



**Operator:**

Good afternoon ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's 3Q17 earnings conference call. Today with us we have: Fernando Musa, CEO and Pedro Teixeira IR, Controller and Project Finance Director.

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

We have simultaneous webcast that may be accessed through Braskem's IR website, at, <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 questions, which will be answered during the Q&A session, may be posted in advance on the website.

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

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

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

**Pedro Teixeira:**

Hello everyone. Welcome to the 3Q17 earnings conference call of Braskem. Let us start our presentation on slide number three, where we highlighted the operations in Brazil.

In the 3Q, the crackers operated at an average utilization rate of 92%, 1% down when compared to the 2Q17, mainly as a result of the schedule shut down in Rio de Janeiro cracker. The stoppage lasted for around 30 days and this was the key issue that impacted production in this quarter. But including this shutdown in Rio de Janeiro, the utilization rate reached 97%, which is very positive.

In terms of Brazilian demand, the message is positive for resins, PE, PP and PVC. The total market in the quarter reached 1.3 million, it was a growth of 6% in comparison to the 2Q17. In the aggregated of the 9M17, the growth had accumulated already 3.5%, which is higher than we expected in the beginning of the year.



In terms of Braskem sales, we grew even higher than the market, we increased our sales quarter-to-quarter by 10%, so we gained market share, PE, PP and PVC, and we sold, in the Brazilian market, 915 thousand tons.

In terms of export, the results were also positive, we exported 396 thousand tons of resins and increased by 8% when compared to the 2Q17, between the main chemicals, the total amount exported was 175 thousand tons in this quarter.

Moving on to slide number four, here we are talking about Brazil. The international spreads that affected the Brazilian region reduced by 4%, mainly as a consequence of the increase of naphtha international by 7% when we compared the 3Q with the 2Q and the EBITDA in the region reduced to R\$1.9 billion in this quarter.

When we compare it to the 2Q17 as a consequence, mainly, that in the 2Q17 we recorded a non-recurrent event, as a consequence of the capital gain from the divestment we made in quantiQ that recorded in the 2Q17. The EBITDA of the Brazilian region represented 67% of the consolidated EBITDA of all segments of Braskem.

Moving on to slide number five, in this slide we begin to address the results in the US and Europe, the utilization rate in this region amounted 94%, down 1 p.p. when compared to the 2Q17. We had some unscheduled shutdowns in Texas, as a consequence of the passage of the Hurricane Harvey along the US coast.

The demand in the region remained very strong, mainly for households items, food packaging on ovens, the US and in Europe, the positive aspect was in the automotive sector. In terms of sales, Braskem sold, between US and Europe, 548 thousand tons of polypropylene, and increased by 6% when we compare it with the 2Q17.

Moving to slide number six, here we discuss about the performance in the US and Europe. The international spreads in these two regions increased. In the US, the 3Q was higher by 2%, the difference between PP international prices and polypropylene international prices was 2% higher, in Europe it was even higher, 8% higher this quarter when compared with the prior quarter.

The EBITDA in the US and Europe and aggregated amounted US\$164 million, which accounted for 18% of the consolidated EBITDA of all segments of Braskem.

Moving to slide number seven, and here we talk about our operations in Mexico, our projects Braskem Idesa. The PE plants operated at an average utilization rate of 87%, which represented an increase by 4 p.p. when we compare it to the 2Q17 and here we were able to see a higher ethane supply in this period when we compare it with the utilization rate that we achieved in the 2Q17, which is very positive.

In terms of production, the total amount produced was 230 thousand tons in this quarter, 6% higher than in the 2Q, and in terms of sales, we sold a bit more than what we produced, 235 thousand tons, the majority of this amount was placed in the domestic market, in the Mexican market and we reduced the amount we export by 25% quarter-over-quarter.



In terms of exports, we also placed the majority of our exports to regions like US, Europe and Central America and we reduced the amount we exported to Asia, so we increased the aggregate value in the exports we made throughout Mexico.

