



Operator:

Good morning ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's 4Q and full year of 2017 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 <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'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 morning, everyone. Welcome to the Braskem conference call for the year 2017. At this time, we decided to prepare a shorter presentation. We intend to deliver just key highlights for the performance of 2017 and what the Company expects for the year 2018. I ask you to move to slide number three, where we will begin our presentation.

Slide number three is a summary of what we initially expected for the year 2017 and what actually happened. In Brazil, in terms of regional sales, the Company is geographically diversified. We have operations in Brazil, the U.S., Europe and Mexico. In general, all sales in those regions were positive. There was a 4% growth in Brazil; 5% in the U.S. and Europe and a huge growth in Mexico, especially because in 1H16 the project was pretty much fully operational. This is the reason why the increase was so relevant in Mexico.

In terms of spread, in the beginning of 2017 we expected some volatility. We expected a positive spread for basic petrochemicals and, in fact, for 2017, the spread was very robust. I would say it was extraordinary, especially in the beginning of 2017. The growth against 2016 was 28%. We were a little bit more negative in the beginning of the year,



with respect to the spread of revenues in Brazil, but in the end, spreads remained flat in comparison to 2016.

For the U.S. and Europe we were stable, but in the end spread turned out to be a little bit worse than we expected in the beginning. In Mexico we expected a positive spread in the beginning of the year and spreads were in fact positive, especially at the end of the year, when we had an appreciation of EP prices and ethane prices remained stable.

In terms of EBITDA, in the beginning of the year we expected smaller EBITDA for Brazilian operations, but in the end EBITDA turned out to be positive – there was a 2% growth in comparison to 2016. EBITDA was relatively stable for the U.S. and Europe. In fact, there was a 7% decrease, but the absolute value remained very robust.

There was, as expected, a relevant increase in EBITDA in Mexico, by 282% in the year-over-year comparison. On a consolidated basis, there was a 17% increase. The Company posted its record EBITDA of US\$3.8 billion, equivalent to R\$12.3 billion.

In terms of free cash flow, there was also a 9% year-over-year increase and earnings per share were positive. In 2016 we had a negative net income. In 2017 net income was positive, at around R\$4 billion and this turned out into very positive earnings per share in 2017.

Moving to slide number four, we bring the five key highlights of the Company's performance in 2017. In terms of operational performance, 2017 was a record year in production. We posted a record of production of ethylene, butadiene, gasoline, polyethylene, polypropylene in Brazil and PP in the U.S. and Europe. There were also record sales of the main chemicals that are produced in Brazil.

PE in the Brazilian market was a record as well as were exports of butadiene and ethylene, and PP in the U.S. and Europe. Consolidated EBITDA came in at a record US\$3.8 billion, 17% higher than that of 2016. In terms of value creation, 2017 was a year in which stabilized started up – in the beginning of the year – and stabilized our position in the U.S. We also concluded the investment for flexibilization of feedstock in the Bahia cracker.

Now we can run half of the cracker using ethane instead of naphtha in Bahia. This investment was completed by the end of 2017, so it was an achievement for the Company in 2017. Also, Braskem's board of directors approved the investments for the new PP plant in the U.S. – an investment of up to US\$675 million for new the PP plant and a total capacity of 150,000 tons. It is expected to become operational in the 1H20.

2017 was also a year of liability management. The Company issued two bonds, in the total amount of US\$1.7 billion. This enabled the Company to refinance its short-term debt and extend the tender of the total debt of the Company. The demand for this offer is exceeded by 8x and represented the largest funding transaction of the Company and at the lowest cost ever made.

With respect to credit ratings, Braskem maintained its investment grade by S&P and Fitch. The Company remained BBB+ by these two rating agencies. More recently, the negative outlook by S&P was stabilized and Braskem became eligible by S&P to become three notches above the Brazilian sovereign rate. Considering our diversification in terms of



geography and restrictions in terms of feedstock, the Company is more detached from the Brazilian sovereign risk.

Lastly, let us talk about dividends. We had an early distribution of R\$1 billion at the end of the year, more precisely in December. This represented about 25% of the net profit of the Company. The minimum dividend was paid at the end of last year and the Company is suggesting an additional distribution of R\$1.5 billion – to be approved in the annual shareholder's meeting. The Company's good performance, good results are being also shared also with investors.

