment when there is still a lack of clarity on the global economic growth, especially because of the trade war between U.S. and China that every other week we are either very happy or

very sad that they are going to sort it out. So this uncertainty adds to the challenge potentially quite a lot of capacity coming online in China.

**Hassan Ahmed:**

Understood. Very helpful. And as a follow-up, just moving to the chlorovinyl side of things, you mentioned that in the near-term, you will be able to start your chlor-alkali facility, EDC facility and alike. On the chlor-alkali side, at least the industry was getting a bit more positive about the prospects of caustic pricing for the back half of the year. But it seems that never really materialized, and I think potentially the culprit may be industrial production or, more specifically, the production of aluminum. So, the first question on that is, how do you see 2020 shaping up from a caustic perspective?

And part and parcel with that, how do you see 2020 shaping up for the PVC side of things as well? Because it just seems to me that PVC profitability obviously depends to a high degree on the ebbs and flows of ethylene margins because, particularly for the integrated guys, it seems the bulk of the PVC profitability lies in the sort of margins you attain within ethylene. So, in a nutshell, what I am asking for is, prospects for caustic pricing for 2020 and prospects for PVC margins in 2020.

**Fernando Musa:**

Hassan, I think the vinyls chain is one where we see compared to C2 PE or C3 PP way less investment in general. I agree with you that during the caustic pricing uptick that everybody was expecting it is frustrating that it did not come. It is probably driven by some of the challenges, as you mentioned, in industrial production, where a lot of the caustic soda ends up and a direct consequence of the global economic slowdown.

Having said that, we do believe that, different than PE and even PP, PE is clearly in the down cycle, PP is still very healthy. but quite a lot of capacity coming online in the Americas. We are going to see the new wave of construction starting with our plant next year. So, we should expect a small reduction in margins in the PP.

The vinyls chain should have healthier margins going forward. Even though there is a growth in caustic, that is limited to zero capacity addition. So any growth will increase utilization rates. The same applies to PVC.

And in PVC, there is a lot of need for infrastructure around the world and this should drive the PVC demand pretty positively. And in Brazil, we should see an uptick with the improvement in economics for the overall country. We should see a healthier PVC demand that would contribute to improving our margins. We do expect better margins for the vinyls chain going forward.

**Hassan Ahmed:**

Very helpful. Thank you so much.

**Gustavo Allevato, investor:**

Good afternoon. First one is regarding the Alagoas issue. Can you help us to analyze the utilization rates going forward? It has increased between 3Q and 2Qs. For 2020, what is the utilization rate target the Company is pursuing?

Second question is regarding Mexico, the Fast Track project. Who is paying for the investments? And who pays for the logistics to transport tanks from Texas to Mexico going forward? And what is the utilization rates we can expect for 2020 for the Mexico project?

And third and last question, also in this environment of lower spreads, how could be the investments for 2020 considering the Company already decreased investments for 2019? Thank you.

**Fernando Musa:**

On the vinyls utilization rate here in Brazil, as I said, we do expect to have the chlor-alkali plant back up and running sometime in the 1H20. This will help us have a local EDC production that we will combine with imported EDC as we ramp up the chlor-alkali plant. So, we do expect to have increased utilization rates by mid to late next year as we ramp up this process. In the short-term, we do not expect any relevant change until we start bringing salt from Rio Grande do Norte to restart the plant.

On the Braskem Idesa Fast Track project, the investment is being done by Braskem Idesa. The molecule, the ethane will be bought by Braskem Idesa and imported from Texas to Mexico, with all the cost paid for by Braskem Idesa.

This will provide us with additional flexibility to bring a relevant amount of ethane that should help us run the cracker and therefore the PE plants very close or at full capacity next year after we ramp up this Fast Track facility.

The expectation is that the Fast Track could bring in anywhere between 20% and 40% roughly of complex needs. So, as today, PEMEX in the 3Q delivered 72. If we max out the Fast Track, we could be at full capacity in the complex.

As far as the investments in general for the Company, given the down cycle, we have been revisiting the portfolio and many of those small projects that we are adding on a recovery of the cycle, sometime late 2019 and during 2020, now that we have a scenario where we still do not see that recovery, many of those projects have been either postponed or canceled.

We do expect 2020 to have a lower CAPEX spend this year, simply by the termination of construction of the new plant, the new polypropylene plant in the U.S. in 2019, this plant took around US\$240 million of CAPEX. And the expectation is that for 2020, it will take only US\$100 million for its completion. So in that movement alone, we should see a reduction of around US\$140 million in the CAPEX.