Moving on to slide number eight, the spreads in the region, the difference PE international price and the US coast, and the ethane price in Mont Belvieu, remained very stable, around US\$950 per ton and the EBITDA of our projects in Mexico reached US\$136 million and represented 15% of the Company's consolidated segments.

Moving on to slide number nine, and here we got with a consolidated figures of Braskem, the EBITDA in USD reached US\$868 million in this quarter, equivalent to R\$2.7 billion, it was down by 6% when compared to the 3Q16, mainly as a consequence of the shutdowns in the PP and US plants, also Rio de Janeiro and there was a decrease in the spreads in the international markets by 13% when compared the 3Q17 to the 3Q16.

The Company recorded a big cash flow of R\$1.068 billion in the 3Q17, it was up 6% from the prior quarter and the corporate leverage of Braskem reached, in this quarter, 1.65x or 1.8x when we include in the debt, the amount of penalty to be paid under the global settlement.

In October, the Company raised an extraordinary amount of new capital, in the international capital market and we were able to issue two transactions, one five year bond in the amount of US\$500 million and another ten year bon in the amount of US\$1.25 billion. The demand for these two transactions was great, 8x higher than the amount offered issued and it represented the largest transaction with the lowest cost ever obtained by the Company.

In terms of compliance and keeping our commitment ethically, with transparency and integrity, in the 3Q, 27 new initiatives were concluded, in line with our compliance plan.

Moving on to slide number ten, here there is a chart that shows the comparison between the EBITDA of the 3Q16 with the EBITDA of the 3Q17, a more appreciated effect impacted negatively and there were higher volumes this quarter, when we compare to the prior quarter, mainly because of Brazil and also because of Mexico.

So, this was the reason of this higher amount of volumes. The spreads were smaller in this quarter when compared to the 3Q16 and, also, we had some additional fixed costs, SG&A and other impacts, things that reflected this quarter and had an impact on the prior quarter, the 3Q16.

Moving to slide number 11, here it shows the debt profile of Braskem. We have an average debt term of 17 years and we ended the quarter with a total cash balance of US\$2.2 billion, if included it as availability, the two standby the Company has had and was not disbursed, one of US\$760 million and another of US\$500 million, the total availability reached around more than US\$3 billion.

The total cash and equivalent is sufficient to cover debt service by the end of the quarter by 26 months and the average cost of debt, of Braskem's debt, in USD, is 5.7% per year.



In the chart that is in the lower-left side of the slide, it shows that the leverage of the Company is very much stable, under control, the net debt of the Company has reduced by US\$100 million quarter-over-quarter and the net debt to EBITDA ratio, including the global settlement has reduced from 1.85x to 1.82x.

In terms of corporate ratings, no big changes here, the Company remains investment graded by Fitch and S&P.

Moving on to slide number 12, here it shows the investments of the Company, the Company had already invested R\$1.2 billion, the majority of this investment was directed to the plants in Brazil and this amount does not consider the amount that was invested in the new PP plant in the US, the Company has already invested R\$364 million.

In August, the project was granted the environmental permission, which allowed the Company to begin its construction and, in the Group, we also contracted to lead the projects, EPC, in September the project completed only 5% of the engineering phase and 27% of the procurement of the major equipment.

The highlight here is the fixed stock possibility project in Bahia. By September, this project achieved 90% of completion. Investments in the year-to-date reached R\$158 million and since the start of the project, Braskem had already invested R\$278 million. So, it is an important project in Bahia that will give flexibility for Braskem to run a portion of Bahia's cracker, whether by gas or by ethane or naphtha.

Moving to slide number 13, here it shows the evolution of the entrance of new capacity in the PE market and, as you can see on the left side of the slide, the total amount of new PE capacity expected for 2017, in the end of 2016, was 7.5 million tons. We are almost at the end of the year, and the total amount expected to enter is much lower than that, 6 million tons of PE are expected to enter this year.

