

## Q2 2017 Earnings Call

### Company Participants

- Pedro Teixeira, Investor Relations and Controller Director

### Other Participants

- John Haugh, Analyst
- Sarah Leshner, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's Second Quarter 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 remarks are completed, there will be a question-and-answer section. At that time further instructions will be given. (Operator Instructions)

We have simultaneous webcast that may be accessed through Braskem's IR website at [www.braskem-ri.com.br](http://www.braskem-ri.com.br) in 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 and Controller Director. Mr. Teixeira, you may begin your conference.

**Pedro Teixeira** {BIO 19489140 <GO>}

FINAL

Hello. Good afternoon, ladies and gentlemen, thanks for participating in second quarter earnings conference call. Let's start our presentation moving straight to our slide number three, where we will highlight the results of our operations in Brazil.

So, in Brazil, the crackers operated at an average utilization rate of 93%, that was 2 percentage points down when compared to the third quarter 2017, mainly as a result of a scheduled shutdown in our cracker in Sao Paulo which lasted for approximately 12 days, but apart from that, it was a good quarter in terms of operations, that there was a good performance in our crackers and we achieved a record utilization rate production in our cracker in Rio de Janeiro, which is the one that is gas-based.

The Brazilian demand recovered a little bit. There was -- it achieved 1.3 million tons in the second quarter 2017 and it was a growth by 2% when compared with the first quarter 2017 and a growth by 4% when compared to the second quarter 2016. In this quarter, the company posted in the Brazilian market 835,000 tons of resin. In terms of exports, the company have reduced the exports of resins by 12% when compared with the first quarter as a consequence of the shutdown that occurred in the second quarter of 2017 and 19% when compared to the second quarter 2016, mainly because the company is prioritizing the volume placed in domestic market, because it generates a better margin when compared to exports.

In terms of basic petrochemical we have a huge production of basic petrochemical. We are exporting a relevant amount that there was an increase by 6% in this quarter when compared with the second quarter 2016, because of the very good margins that we are getting in the international market with this basic petrochemical project. The operations in Brazil generated an EBITDA of BRL2.4 billion, equivalent to 750 -- around \$750 million and this includes the results of our divestment of the capital gains that we obtained with the divestment of our former chemical distributor quantiQ that occurred in April. And the results in Brazil achieved 74% of the consolidated results of Braskem.

Moving to slide number four, it shows some graphic that highlights the results in Brazil. So, we achieved an EBITDA margin in this quarter of 26%. Yes, it considers the effects of [ph] the results, the computation of the divestment of quantiQ that occurred in April. Without the effect of 277 of capital gain and effect of results in Brazil, in this quarter, the EBITDA would be 10% smaller than what was achieved in the first quarter, especially affected by the compression in the basic petrochemicals prices. In fact, the basic petrochemicals prices in the first quarter was incredibly high in the international market. So it was not effectively a compression, it was just the fact that the basic petrochemical price returned to their regular levels and this happened in the second quarter, so affecting results of our units within -- of the results in Brazil in this quarter.

Moving to slide number five, we are focusing here in the results of our operations in the US and Europe and also in Mexico. Beginning with US and Europe, we made an adjustment in our nominal capacity, it was not an investment, new investment. We increased the nominal capacity of the units in Europe by 80,000 tons per year. So, we are considering a total nominal capacity in Europe of 625,000 tons per year. The company have been made several minor investments, revamps, adjustments over the years and the prior capacity, the nominal capacity that were considered didn't represent exactly the

Bloomberg Transcript

FINAL

capacity of the company, so we decided to make these adjustments by 80,000 tons per year.

So, already considering this new utilization capacity, utilization rate of the PP plant in US and Europe achieved 95%, it was 6% down when compared with the first quarter 2017, mainly because of unscheduled shutdown of our Schkopau plant in Germany, which lasted for 15 days, so this affected the utilization rate in Europe and in the region.

In terms of sales, the total sales in US and Europe from these plants achieved 616,000 tons. It was a decrease by 3% when compared to the first quarter 2017 and an increase by 6% when compared to the second quarter 2016. In US -- and Europe posted an EBITDA of \$120 million equivalent to BRL385 million and represented 12% of the consolidated results of our segment of Braskem.