Let us move to slide number five. Let us talk a little bit about the Company's CAPEX – what we posted for 2017 and what we expect for year 2018. In 2017 we posted a CAPEX of R\$2.3 billion – R\$1.5 billion is related to operational CAPEX and R\$826 million were related to those strategic projects that I have already mentioned. This was a 31% decreased if compared to 2016, especially because in 2016 we still had some contributions to the Mexican project that were concluded and no additional investment or cash was required by the project in 2017.

For 2018, we do expect an increase in the amount of investments. In the operational side, there will be a schedule maintenance shutdown for the cracker in Triunfo, Southern Brazil, which will demand more investment in 2018. Also, the new PP plant in 2018 will account for around 40% of the expected investments for this project in the U.S. It is 40% of the US\$375 million that are expected to be invested in 2018. The total investment would increase from R\$2.3 billion to R\$2.9 billion.

Let us move to slide number six. We are sharing with all of you what is expected in terms of spread for year 2018, as compared to 2017. The source of this spread is IHS. For 2017, the P Spread – the difference between P prices and naphtha prices were around US\$720 per ton. A 3.6% increase is expected, so the average increase expected by IHS for year 2018 will be around US\$740. Better spreads are expected by IHS, even considering the new capacities that are becoming operational.

In fact, the five new P plants have not started up until now in the U.S., with a total capacity of 4.4 million tons and two more are expected to begin its operations in the 2H18. Also, five new ethylene plans have not started out until now in the U.S., in the total capacity of 5.5 million tons of ethylene. Even though capacity will start up – and is starting up –, IHS remains very positive in terms of its spread.

The same happens in the case of PP. Spreads should increase by 5%. This is the perception of IHS. In 2017 the average spread was US\$ 509 per ton, in terms of PP against naphtha, and the spread should go up to about US\$665 per ton. Some projects, mainly in China, were postponed to after 2020 and the demand growth for these projects – for PE and PP – remain very robust.

Let us move to our last slide, number seven. This is our outlook for 2018 versus 2017. Utilization rate: the Company expects it to remain stable. There are not many reasons to believe that utilization rate should be much lower than that of 2017, even though 2017 was a record year in terms of production.

In terms of demand, we see a very positive demand in the U.S. and Europe. It is important to highlight that, especially in Brazil and in Mexico, demand should also be positive. There is an elasticity in terms of the revving markets, which is higher when compared to the U.S.



and Europe. We expect a growth for the revving demand in Mexico and in Brazil of 1.5x the GDP.

In terms of spread, bottom up, in Mexico spread is expected to be better. It is aligned to the view of IHS. In the U.S. and Europe it is the same. We produce polypropylene. In Brazil, spread should be relatively stable. The combination of revenues should be relatively stable. The negative side that we expect for 2018 is related to chemicals.

In fact, in 2017 we had an extraordinary spread for chemicals. We posted very extraordinary impacts in the results of 2017, of around US\$300 million. And we are not expecting, at least for now, this spread to be the same for year 2018. In the end, consolidated EBITDA for 2018 should be lower when compared to that of 2017. Even though EBITDA should be lower, consolidated cash flow for 2018 is expected to be higher.

In 2017 we had an important impact in terms of working capital consumption, which we do not expect to happen again in 2018. This will be a pro. In terms of interest, as a consequence of the liability management and optimizations that the Company made in the debt profile, we expect to have lower interest rates and gross debt for year 2018. This should be positive.

There was a U.S. tax reform that will enable the Company to reduce the income tax it pays in the U.S. That will be another positive. CAPEX, as already mentioned, will be higher in 2018 when compared to that of 2016. It is important to notice that in 2017 we paid R\$1.5 billion in global settlements and for this year we expect to pay around R\$300 million. This is a much lower payment that will be due this year to the authorities, regarding the global settlement that was agreed in 2016. In the end, the consolidated cash flow for the Company in 2018 should be higher than that of 2017.

Thank you very much. I will move to the Q&A session.

Vicente Falanga, Bank of America:

Hi. Good morning, Fernando, Pedro and Rosana. Good morning, everyone. I have a couple of questions. First, on the outlook for polyethylene: the market seems to be growing more and more optimistic with the PE side. Some experts are already mentioning the possibility of an extended upcycle throughout the next five years.

On the other hand, one risk that we do see is the potential effects of a global trade war, affecting polyethylene. In other words, Asian producers potentially retaliating tariffs imposed on steel by the U.S. with tariffs on products such as polyethylene.