There were several postponements, delays in projects expected to enter this year, they should enter in the years of 2018 and 2017. As a result of that and as a result of the Harvey, the spreads in the PE remained very robust. The initial forecast for around US\$700 per ton in the 1Q17 and 2Q17, the forecast for the whole year of 2017 is 8% higher, US\$750 per ton.

It is important to know that the new capacity in the US is already in the process of starting up from Chevron Philips, Dow and ExxonMobil.

Moving to our last slide of our presentation, here it shows our deals on each of the regions, the behavior, how we think those regions will behave in the following quarter in comparison with the 3Q17.

We think that demand is going to be higher in the 4Q, of course, adjusting by the seasonality of the period, but we are positive in terms of the Brazilian domestic demand, in Europe, the US, the demand, the market remains very much strong and the same for Mexico.

In terms of spreads, we see positive spreads for PE, PP and basic petrochemicals. The only concern we have is in Brazil PVC, the market is still down by around 4% in the



9M17. That is why we do think that we do not expect a recovery in the spreads of PVC by the end of this year.

In Europe, we see the demand is very positive, pushing up spreads and Mexico, also, the impact of Harvey should push the spreads up in the region for the 4Q17.

In terms of the FX, we are facing a lot of volatility in the Brazilian FX rate, so it is hard to predict what is going to be the impact for the next quarter. US and Europe, USD is neutral, and in Mexico there was an appreciation of the Mexican Peso, so this should weigh negatively on our EBITDA.

Thank you very much for hearing the presentation. I will turn into the Q&A session.

**Felipe Santos, JPMorgan:**

Hello. Just one follow-up question from the call in Portuguese. First of all, do you have an update of the PDH plan of enterprise in the US, if this plan has started production? And the idea of the spread in the US going forward? Thank you.

**Fernando Musa:**

Good afternoon, everybody. Hello again, Felipe. The enterprise PDH has started commissioning. It has been impacted by Harvey, so the commissioning is late, we are in the process of ramp-up. Our contract has provisions for utilization rate to be reached until soon, so we are waiting for the ramp-up process which is going on as we speak.

From a spreads point of view, going forward, we do expect to continue to have good margins in the US. the challenge, given the recent volatility in propylene price, largely due by Harvey is to understand what it is going to mean for the shape of the curve of polypropylene prices and, therefore, the impact into the short-term.

The expectation is for the spreads to continue very strong, with a light improvement in the US for this business.

**Felipe Santos:**

Excellent. Thank you so much.

**Hassan Ahmed, Alembic Global:**

Good afternoon. Two questions, if I may. First, on the polyethylene side of things. Obviously, a bunch of moving parts in the 3Q, the impact of the Hurricane, sort of these new builds of greenfield facilities taking longer to start up because of the Hurricane and the like. Obviously, I would imagine that contributed some of the pricing effects we saw, but in parcel with that was that it seemed there was a large comonomer outage as well.

So, the question to you is: as I sort of do a compare and contrast, Harvey versus Katrina, the water damage, precipitation was not that high when Katrina happened, 11, 12 inches of rain versus over 50 with regards to Harvey. Yet, for Katrina, it took around three quarters for things to normalize in terms of North American operating rates. So, do you see that being repeated this time around? That is the first question.



The second question is what sort of role do you see in terms of these comonomer shortages playing, in terms of the tightness we are seeing in polyethylene? Is that behind us or do you see that lingering on in the next several months?

**Fernando Musa:**

Hello, Hassan. I think the question you are asking on Katrina versus Harvey is a good one, but it is important to understand that the impact has been very different. Even though Harvey actually hit more of the core of the production, compared to Katrina, therefore one could imagine that Harvey would take even longer to recover, at the same time, I think the overall industry is in a different situation now, from a preparedness point of view to deal with it.

Therefore, yes, it is going to take some time to normalize, not sure if it is going to be three quarters, it seems a long time for it to go back to normal, especially given the fact that from a supply point of view, this is happening at a time where you have a lot of new supply coming in.

