



Operator:

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's 2Q18 Earnings Conference Call. Today with us, we have Fernando Musa, CEO; Pedro Freitas, CFO; and Pedro Teixeira, Corporate Finance and Investor Relations 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 will turn the conference over to Pedro Teixeira, Corporate Finance and Investor Relations Director. Mr. Teixeira, you may begin your conference.

Pedro Teixeira:

Good afternoon, everyone. Thanks for joining Braskem earnings conference call. We'll talk today about the results of the 2Q18. So let's begin our presentation, turning to slide number 3. In this slide we will provide some highlights about demand and international spreads.

On the demand side, let's talk about the demand impact in Brazil and in the U.S. In Brazil, the demand fell by 4% this quarter as compared to the 1Q18 as a consequence of the drivers' truck strike in Brazil. However, if we consider the accumulated demand in the first semester of 2018 and we compare with the accumulated demand in the first semester of 2017, there was an increase by 4%. So there was a fall in this quarter, however on accumulated basis, we have an increase by 4%.

In U.S., the demand rose by 7%. The economy in the U.S. is growing very well. The expected growth rate for the year is around 3%. There are some good results on the segments of caps, cup and nonwoven.



Let's move to talk about international spreads. International spreads in Brazil for PE and PP, this is international spreads for the products that we sell in Brazil. For PE and PP, there was a drop by 11%. This was expected and due to the consequence of the ramp-up of the new PE capacity gas base that is ramping up in the U.S. Spreads for vinyls remained stable and the same for chemicals.

In the U.S., the spreads were up by 8%. The demand on the PP side is quite strong. And also, there is a ramp-up of the new propylene capacity in the U.S., generating more propylene available in the market. So the spread went up by 8%.

In Europe, where the Company has a total capacity of 0.5 million tons of polypropylene, the spreads fell by 18%. There was a decrease in propylene price, and there was a weaker demand for the PP in the region.

In Mexico, the spreads fell by 5%. Higher same price and lower PE prices, this was expected with the ramp-up of the new capacity in the U.S., both putting some pressure on the ethane price and also putting some pressure down on the PE price.

So let's move to slide number 4, where we provide some highlights about utilization rates, sales and EBITDA per region. So in Brazil, utilization rates remained very stable as compared to the 2Q. We consider this as a very good achievement, especially considering the drivers' truck strike. We have to remember that in the 1Q18, the utilization rate was impacted by the blackout that we had in the Northeast of Brazil and some stoppage for maintenance that we had in the cracker in the South of Brazil. And in this quarter, the utilization rate was very much impacted by the drivers' truck strike. However, the utilization rate remained stable as compared with the 1Q18.

Sales fell by the same reason. Sales fell by 7% this quarter. The teams here in Braskem did as much as possible to keep our cracker operating. However, we were not able to move all the products that we produced this period, so the sales went down and the levels of inventories during this quarter went up. However, such levels should return to more reasonable and regular levels in the following quarters.

The EBITDA generated by the Brazilian operations of Braskem were 10% higher than the EBITDA generated in the 1Q. So the spreads were relatively good. And also, there was an impact of the depreciation of the Brazilian currency, which helped to dilute fixed costs in reals.

In the U.S., utilization rate fell by 13%. We had some nonrecurring events. There was a stoppage for maintenance in one of our facilities in the U.S. that took a bit longer than expected and some other operational issues in other PP facilities. So that is why the utilization rate in the U.S. fell by 13%. As a consequence of that, sales in the U.S. fell by 4%. However, due to very good spreads that we are facing, especially in U.S., the EBITDA in the U.S., in these regions - U.S. and Europe regions, remained relatively stable.

Talking about Mexico, the utilization rate dropped by 13%. There was a lower supply of ethane. But also, we had a scheduled shutdown to improve the performance of certain equipment. So these were the two reasons why the utilization rate in Mexico fell by 13%.

As a consequence of that, sales in Mexico dropped by 8%. However, the EBITDA in Mexico remained relatively stable, just -2% accounting to \$151 million in this quarter.



So let's move to slide number 5. Just to highlight here that overall, the EBITDA of Braskem in this 2Q18 was 7% higher when measured in U.S. dollar. When measured in reals, it was 20% higher when compared with the 1Q18.