In a scenario that this eventually happens and the U.S. has to redirect its eminent new supply from Asia to smaller regions like Latin America, for example, how do you see the region responding? Could countries in the Mercosur articulate to rise import tariffs on PE, at least temporarily? How likely do you see this happening?

My second question is related to the naphtha supply contract agreement with Petrobras. There are expectations, at least from the market side, that Petrobras could revise this naphtha supply contract with Braskem soon, since it expires in a couple of years. To the best of your knowledge and based on what you are able to share, of course, are these conversations currently ongoing? Also, do you see Petrobras' intentions to sell some



refineries potentially getting in the way of the volumes they want to compromise with Braskem?

Then, a last comment still on that subject, if I may: Petrobras has just announced that they will build a gas treatment facility in Itaboraí, Rio de Janeiro state. Will the Company consider adding more flexibility to its crackers, on top of the potential ethylene supply coming from this plant? Thank you very much.

Pedro Teixeira:

Vicente, thank you for your question. I will start with your question on our outlook on polyethylene. There is, in fact, this optimistic view from North America or from the market in terms of the demand growth for polyethylene; you can see that on the spread that IHS is forecasting for 2018, even with the entry of the new capacity – almost 6.5 million tons in new capacity forecasted to come onto the market in 2018, of which 3 million are in the U.S.

The industry, as reflected by IHS, is forecasting an increase in the PE-to-naphtha spread, which is, I would say, a realization of the optimistic view that you mentioned. The potential effect of an eventual trade war has to be looked at region by region. Polyethylene is a highly global commodity and there is a very high degree of international trade of polyethylene.

Asia, China in particular, are significant net importers. The U.S. and the Middle East export polyethylene and basically Asia is the major importer. If there is a trade war, it could go many different ways. It is hard to forecast what could happen but let us say that global tariffs increase everywhere. How would that affect us? I would say there are a couple of ways in which it could affect us.

First, the Mexico project and the Mexico operations would be positively affected. Mexico is a huge net importer of polyethylene. We are the largest local producer, so if Mexico imposes tariffs, that would actually be positive for us. And we do not export a lot. We would direct more production to the internal market, so our exports from Mexico would not be materially affected, I would assume.

In Brazil, which is the other region where we produce polyethylene, we follow international prices, so we would have to discuss a little bit what happens to international prices; and also the exports of polyethylene from Brazil follow international prices, so I think the more relevant discussion about what would happen to the Brazilian operation is what would happen to international prices.

It is hard to foresee, but as I said, Asia is a huge net importer. If Asia imposes tariffs, it could mean an increase in local Asian prices, but exports from the U.S. or the Middle East would probably get roughly the same of that profitability. I am not sure it would affect our exports from Brazil or even the domestic prices in Brazil, which follow these prices.

Again, it is a hard question to address, because there are lots of moving parts and it is a very complex system. I am going to the next question. Do you have a follow-up on this one?

Vicente Falanga:



No, that is perfect. Thanks.

Pedro Teixeira:

Petrobras' naphtha: Fernando, do you want to make any comment on that?

Fernando Musa:

Yes, can you hear me?

Pedro Teixeira:

We can hear you.

Fernando Musa:

Just to reinforce the point that Pedro has just made, at the end of the day this is a global market and trade flows will adjust. The different regions have their own production and demand balance and if there is retaliation towards PE produced in the U.S. the Middle East will need to supply Asia, especially China; and the U.S. will serve the other markets, currently served by the Middle East.

At the end of the day, it is all about the global balance between supply and demand, which, as mentioned before in the presentation by Pedro seems to be going towards a positive territory with strong demands and most of the capacity additions already starting up – not a lot of new capacities expected for the next two-to-three years to come alive.

Pedro Teixeira:

Fernando, you are breaking up.

Fernando Musa:

Why do you not take it and I will find another line here?

Pedro Teixeira:

The other question was about Petrobras' naphtha. We have a contract that is valid until December 2020. We are operating with it, so this is the situation now. Petrobras is rumored to be looking at a refinery sale, but we are the only consumer in Brazil. It is a discussion we always have with Petrobras – around feedstock and what the possibilities are on that. But the contract is there; it expires in 2020, so it is something that, in due time, we will discuss with them.

And the third point, on the investment in the gas treatment facility in Itaboraí, we are always interested in new feedstock opportunities. We already have a gas cracker in Rio de Janeiro, close to Itaboraí, so it would make sense, in our view, to take any available liquids from the gas processing and use those liquids to supply our facility, potentially even for an expansion of the facility, depending on the volumes available.