There was an expectation that the new supply would disrupt the overall scenario, and I think what we are going to see here is actually a little bit different and positive from the margin point of view that, at the end of today, the fact that the new plants are coming at a time after Harvey impact, things are going to balance each other, we might be going back to normal sooner and the normal is better than the previous scenario where we were anticipating the deterioration of margins faster than they actually were going to happen.

In a weird way, Harvey versus new builds will compensate each other. We will go back to normal sooner, but we will go back to the old normal, not necessarily the new normal. The new normal, which is a consequence of the new builds, might take a little bit longer to happen.

As far as the comonomer outage, I think this is an important impact that happened in the industry. It is going to take a while for everybody to adjust production, inventories, as the comonomer production ramps up.

I have not followed the comonomer in details over the last few weeks, so I am not updated on the return of production in the plants in the US, to be very transparent, but if it takes a long time and one of the plants, one of the suppliers was badly hit, if it takes a long time, this could continue posing a challenge for some of the products. Of course, the ones that use it more significantly will take a hit and increase the shortage.

So, let us see how it plays out. I think it is all about how fast and how well the comonomer plants will get back for that.

**Hassan Ahmed:**

Understood, very helpful. Now, as a follow-up, you sound quite positive in terms of polypropylene spreads and margins going forward and I completely understand, as I take a look at polypropylene supply and demand, they seem to be getting tighter.



My question is more on the feedstock cost side of things, not just propylene. As I take a look at US propane prices, they have jumped up quite majorly. Inventory levels seem to be quite low, exports seem to continue to rise.

So, not surprisingly, propane run up as much as it has. On the back of that, again, not surprisingly, we are not seeing, going back a couple of quarter, the name of the game was propane and ethane, sort of just between the two. Considering the propane sort of cracking going on, which is not happening now, I would imagine a lot of the PDH units are scaling back their utilization rates as well.

All of this said differently, higher propane, less economic propane, cracking and the like, I just want to understand your views about how you see that impact the propane to propylene side of things, propylene availability and what sort of impact that may have on the polypropylene to propylene spread, understanding polypropylene side.

**Fernando Musa:**

As you mentioned, this is a very complex system. My personal view is the PDH's will run with the propylene prices going up. We are still seeing positive margins when you look at the propane to propylene spreads for typical propane. If you look at the consultants and the data they published, an average PDH still has positive margins and that is very important to run as this propane price goes up.

If propane price is going much, much higher in the near future, the most likely scenario is because oil prices are going up and the feedback loops start to kick in. More drilling, more appreciated gas, more appreciated NGLs, increase of supply, inventory is going to go up, so there is a balancing effect that would positively impact PP prices going up, globally, as it goes up, propane availability might go down.

I am confident that going forward we will see volatility, as we saw with Harvey, given the fact that propane has multiple sources, crackers, PDH, the refinery, a lot of that was shut down during Harvey, propylene really skyrocketed and it has started to slowly come back.

This back and forth will happen last year, but at a level that will make propylene globally competitive, supply and demand in the US is getting tighter and tighter, and growth seems to continue to be quite healthy, there are no new plants until we start our own in the 1Q20.

I am confident we will continue to have good margins going forward, with some volatility with the source of propylene flipping from PDH refinery, crackers depending on crackers propane versus ethane feed, the complexity of the system will probably work in favor towards a globally competitive propylene on average now.

Once in a while, like we saw, because of Harvey, an inversion and propylene in the US becomes the most expensive in the world, but after a while, when the bottlenecks are removed, it goes "back to normal".

**Hassan Ahmed:**

Very helpful, very clear. Thank you so much.



**Sarah Leshner, Barclays:**

Hi, thanks for taking my question. I had one very specific question about Mexico, with the ethane supply improved and you were able to increase the capacity utilization rate close to your full year 90% target, which is great. So, I was wondering to what extent the project is still ramping up and working out the kinks versus to what extent the ethane supply is still posing a challenge for you, albeit less than last quarter.