Net profit of Braskem was affected. It was down by 48% as compared to the 1Q18. It was positive by R\$547 million. However, it was affected by the depreciation of the Brazilian currency. This generated a higher financial expense as compared to the 1Q. However, it is important to remember that the majority of our debt is in the long term, so this is not a cash effect.

Moving to slide number 6, and here, we talk about the petrochemical outlook for the year of 2018. We expect lower PE spreads for the remainder of the year due to the ramp-up of the new capacity in the U.S. and higher oil prices. This is pretty much what we've been talking in our conference calls. For PP, although there are some new capacities in China, the demand is expected to grow more and the spread should remain quite healthy. And for vinyls, PVC and caustic soda prices are forecast to increase this year versus 2017 due to some recent capacity closures, especially in Asia, and as a consequence of environmental concerns.

For PP spreads in U.S. and Europe, the spreads for 2018 should be higher due to tight PP markets, especially in the U.S. The demand is very positive in the U.S. so the spread should be very healthy and in addition to new propylene capacity ramping up in the region. And in Europe, the spreads are expected to decrease slightly. In Mexico, lower spreads are expected in this quarter as a result of the new capacities of polyethylene that are ramping up in the U.S.

Moving to the last slide here, we talk about the outlook for 2018. We make a comparison about what is our current estimate for 2018 and how this differs from our previous estimate for 2018. So utilization rate for 2018 versus 2017 is lower and now we are less optimistic about that, especially because of the truck drivers' strike and the unexpected issues that we faced in the U.S. during this quarter. So the utilization rates for the year should be lower than we were expecting last quarter.

The same effects for demand, even though the demand should be better as compared to 2017, it should not be as better as we were expecting mainly because of the truck drivers' strike.

For spreads, spreads of chemicals, we are more positive about that. We are seeing higher butadiene prices, for PE and PP, they are relatively stable and for PVC, they are higher than 2017, but a bit smaller than we thought it will be. We have some decreases in the caustic soda prices.

There was one impact is the REINTEGRA. End of May, the tax incentive on Brazilian exports under the REINTEGRA tax regime was reduced from 2% to 0.1%. And in the same period, the Special Regime for Chemical Industry, REIQ, was revoked by a Provisional Presidential Decree, which will become effective in September 1, 2018. So if the decree is passed into law, PIS/COFINS on feedstock purchased in Brazil will revert to the general rule. So, EBITDA for the year 2018 should be lower than what we posted in 2017 so this is our expectation for the year. However, free cash flow for the year 2018 should be higher.



We had some negative impact of working capital last year. We should not see the same impacts or we are expecting to see the same impacts for this year. We should have lower interest rates for this year, lower payments of tax, especially because of the U.S. tax reform. CAPEX should be a bit higher. Overall, the free cash flow of the Company should be high, though a lower EBITDA.

So let's move to the Q&A session. Thank you very much.

Gustavo Allevato, Santander:

Hi. I have two questions here at my side. The first one, regarding the domestic production in Brazil. Is the Company prepared to export the production from Brazil since the outlook for the domestic market is not as good as the Company initially expected?

The second question is regarding the utilization at RioPol. If you could provide some color on what it was in the 2Q, and what is the outlook for the rest of the year.

And the third and last question is regarding the operational issue at the Marcus Hook site. Is it back? Or should we estimate a lower utilization rate for United States operations in the 2H due to the issue? Thank you.

Fernando Musa

Good afternoon to all. Gustavo, thanks for your questions. As far as the domestic production in Brazil versus the sales profile and exports, as Pedro mentioned in the presentation, the truck drivers impacted our production, had a direct impact on sales in the 1Q, because many of the value chains we serve had suffered even higher impact than we did from the truck drivers' strike.

As we progress during the year, we will probably revert to a more sustainable growth from different value chains. We started the year with an expectation of demand growth in Brazil for resins anywhere between 4% and 5%. Right now, we are more in the 3% to 4% range. A lot will depend on how the different value chains behave in this August-September timeframe.

We did see a good recovery in the back end of June when everybody came back; in July also, several value chains had good production and good sales. We will need to see how this will play out.

We tend to fluctuate more when we have operational challenges from a production point of view. We tend to fluctuate more on the exports, which is natural. The reduction in exports, both in Brazil and in Mexico, is a consequence of that. So we will use the exports as a buffer; especially the marginal exports as the buffer for that instability in operations when it happens.