But we would need to look at the investments that Petrobras is making and understand what the volumes are there, to then start a discussion on the evaluation of any projects



based on that; but we do see it as a positive evolution in terms of having more feedstock available in Brazil. That would be positive for us and positive for the industry, so we have a good perspective on this investment by Petrobras.

Vicente Falanga:

Great. Very clear. Thank you very much.

Gustavo Allevato, Santander:

Hi, guys. Good morning, everyone. I have three questions here. The first one is regarding the local demand year-to-date. Talking to other companies in different sectors, they are mentioning that demand is being lower than initially expected. How is the company seeing the rise in demand for local markets in the 1Q18? Has it been stronger or lower than the initial expectations?

The second question is regarding the Mexico project. There is a delivery pay for Pemex regarding the ethane supply. When will it impact the operating results, since Pemex supplied less ethane than was foreseen in the contract? The last question is regarding the naphtha supply contract. When it was signed in 2015, if I am not wrong, the naphtha price was around US\$400 per ton and now it is about US\$600 per ton.

At the time, there was a clause on the contract that said that, in case of further increase in raw materials, the reference price could be revised. I would like to know if you could share with us if you are in the level on which 102.1% is the price that Braskem is still paying or, since naphtha prices went up, Braskem is paying a little bit less than this reference? Thank you.

Pedro Teixeira:

Thank you for the question, Gustavo. Starting from demand growth, we are seeing a sustained recovery in demand. Last year demand growth, as Pedro mentioned, was around 4%. We are expecting, for this year, looking at the results of the 1Q already, demand growth to be around 4% again for PE, PP and CDC. I would say there is a strong demand for consumption. The auto industry is recovering as well; light goods, electronics as well. The agricultural demand and demand for agricultural applications has been especially good.

The factor that is still lagging a little bit is construction in general, which is already showing some aspects of growth. EVC has already had slightly positive growth on the market, but it is still on a lower growth level in relation to the other polymers that we have. In terms of the Mexico DOP, in 2017 we had revenues of US\$19.5 million. That was the accrued revenue and we already received the settled portion of that, so cash flow on the delivery of pay is happening in Mexico.

The contract is working as expected in terms of protection to Braskem Idesa in terms of the operating results of the JV. The other positive aspect is that, even though we are not receiving all the six tons that we had expected at first, the operating rate is pretty good at 88% on average and also the EBITDA margins are above 60%; actually 65% for the average of the year and 60% in the 4Q.



Again, very good results, even though we are not receiving all the volumes that we had expected. Fernando, do you have any comments on either Brazilian demand or Mexican demand? Otherwise I will take the other question on the naphtha contract.

Fernando Musa:

No; it was very clear.

Pedro Teixeira:

Gustavo, you also asked about the contract. Naphtha was, as you said, around US\$400 per ton back in 2016 and now it is at US\$600 per ton or US\$550, which is the expected current price. It is a higher level. We think that the contract is operating well for us and we do have that fixed price. Conceptually, we think that a more flexible pricing formula would be better for the industry – a pricing formula that had more variation depending on the levels of oil or naphtha prices would be better for Braskem.

But the current contract is actually working well. It has generated the results we have seen. I think that the point to look at is less the naphtha price level and more the spread level. And spread has been pretty good, given the point in the cycle we are at. And that has given us the results that we have.

Fernando Musa:

Just to reinforce this. The relevant indicator is the spread. As Pedro mentioned, flexibility in the contract would be welcome, especially given the fact that, with higher oil prices, there is a trend that the naphtha-to-polymer spread will compress and with low oil prices, there is a trend toward the spread opening up. The competitiveness of the whole naphtha-based petrochemical chain fluctuates with oil prices. If there were some flexibility in the contract, as we had in previous contracts, it would make these extremes – high or low oil prices – more competitive.

At the current price level – US\$400 to US\$600 – that we have been experiencing, the current formula works, given that the volatility in the spreads and the competitiveness between the Naphtha base and the license base is not fluctuating as much.

Gustavo Allevato:

Very clear. Thank you.

Luiz Carvalho, UBS:

Thanks. I have three questions as well. Fernando, maybe if I can touch on the naphtha contract from a different angle: is this negotiation happening from the management level? I mean, Braskem with Petrobras. Or is it happening more in the controlled shareholders agreement between Odebrecht and Petrobras? Just to understand where we are in terms of negotiation so far. That is the first question.