When we think about this 90% capacity utilization rate, to what extent is that 10% discount attributable to the natural kinks of ramping-up versus challenges of ethane. Thanks.

**Fernando Musa:**

I think it is a combination of the two factors you have mentioned. As one would expect, we have a greenfield project with the size and complexity of our projects in Mexico. We have a lot of learning as we operate ramp-up, test the limits of the plant.

We had a fantastic 1Q utilization rate where all the stars aligned positively, both externally and internally. Externally, the supply availability was very good and, internally, we were in the beginning of the ramp-up, we were running a much simpler product slate, longer run, not testing a lot of transitions from one product to another.

It was a very simple, an industrial manager dream as for as product portfolio. It led to a very positive 1Q. in the 2Q, we go back to “normal”, as the with the business manager nightmare, where the supply gets tricky, the product portfolio needs to be more complex, we need to introduce new products that have not been introduced before.

There is always a learning curve when you start a new product and those large new plants, so the combination of moving to a more sophisticated, complex, product portfolio was hit with challenges from the Pemex side.

When we go to the 4Q, we continue to work on our kinks and our learning curves and we do expect this to continue for a while and Pemex has been working on its own kinks as well, learning about how to manage the system with very new consumer of the same, starting up, and impacting its own system.

The good news, I think, is that the supply in the 2Q was clearly better than in the 1Q, and within the 3Q, it is a positive trend. Every single day, we are seeing that the frequency and duration of any upset on the supply is decreasing. We see that trend in October continuing.

So, with confidence, we will hit our 90% expected operating rate. It is natural that the first full year of operation, you have more volatility, next year we expect this volatility is going to be lower, but with a new plant.

There is still learning and fixes that will take some time to be incorporated by the team and, in some cases, small investments to adjust some of the learnings we had during these last 12 to 18 months of running the plant.





**Sarah Leshner:**

Great. That is perfect. Thanks.

**Operator:**

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

**Fernando Musa:**

I would like to thank everyone for joining us for our 3Q results. I want to end with a couple of remarks. First, this was another quarter where the results have been in line with our strategy, continuous focus on operational and commercial efficiency, a team around the world, with multiple plants and the team's ability around the world to deal with the upset.

The 3Q was not only the one we faced Harvey in the US, but two earthquakes in Mexico. So, luckily that did not impact significantly our assets and the plants, but it did impact our offices in Mexico City. From an infrastructure point of view, the city was in chaos for several days.

I am glad to report that all our team members are safe and accounted for, no one had any major impact from that and we dealt with this pretty well.

The second aspect of our strategy that is clearly an advance in this 3Q was our quest towards diversification and flexibility in our cost matrix, with the commissioning that is, as we speak, in the middle of the project to create the flexibility to import ethane into the Bahia cracker.

This project, the first shipment is already at the port and we are commissioning all these logistics and infrastructure to send the ethane to the cracker in Bahia. We should see ethylene being produced with US imported ethane in the next several days, couple of weeks.

We continue to advance in our global presence diversification. Confirmation by the Board of the decision to go forward with our new polypropylene plant in the US was an important milestone and in the 3Q we did significant advancements, contracting, the start, the detailed engineering, the start of some of the construction related activities.

This is an important milestone as we continue to work in creating the right balance between different regions, the right balance between different products so that we can create a more sustainable, strong cash flow generation, which leads to the very positive financial results from cash flow, EBITDA generation, but also enabled us to realize a very successful bond that we did several weeks ago with a very large interest firm investors, significant reduction in the yield and, I believe, a better comprehension by the market that Braskem is a global company competing with global companies, with presence globally and, therefore, should be viewed as a global company and valued and assessed as a global company.

Thank you all for joining us and since we are in the end of the year, I wish all of you a happy end of the year and holiday season and look forward to talk to you in the next call early next year with the full year results. Thank you.



**Operator:**

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

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