As we recover production and we expect a healthy back end of the year demand, we should see higher sales in Brazil. But also, with improved production, eventually higher exports volume coming out of Brazil.

As far as the RioPol utilization rate is concerned, the 2Q was a very positive 2Q. We actually ran above 100%, at 102%, 103% and 104% utilization rate, a combination of higher supplies from Petrobras and a small volume of imports by ourselves.



For the back end of the year, we continue with the expectation to have good supplies from Petrobras, with the occasional import of ethane complementing. So we do expect to run the plant pretty hard toward the back end.

As far as Marcus Hook is concerned, it was a mechanical issue at one of the compressors. That has been solved, the plant is back. We do expect that the 2H18 we will go back to the typical utilization rates that we have seen in the United States, that are much higher than what we saw in the 2Q.

Gustavo Allevato

Thank you. Just a follow-up: during the negotiation among the controlling shareholders, does this affect the Company's capital allocation for the 2H, more related to your payment of dividends, or are you totally independent?

Fernando Musa

The negotiation between LyondellBasell and Odebrecht does not impact our day-to-day and our strategic drivers. It is a shareholder decision that could lead to a transaction between the two of them.

As far as the plans that we are pursuing, we continue to pursue and deliver on our strategy. There is no dialogue as of now as far as dividends are concerned, especially since we paid dividends two, two and half months ago. Our normal payment would be sometime at the end of 1Q19, beginning of 2Q19.

We just issued a board policy on dividends that explains how we think and run the process of analysis for dividends, which is a forward-looking current year plus two years of the business plan, expected investments, expected volatility of the industry.

With all that, we will consider dividend. We have an expectation of hitting a net debt/EBITDA below 2.5x. 2.5x is a ceiling, it is not a target. We are not increasing that to get to 2.5x. It is the threshold we look at where the plan, the expected investments and expected potential volatility would keep the debt over EBITDA profile.

So if and when it makes sense in the future, we will go to the Board and discuss dividends by the back end of the year, beginning of next year.

Gustavo Allevato:

Very clear. Thank you. Good afternoon.

Luiz Carvalho, UBS:

Thank you. I have a couple of questions here. The first one, regarding the due diligence, Musa, that is required for the management to perform in order to actually comply with the deal. Bob Patel, the CEO of Lyondell was in Brazil, and he had a couple meetings, including with the Mines and Energy Ministry. Is there any update regarding the conversations that potentially you had with him?



On top of that, is there any update regarding the tag-along of Petrobras? Do you have any clarification if Odebrecht exercised or completed the negotiation with Lyondell? If Petrobras remains in the controlling shareholders, that would trigger the tag-along rights for the minorities. That is the first one.

The second one is regarding the naphtha acquisition from Petrobras. We saw this quarter, I do not mean significantly, but a pretty much low level in terms of acquisitions from Petrobras. I just would like to understand if this is the new normal, or this is something momentary in order to be less dependent from the company.

And the third one, you already signed the leniency agreement with some Brazilian entities. However, I would just like to follow-up if there is something new over the past couple of weeks. We saw some news that potentially there is some additional value regarding the class action, or the agreements that you will be signing. If there is some update regarding the potential additional cash that you would have to disperse, that would be great. Thank you.

Fernando Musa:

Luiz, as far as the due diligence question is concerned, as we informed to the market, the dialogue about the transaction happens at the shareholders' level. We have been asked to support with information to support the dialogue. The process is going well. We provided some information, and we do expect additional questions from the shareholders so that they can have the dialogue with LyondellBasell. There is not much more I can say about this as of today.

As far as the tag-along option for Petrobras, I have no information. This is a question you should ask the Petrobras management. We understand that there is a desire by Petrobras, expressed by several interviews by Ivan Monteiro, to assess whatever deal Odebrecht might agree upon with LyondellBasell and, based on that assessment, make a decision on the right they have today under the shareholders' agreement.

I have no other information beyond the fact that Petrobras does have the right for tag-along that is clearly defined in the shareholders' agreement.

As far as the minority shareholders, there is a provision in the bylaws that in any change of control, minorities will have a tag-along. This provision would be triggered in the case there is a transaction between Odebrecht and LyondellBasell that transfers the control of Braskem. This provision guarantees for the minority shareholders the same conditions that Odebrecht would get in any transaction.