The second question is also regarding Pemex supply. Is there any diversification there in terms of a potential pipeline bringing gas from the U.S. or something that you can share with us in order to look at it more from a longer-term supply, if Pemex is not able to fulfill the full contract?



The third question is related to dividends: this year we saw a payout of around 60%. According to your presentation, in 2018 you expect lower EBITDA levels, but higher free cash flow. I would just like to understand how you see or what is the management's way of thinking regarding the payment of dividends for 2018. Thank you.

Fernando Musa:

On the naphtha contract: all feedstock contracts are negotiated, managed and dealt with by the management with suppliers. All suppliers, including Petrobras. It is the management's responsibility, not shareholders' responsibility, to guarantee the adequate supply of feedstock for operations and our teams around the world deal with different suppliers.

There has been a lot of talks about the naphtha contract because of the announcements of the potential changes in governance that were made by Petrobras and confirmed by Odebrecht, but dealing with feedstock suppliers is a management's responsibility, not a shareholders' responsibility.

On the Pemex supply, Pemex is already working on the alternatives to guarantee the supply that they committed to under the contract. They have started to import ethane from the U.S. to Mexico to help increase the flow for the petrochemical industry in Mexico. We see this as a good initiative by Pemex. Many companies around the world are doing that activity of moving ethane around the world, including Braskem – we started it in late November.

We see it very positively in combination with the efforts that Pemex is doing at the production and fractionation sites, in its systems in Mexico, it creates a risk mitigator for supplies, which is good from our point of view. As far as the dividends that could be paid out in early 2019 from the 2018 results, this is a decision that will be made at the end of the year, but as we mentioned in the presentation, our expectation is of a strong cash flow generation.

We have an increase in CAPEX but a reduction in payout coming from the global settlements that the Company signed in December 2016. This should lead to a discussion we will have at the end of the year, once we have more clarity on the expectations for 2019 and 2020. As of today, it seems to be improving. This will lead to a decision. If you look at the past few years, our payout ratio has been in these 50-60% of net income ratio.

We will make a decision by the end of the year, but the underlying expectation of results leads to a strong cash flow and therefore a decent payout for next year as well. Pedro, do you want to add anything on the dividend question?

Pedro Teixeira:

No, that is it.

Luiz Carvalho:

Just a quick follow-up on this one and taking the opportunity that you both are in call, regarding capital allocation. This high payout with high cash flow: how do you see potential acquisitions or further projects on the way? I mean, you have already made a



significant large project, which is the SMN 21. You are now with a PP project in the U.S., but how can we see it looking forward in terms of capital allocation, when we look into the cycle? Thank you.

Fernando Musa:

Thanks for the question. This is something that, now that the Mexico investment is behind us, as far as cash needs and we are full-steam ahead with the new PP plant in the U.S., we do anticipate new opportunities to come to the Company, whether new projects, new construction or acquisitions. We have always looked at those opportunities. Nothing interesting came up, besides the PP plant that was approved last year, but this is constantly being analyzed.

We have a very disciplined process to look at our strategy and the positioning that we have in the different regions or businesses where we are operating. We will continue to look for that. The acquisition route is one in which very strong results has been leading to high valuations, in our point of view, for a cyclical industry. I think the new expectations around a positive cycle going forward might lead to tougher negotiations around any potential acquisitions.

Having said that, if the right asset or Company comes up for sale we will certainly look at those, given our very strong track record of making acquisitions in a very successful way for Braskem's shareholders, generating a lot of value from the acquisitions made over the years. It is part of our plan and it will certainly be, as I mentioned, part of the decision-making in the back-end of the year, early 2019. These potential new projects will come into the equation when we make any decisions about dividends for the upcoming years.

Luiz Carvalho:

Perfect. Thank you very much.

Pedro Teixeira:

Just a comment on that: the discussion around dividend payout and also around investments also goes through the discussion about leverage. We always consider the Company's ability to leverage and limit leverage so that we do not over-expand ourselves. This is also part of the considerations that we always have whenever we are discussing this balance between new investments and dividend payout.

Luiz Carvalho:

Clear. Thank you, Pedro. Thank you, Fernando.