We have been managing the portfolio of investments very carefully, recognizing the challenges of the cycle, but also very much attuned to the safety needs and reliability needs of all plants around the world. Safety is our first priority, and we will continue to invest in the proper maintenance for all the plants as we should be doing.

**Gustavo Allevato:**

Very clear, Fernando. So, if I may have another question, regarding the operational issues in the U.S., I do not know you already explained what happened in the 3Q, but is it totally solid or should it continue in the 4Q, and also in 2020?

**Fernando Musa:**

Sorry, Gustavo, could you repeat the question? It was hard to understand what you said.

**Gustavo Allevato:**

Sure. Regarding the operational issues that the Company had in the 3Q in the U.S. operation, are they totally solved, or should they persist in the 4Q also in 2020? And also, what happened? I do not know if you've already told about it. Thank you.

**Fernando Musa:**

We had several smaller issues in some of the plants in the U.S. All of them have been solved. We should be back at our full availability. We are facing a market in the U.S., especially because of the reduction in the production of cars, that has been more challenging. Inventories in the industry have increased significantly in the last few months.

Having said that, we continue to have very strong sales and continue with the pre-marketing activities for a new plant. So, there was no major events at the plants. It was smaller events at some of the five plants we have in the U.S.

**Gustavo Allevato:**

Very clear. Thank you.

**Lilyanna Yang, HSBC:**

Thank you for the opportunity. I have two questions. One is on the PEMEX ethane contract. They had not been fully fulfilling the contract. So I wonder if the receivables from PEMEX have been stable or have been mounting. We know about the non-fulfillment of the contract, but we wonder if PEMEX has made any kind of cash payments in terms of penalties for the non-fulfillment of the contract.

The second question, if I may, how can we think about the Alagoas dispute? Is it the end game of the strategy of the Company? Would you be considering at this point an out-of-court settlement, or do you think it is too early for now? Thank you.

**Fernando Musa:**

Lilyanna, on the PEMEX contract, they delivered 72% of the contract in the 3Q. They have been paying all the deliver or pay penalties pursuant to the contract. So, I would say, they have been fulfilling the contractual obligations. Whenever they do not deliver, they are paying for the delivery or pay.

As far as the Alagoas situation, we made a relevant step in announcing the formal shutdown of the mine last week. We are working with the authorities on the detailed plan for that shutdown. There is still a lot of work being done to better understand what's happening in the different neighborhoods. It is a different topic, we are conducting a series of additional studies, and concluding by the end of the year, the sonars in all 35 wells.

These sonars, plus the additional studies, are crucial to have a better understanding of what is happening from a geological point of view and from a geomechanical point of view in the region.

We need to see how those two activities progress, the understanding of what is happening in the neighborhood and the progress of the discussion with the authorities on the shutdown of the mine to have any discussions from a legal system point of view. So, this is something for the future.

**Lilyanna Yang:**

Excellent. Thank you so much.

**Operator:**

As there are no questions, I will turn the floor over to the speakers. You may proceed.

**Fernando Musa:**

Thank you very much for participating in our 3Q19 results call. As we discussed in the presentation by Rosana and some of the questions, it has been a challenging time for the industry in general, but the Company have a very disciplined approach to capital allocation and cost management, with adjustments of its CAPEX plan for 2019.

The bond issuance has had a very relevant impact on our short-term debt payments, which with the new bonds and the commercial papers, you should hear in Brazil, basically have reduced significantly our debt repayments for the next four years period for which we do expect to be out of the down cycle in the next four years.

The relevant aspect I would like to let all of you with is that, despite the challenges that we face, both from a cycle, from a Brazil economy, from a Mexico economy challenges, we have been generating positive cash flow. Even in the 3Q, we generated R\$400 million adding up to R\$2.8 billion up to now.

And I think this is a direct consequence of the discipline of the Company to pursue strategies around improving its productivity and competitiveness; continue to look for opportunities to create flexibility and diversification in its feedstock matrix; and pursue a better diversification from a geographic point of view to assess different markets where the new PP plant is a key driver for increasing our presence in North America, for example.

So, thank you very much for your participation. And looking forward to talking to you, all of you early next year when we will be announcing the fourth quarter results.

Thank you. Bye-bye.

**Operator:**

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

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