As far as the naphtha purchases that we do from Petrobras, this is a continuous process of managing the different suppliers and contracts that we have. As we discussed in previous calls, we have not only Petrobras as a supplier, but a relevant roster of other supplies from different regions around the world, and this is managed on a month-by-month, week-by-week and, in some cases, day-by-day basis.

There is no intent to be less dependent of Petrobras. This is a more operational and financial decision based on quality of the naphtha. There are different types of naphtha that would yield different volumes of co-products. We analyze the expectation of pricing for the different co-products, and therefore we select the displays of feedstock for different crackers.



But also, different contracts have different pricing, terms, conditions that we analyze when we are making the decisions. In the recent past, this has led to us buying less than the top volume that we could buy from Petrobras under the contract, but this has no intent to be less dependent. It is a consequence of operational and financial analysis.

As far as any other amount related to class action or other potential agreements. We settled the class-action agreement, and therefore we have no expectation of others. There is no other class action going on. I am not sure where you got this as far as class action is concerned.

As far as the authorities, we did communicate to the market that the dialogue with the AGU-CGU, which are part of the Brazilian authorities here, about a potential agreement is underway. The Company's expectation is that any agreement with AGU-CGU from a financial point of view would be covered with the agreement that we already signed with DOJ, the Swiss authorities and the Ministério Público here in Brazil.

So we do not have an expectation as of today of any additional money, with or without this agreement that is being discussed with AGU-CGU, And it is being discussed under confidentiality. Therefore, I cannot enter into more details than what I just shared.

Luiz Carvalho:

Thank you very much, Musa.

Hassan Ahmed, Alembic Global:

Good afternoon. As I take a look, Fernando, at 2Q, particularly here in the United States, very interesting market dynamics. You had spot ethylene price shrinking, it seems to have recovered from there. Then you had ethane pricing skyrocketing, it seems to have come down from there. And as I take a look at all of the expected capacity that was supposed to come online, and this is for the 2016-2019 time period, be it on the ethylene side, be it on the polyethylene side, it seems around 65% of that capacity has come online or hit the market.

My question is that these movements that we saw, were they sort of just like sharp movements, and now there is a new equilibrium that has been established with the market having digested this capacity, and only 1/3 of incremental capacity left to hit the market? Because again, through all of this noise on the spot market side, it seems that contract polyethylene pricing remained very resilient.

In a nutshell, the question I am asking is, is the capacity or incremental supply-driven shock behind us? And should we expect more steady sort of ethylene-polyethylene pricing going forward over the next couple of quarters?

Fernando Musa:

Hassan, that is a very interesting question. I do not have the data that right in front of me here, but I would maybe disagree a little bit with your statement that both ethylene and PE already are at 65% hit the market and 35% not in the market yet.



Our information, and our reading of what is out there is that probably ethylene is closer to a higher number than that, and the PE is a little bit behind. Second, the new ethylene seems to be running better than the new polyethylene.

I think the C2 coming down is a consequence of this. The crackers coming up, running better, the PE lines are a little bit behind and are having more trouble. This led to the ethane going up. And now that the PE starts to catchup, and the ethane production with the higher price continues to increase, then ethane got a little tamed by the availability of ethane; demand continues to be very strong.

I think there is still some impact coming, but we are clearly getting to a new equilibrium. The expectation everyone had that it would be a big disturbance, because everything would come online altogether, clearly, is not the case, and will not be the case. The projects have spread out over a 24-month period, and therefore the impact is less significant.

Cannot forget the demand aspect, which has been very strong, surprisingly strong. The cycling availability in China, that has been reduced because of the ban of import of waste, has helped globally, and it came in at a very positive timing for the industry, because it was just when the new PE capacity was ramping-up.

I think we are reaching a new equilibrium, and there is still some key capacity as the plants get stabilized, and the new capacity that should be coming online enters the market. But the combination of spreading out all the projects and demand being very healthy, even though we do expect lower spreads for the PE chain, it still had a pretty healthy level.

The exports will probably take all the volatility that come from additional volume in the United States. The market dynamics in the United States from a contract for local clients is very different than the export dynamics. So I would expect more stability on the contract price domestically in the United States, and any volatility with new plants coming online and new products hitting the market coming on the export market.