Hassan Ahmed, Alembic Global:

Good morning, gentlemen. I have a two-part question. One is about the near-term and one is about the longer term. On the near-term side of things, you talked about compressing EBITDA year-on-year in 2018. I am just a bit confused about that, because as I take a look at the fundamentals, clearly Brent crude is up US\$15 a barrel relative to 2017 averages, so it is clear in my mind that this equates to a US\$0.07 to US\$0.08 a pound tailwind in the price of ethylene and polyethylene.



And we are obviously seeing that, particularly in the US market, where contract pricing is going up. On the ethylene and polyethylene side, you also alluded to expanding spread year-on-year and we are obviously, in the near-term, entering a pretty heavy turnaround season, particularly in Europe. I think in April there are five ethylene crackers that are going to be turned around.

Then I take a look at the polypropylene dynamics in the near term and supply and demand continue to get tighter, so I would imagine that polypropylene margins would be up year-on-year as well. And, finally, where the fundamentals look extremely attractive. The near-term question really is: why do you feel that you will see compressing EBITDA in 2018 relative to 2017? This is the near-term side.

On the longer-term side, post 2018 we are entering a capacity-addition vacuum, clearly, so the handful of companies that have already announced some incremental capacity seems like even they now are backing off. The other day, Chevron came out with an announcement that they were reconsidering the next-gen cracker on the back of higher cracker costs – obviously, higher steel prices, higher energy prices and the like.

So, on the longer-term, I would like to hear your view on whether we are going to see what was going to be a pretty tight item get even tighter. This is my two-part question about the near and long terms.

Fernando Musa:

Hello, Hassam. Thanks for the question. On the short term, I think there is a couple of factors that need to be put here in this discussion. First, Braskem is much larger than PE. If you look at the crackers' profitability, especially naphtha crackers in Brazil, in the 1H17 the co-products had very strong price increases that led to significant profitability in our operations.

Our expectation is that those co-product price increases will not happen this year. We did not see it happening in the 1Q, we did not see it happening this year. This should put more pressure on the overall basic chemicals spread.

Secondly, even though the scenario for PE is one in which spread should be healthy, it is important to remind ourselves that there is a lot of new production coming online in the U.S. and some of it will target South America, so we do expect increased competition in the region, which should lead to a tampering of this spread increase, translating into concrete margin increase for us.

We probably will see more competition from the U.S.-based production in South America, which will be counterbalanced by better spreads in general, as mentioned before, and the net combined with chemicals, in our point view right now, should lead to a decrease. Two other extraordinary factors that are important to factor in are: we did have a positive EBITDA contribution from the divestment of Quantic last year that will not repeat itself.

And in Brazil, there is a tax incentive – REIQ – which has a lower rate in 2018, compared to 2017, so its impact on our profitability will be reduced as well. When you put all of this into the equation, it leads to our expectation of a declining EBITDA for the short term. Having said that, if the optimism that we are seeing in the industry around PE and PP really goes to a very positive scenario, this could bring us closer to last year's results, if



those spreads really stay strong or become even stronger than we currently anticipate for the backend of the year.

On the midterm, I think that, on the end of the day, demand is perceived to be very strong over the next few years. This will lead to investments. If CAPEX becomes even more expensive in the U.S. as it has become over the last four-to-six years, I think the fact that people have mastered the ability to move ethane around the world could create the ability to make investments in other regions, with ethane flowing from the U.S. toward that.

We already start to hear news of ethane crackers being built in China with imported ethane and the capital intensity in China is significantly lower than what you see in the U.S. gulf coast, so either CAPEX cost in the U.S. will go back to a more reasonable level and projects will be built in the U.S. or projects will be built in China, India or other places where capital intensity is lower and the feedstock will flow as the industry masters the ability to move ethane around the world.

My expectation is that we might have an extended positive cycle, but eventually products will be needed and projects will be built to deal with it.

Hassan Ahmed:

Very helpful. Now a boring follow-up, if I may. I was taking a look at your consolidated EBITDA and there seems to be R\$882 million drag to EBITDA in the quarter in the eliminations and reclassifications line. And it seems like in the last couple of quarters there has been a negative drag at that line item and prior to the last two-to-three quarters it was not there. I am just trying to understand what that drag is.

Pedro Teixeira:

Hassan, what we have been doing is: in this segment, because we export from Brazil to Europe and to the U.S. (a little bit; more to Europe), we are adding the profitability of those exports – or the margin of those exports to both businesses – the Brazilian segment and the European segment and then we eliminate that on the consolidation so that we do not have a double-count on the consolidated results. This is the main reason.

Hassan Ahmed:

Got it. Very helpful. Thank you so much, guys.