In Mexico, the PE plants operated at an average utilization rate of 83%. It was smaller than what was posted in the first quarter when we posted minus 7% of utilization rate. We faced some operational adjustments and reduced the level of methane by our supplier in Mexico in this second quarter. The PE production amounted 217,000 tons, 13% lower in this quarter when compared with first quarter for the same reason. And -- but we were able to post the majority of the sales in the Mexican market, so more than 50% of the total sales was -- slated was allocated in domestic market. The Mexican facilities posted an EBITDA of \$142 million equivalent to BRL456 million, already represent 40% of the consolidated EBITDA of all segments of Braskem.

Slide number six shows some highlights about the US and Europe business. I'm going to just focus on the spread that we are very regular and very stable in the range of 570 in US and around 500 in Europe. There was an increase in fact due to the greater demand that we stated in the second quarter in Europe. However, the results of the company was decreased by -- the EBITDA decreased from 188 in the first quarter to 120 in the second quarter 2017. We had the Schkopau scheduled shutdown and also some inventory effects that affected the results in this region.

Moving to slide number seven, which shows some highlights of the Mexican operation. You can see the impact that we stated in the operational rate from 97 to 83. In an average, the distribution rates in Mexico we have in year-to-date 90% of utilization rate and we expect that more stable utilization rates over the following quarters.

On the graph shown on the left lower side of the slide, it shows the EBITDA figure, the \$142 million and equivalent to an EBITDA margin of 52%. The spreads on the left -- on the right lower side of the slide shows they decreased by 5% when compared to the first quarter as a consequence of the new capacity that are coming on stream in US.

Moving to slide number eight. It shows the consolidated results of the company. EBITDA reached \$945 million in the quarter, equivalent to BRL3 billion, which was an increase by 10% when compared to second quarter 2016, mainly because in the second quarter of 2016, we didn't have Mexico subsidy two [ph] operation what we have right now and also it was impacted by the capital gains of our divestments of quantiQ that occurred in April.

FINAL

The net income of the company reached BRL1 billion, and this on our year-to-date the net income already amounted BRL3 billion, which is equivalent to BRL3.6 per share of Braskem. I'll skip the net debt and the leverage ratio, I'm going to talk later in the following slides. It is important to remember, the company paid in this quarter BRL607 million to the authorities that was already paid at 607 million. There were two payments that occurred in second quarter, one to the SEC equivalent to \$65 million and the number two of CFH30 million to the Swiss authorities and there was another payment that occurred in the first quarter of \$95 million to the Department of Justice.

Moving to slide number nine, it shows the increase in terms of EBITDA from the second quarter 2016 to the second quarter 2017. The results are mainly related to volume and this volume came from Mexico, because in the second quarter of 2016 we did in Mexico two operations, it was on its ramp-up phase and also the capital gain that we obtained with divestment from quantiQ.

Moving to the slide number 10 and here it shows the leverage and demonstration profile of the company. The company achieved a net debt of \$5.1 billion, very stable when compared with the first quarter 2017. We closed the quarter -- ended the quarter with a cash position of BRL2.3 billion, around that \$2.3 billion around \$900 million was invested in US dollars and US\$1.3 billion was invested in reals.

The leverage ratio it posted in this quarter 1.63 times. The leverage ratio is calculated by the dividing the net debt by the year to -- the last 12 months net debt EBITDA of the company, so it reached 1.6 times in second quarter. If you consider the liability, the obligation towards the authority, the leveraged ratio achieved 1.85 times this quarter, very stable and very comfortable.

Moving to slide number 11. In this slide we discuss about the investment of the company. The company has an investment plan without considering the new investment of PP plant in the US that was approved by the Board of Braskem very recently. But without that we have an investment plan of BRL1.8 billion. Among that we have already invested BRL700 million and the majority of that was an investment in Brazil and among this investment of BRL585 million that was invested in Brazil in the first half of 2017, BRL559 million was related to the project to diversify feedstock profile in our cracker in Bahia, which already reached 63% of completion and is expected to be concluded by the end of 2017.