But again, with the healthy demand globally, it is going to be absorbed quickly, and should lead to a pretty healthy, if you have an ethane cracker in the United States or Mexico, environment for the near future.

Hassan Ahmed:

Very fair, Fernando. Moving on. Again, you are sticking to more of the macro side of things. Just trying to get my head wrapped around the whole sort of trade war, tariffs, questions surrounding what is going on between the United States and China, particularly on the polyethylene side. Two parts to this.

One is, as I take a look at the initial list that came out of products included in that to-be-tariffed list, it seems that LDPE, LLDPE were included. HDPE was not. So the first part of the question is, how should we think about that?

And the second part, again, part and parcel with this whole trade thing, is that now with 2Q earnings season behind us, I spent time with more of the global PE guys, the sort of United States guys that have global asset base footprints, and they do not seem too worried about the trade tariffs on the PE side. It just seems the recurring answer is, "look,



yes, we have assets here in the United States, but we also have assets in Asia and in Europe, and we can easily redirect product, which, let us say, was going out of the United States, we can redirect it from other parts of Asia or Europe into the Chinese market". They do not seem too worried about any negative impact from that.

I would love to hear your views about the grade side of things of the PE, as it affects trade, and then what some of these companies' global footprint, I think.

Fernando Musa:

I think it is a very important topic. I tend to agree with the statement that when you think globally, trade flows will adjust. There is production of PE, regardless if it is the same company or not. There is production in different regions. It is a product where trade flows should increase because of new capacity incoming in regions where there is no demand, be it United States or Middle East.

We will have trade flows. The industry will adjust. From my point of view, I look at this as a logistics constraint. Once you have a railroad, a bridge falls, in the short term it is painful, but the flows will readjust and go around it, and eventually the bridge is fixed.

Hassan Ahmed:

I think that is a sensible way of thinking about it. You are right.

Fernando Musa:

In the long term, trade flows will adjust. With the blockage, which is the tariff, it might be a little bit more expensive, the optimal flows with the tariffs might be different than without the tariff. So there is a little bit more cost in the system, but compared to the volume and the margins that you make, I agree with the statement that this is a smaller impact. If you go company by company, region by region, it might be different, but in general, my perception, my belief is it will readjust.

Having said that, it could be painful in the transition period as people redirect, and until a new equilibrium of trade flows is established. But as you mentioned, most of the large players have plants everywhere, have commercial presence everywhere. So they have the channels, they will be able to adjust, we will be able to adjust.

Different than the United States based players, this might be an opportunity for us from a trade flow point of view. We are not suffering the tariffs in the United States production, so this could be an opportunity for us to optimize, and the other players that face the tariffs might need to go out of their optimal flows, and we could improve our optimal flows depending on this.

We will need to see how it plays out. On the HD versus low density and linear low, I saw an article this morning saying that China is planning...

Hassan Ahmed:

Yes. It seems now they are even including HD.



Fernando Musa:

Yes. It looks like HD, and they realized they left a loophole. I saw the tagline, I did not have time to read the detailed article, but my understanding of the tagline was HD was in. So eventually, it will be fixed.

It is not in the United States or China interest to keep going and escalating. Eventually, it will reach an equilibrium, my personal belief. But with two very strong-willed leaders, it is hard to predict. So let us see where it goes.

Hassan Ahmed:

Perfect. Thank you so much, Fernando.

Operator

As there are no questions, I would like to turn the floor over to the Company for final considerations.

Fernando Musa:

So I would like to thank you all for listening to our 2Q results call. This was, as we expect, a challenging quarter, with some external aspects, especially the truck drivers' strike in Brazil that created a lot of challenges from an operational point of view. But despite this, and some plant turnaround that we had, we managed to have very strong and positive cash flow and EBITDA generation, which helped us reduce even more our leverage ratio.

So our strategy of investing in productivity and competitiveness diversification of feedstock, diversification from a geographical point of view proved itself very valuable once more when we faced different challenges in the different products in the different regions. With all the challenges that we faced, we continued to generate good results, leveraging the asset portfolio and the client relationships around the world to generate positive results. And we will continue to pursue that strategy as it has been delivering very satisfactory and good value-creation results for our shareholders.

Thank you all for listening, and I will talk to you guys in three months' time, when we disclose the 3Q results. 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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