Fernanda Cunha, Citibank:

Hi. Good morning, everyone. I have two follow-up questions. The first one is regarding the Mexico project. Given that Pemex ethane production is dropping and I understand that they are importing it from the U.S., can you give us a guidance on what will be a reasonable utilization rate of that project for this year? Also, I understand that this quarter you were reimbursed for the disburse in the utilization rate for the 2Q17 that Pemex did not deliver.

I am just trying to do a back-of-the-envelope match and I am trying to understand whether you are going to be reimbursed for only the (56.39) or are you actually going to be reimbursed for the margins from not producing the PE. Those are my two questions regarding the Mexico project.



My last one is on dividends. What is the reasonable leverage ratio? What is the target leverage ratio going forward? I am just trying to understand if it is reasonable to think that your dividend payout going forward should be close to free cash flow as it was this year.

Fernando Musa:

Good morning, Fernanda. In Mexico, our expectation is to be running anywhere between 85% and 90%, depending on the availability of supply from Pemex. As far as the delivery penalties, they partially offset the margin. They do not compensate for the full margin and the structure of the contract is not linked to a margin compensation. As far as leverage, the dialogue with the board is to have a 2.5x as a top number for leverage.

We could eventually go a little bit above that in the case of a relevant acquisition if it makes sense, but this would happen if we had very strong synergy expectations that would quickly bring us back below 2.5x. Pedro, do you want to add anything on the topic?

Pedro Teixeira:

Just to reinforce that this leverage of 2.5x is a ceiling reference – it is not anywhere close to where we are right now. We are at roughly 1.9x and even with dividend payments we may get closer to 2x, but nowhere close to 2.5x.

Pedro Freitas:

And I would also add, Fernanda, that these penalties partially offset the margins, especially because now the ethane price is very low – it is close to US\$ 200 per ton and, in a situation in which ethane prices go up, of course margins will be more compensated by this delivery penalties.

Fernanda Cunha, Citibank:

So, basically you have a range of how much you will be compensated for these things, not supply by Pemex, right?

Pedro Freitas:

We do not provide the exact percentage, but it is a percentage over the ethane price. If the ethane price is higher, the absolute value of the compensation will be higher as well. This is the rationale behind.

Fernanda Cunha:

Thank you very much.

Sarah Leshner, Barclays:

Hi. Thanks very much for taking my questions. Most of what I wanted to ask has been answered, but I just have one small question remaining, which is whether you are aware of negotiations continuing or not continuing between your shareholders in particular, as it relates to Petrobras' stated interest in divesting its stake.



Fernando Musa:

The information I have is that the dialogue between Petrobras and Odebrecht is ongoing. As I mentioned in previous calls, we are not directly part of it. This is a discussion between shareholders. As of today, I have not been informed of either concrete progress or stoppage of conversations. I would say the dialogue is still happening between shareholders, given the fact that I have not receive any contrary information.

Sarah Leshner:

Perfect. I just have one very small confirmation. I recall that for 2018 your guidance for utilization in the Mexico operations was 90% and you came in around 90%; at 88%. You mentioned that in 2019 it was 85-90%. I am just wondering whether it is your intention that those numbers should be considered flat – should we expect to see relatively similar utilization in 2018 compared to 2019, or is it a deliberate change in your guidance from 90% in 2018 to a lower range in 2019?

Fernando Musa:

I would say that, given all the actions that Pemex is taking, including their starting import of ethane, our expectation is to have a similar type of performance on the Pemex side. This is why we have this range of 85-90%. We fluctuated during the year around 88%, on average. This is a range for what we expect. It will depend way more on Pemex's performance and the amount of imports that they will be doing.

They tested their system for imports over the last month/month-and-a-half and it is going to be now their decision to increase that import rate or not based on how well the production side and the administrative side of their systems operate. They have the reserves, they have the capabilities to produce more ethane locally, so let us see how they manage the system overall and how much imports they will bring.

Sarah Leshner:

Thank you. This is perfect.

Vicente Falanga, Bank of America:

Thank you for taking one more question. It will be a quick one, I promise. Could you remind us what is Braskem's naphtha import capacity to Brazil today, in a smooth way, without having to take any supply timing risks. If you were to import your naphtha, would you likely get similar pricing conditions as the ones of the contract that you have with Petrobras? Thank you.

Fernando Musa:

Today we already import a significant part of our naphtha demand in Brazil. We have the ability to import a little more than we are currently importing. Large part of the infrastructure for the naphtha import is in Petrobras' hands and control. This is part of our daily dialogue from an operational point-of-view, about Petrobras facilitating our naphtha imports.



As far as price is concerned, it varies along the year, depending on the supplier, the quality of the naphtha. There are different types of naphtha and depending on all its contents, it could lead to different pricing.

I would say that, in the scenario we have been living over the last few months, we end up with pretty similar price points for the naphtha, between imported naphtha and the Petrobras contract, with naphtha fluctuating around the US\$ 500 to US\$ 600 per ton range, given the fact that our Petrobras contract is a percentage of the reference and some of the other blend in cost would be more of a reference plus a fixed amount, typically related to freight.

Today, as I said, we are pretty close to 50-50 in our imports, compared to the naphtha contract with Petrobras and we could import a little bit more depending on the access to logistics, but the contract with Petrobras – the local supply – makes a lot of sense for them to serve us and for us to buy from them, to facilitate logistics.

Vicente Falanga:

Thank you very much.

Pedro Medeiros, Citi Group:

Good morning, guys. Thank you so much for taking this last question. I apologize if this was, somehow, already answered during the call, because I had some connection issues. Do you mind commenting on the maturity of your supply contract for ethane with Petrobras today? How is it working currently? Will there be any negotiations on that side?

As a follow-up to that, in light of the risk in the outlook for availability for ethane with Petrobras now confirming the construction to expand fractionation capacity and that should start by 2020: What are the conditions required for you to consider an expansion in Rio and when should we be discussing this topic as part of investments in Braskem? Thank you.

Fernando Musa:

The current ethane supply contract with Petrobras expires in 2021 – after the naphtha contract. As mentioned before, the dialogue with Petrobras and all suppliers of feedstock is a constant dialogue.

As we get closer to the end of the most relevant contracts – like the naphtha contract or the ethane-propane supply for the Rio de Janeiro cracker – we will start the dialogue. We have over three years for the ethane and propane supply in Rio de Janeiro, so when the right time comes, this dialogue will happen with Petrobras.

As far as additional feedstock for a potential expansion for the Rio de Janeiro cracker, this is something that we have been evaluating for quite a long time. It is going to depend on the development of the pre-salt reserves first and, second, the mid-frame infrastructure – the fractionation and separation units. There are multiple players now. It goes beyond Petrobras and all those players are making their investment decisions and their investment evaluations.



As these progresses, we will have more clarity from their end on future availability and we will certainly engage with Petrobras and the other players around additional feedstock for our complex in Rio de Janeiro, where we do have an opportunity and very competitive CAPEX to basically double capacity there. But the big question is around the feedstock availability, which depends not only on the mid-stream but also on the production wells development by Petrobras and the other players in the pre-salt.

Pedro Medeiros:

Thank you so much.

Operator:

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

Fernando Musa:

Thank you very much for all the questions and the attention. As discussed in the presentation and during the questions session, 2017 was a very strong year for Braskem. We had very positive operational results – from a production point-of-view and from a commercial point-of-view – around the world. We delivered several production records.

We also had a set of important value-adding projects either starting or being completed – the new plants that started early in the year and the approval of the PP plant construction in the U.S. and the conclusion of the ethane flexibility for the Bahia cracker, which will help us continue our drive to making Braskem a very competitive company going forward.

On the financial side, three highlights – the liability management with the US\$1.7 million raised in the two bonds with a very competitive cost, really helpful for liability management and helping us push the maturity of the debt and reducing the amount of debt we need to repay over the next two-to-three years.

The rating agencies looking at us and seeing all these positive results and two of them maintaining our investment grades, despite the downgrade that Brazil has been suffering, I think, is a clear indication that agencies and the market in general are finally perceiving that Braskem is not a Brazil story – it is a global story. The Company still has a strong base of its business in Brazil, but now it has a really global footprint and is more exposed to the overall global economy, with a bias toward the American side.

But it is less dependent on Brazil, as clearly shown by the rating being way above that of Brazil. Finally, the R\$1.5 billion dividend payout on top of the R\$1 billion that we paid out late last year is another indication of the confidence that the management and the board have on the solid results that we expect over the next few years and our ability to continue finding good investment opportunities while returning value to our shareholders in the process.

Once again, thank you very much and I am looking forward to talking to all of you in a month-and-a-half when we publish the 1Q18 results. Thank you. 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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