As I said, this CapEx of 1.8 billion for the year does not consider the new PP plant in US that was approved by the Board. The approved investment -- the total approved investment is up to \$675 million. We are already checking how much of that will be invested in the first half -- in the second half of 2017, but we understand that it should be in the range of 15% of this amount. In terms of capacity, this facility should reach a total capacity of 450,000 tons of polypropylene in Brazil and the startup is expected for 2020. These new investments is aligned with the -- consistent with the strategy of Braskem to diversify feedstock profile, because the feedstock will be propylene and also to expand geographically in the Americas and increase our leadership in the PP business in US.

FINAL

Moving to slide number 12, it shows our Compliance Program. This is a very relevant point for us. We are bringing in the evolution of the Compliance Program. The Compliance Program is formed by 10 projects which is composed by 154 initiatives. So in this second quarter 12 new initiatives were concluded, so it increased the number of team members in compliance department in Mexico and in US. There was a development in Global Training Plan on the compliance for team members. There was a development in Global Communication Plan for disseminating the compliance commitment to conduct its business with ethics, integrity and transparency and improving processes and defining protocols for investigating report of violation. So in total among the 154 initiatives, it was already completed 62 for the project moving forward and it's top priority for the company.

Moving to slide number 13, this chart shows the evolution of the expected expansion for 2017 from a renowned consulting company and what we're seeing here is that, the expected amount of PE that is about to come in 2017 is reducing over time. So in the first quarter 2016 it was expected by the consulting firm a total of 7.5 million tons of PE in 2017. This amount was reduced by 9% reaching 6.8 when we read the same report in the first quarter 2017.

And now the reduction -- the total expected capacity of this new capacity for 2017 had already reduced to 6.7. So some of the capacity was canceled, some of the new capacity were postponed. So the total capacity in fact will happen in the -- the total capacity that we expect for 2017 is lower than what we expected a couple of months ago. This is positive to the point that the packaging spreads for PE that we have now should be a bit lower than what we expected in the prior quarters.

Moving to slide number 14 and now we are getting to the end of our presentation. This chart we provided shows -- it aims to show how we see our business in the second quarter when compared -- second half of the year when compared with the first half of the year. So beginning, in terms of volumes in Brazil. The market increased by 4%. We expect the demand in Brazil to increase, but it should increase a bit less than the 4%, so as an average we expect for the year around 2%, 3% for 2017 when compared with 2016.

With respect to spreads that affect the different regions, we expect the PP spread to remain relatively stable with the new capacity that's come in line in US. For the second half of the year, we expect a little bit pressure of PE spreads in the second half. Spreads for PVC should recover a little bit, that's our expectation and spreads for basic petrochemicals in second half should be smaller than in the first half of the year. That was extraordinarily high in the first half of 2017.

Moving to US and Europe, in terms of demand it should be relatively stable. In US, the demand is growing a little bit higher than in Europe, but we don't expect too much movement in this region. But we do expect some improvement in this spread of PP and especially in US with the new capacity of propylene, so putting some pressure reduction in our feedstock costs. So our new capacity of propylene in US we should generate better spreads of PP in the region. In Mexico, the market remains very healthy. Spreads in the region should be pressured by the new capacity of PE in the region. And that's pretty much how we see the evolution of our key business over the next half of the year.

FINAL

And finally, moving to the last slide. It shows our four main concentrations of the company, the main priority. So the first one is related to productivity and competitiveness. The focus of the company is on the operational and commercial efficiency. Second, in feedstock diversification. It's something that the company is already doing and as a consequence of that are the new facilities in Mexico. So the company on the long run expect to have a lower concentration in terms of feedstock on the naphtha and a greater concentration in terms of gas. And also expand the global presence with gains in scale especially PE, PP and the new investment of PP in US is an example of that as well. And the fourth concentration is the foundation of all the other concentrations and it's related to reputation in government. These are the priorities for the company and it will have to change that [ph] in inventory and reputation.

Thanks for hearing the conference -- the presentation. I'm going to move now to the Q&A session.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Sarah Leshner of Barclays. You may proceed.

### Q - Sarah Leshner {BIO 15039127 <GO>}

Hi. Thanks very much for the call and thanks for taking my question. I just had two quick questions. One is regarding the utilization rate in Mexico. Can you provide a little bit more detail on how it was, the PEMEX underserved the I think contracting? How that will be collected going forward? And my second question is regarding the shareholder agreement between Petrobras and Odebrecht that entered into negotiations last month. If you are able to provide us with any more detail on those two questions? Thanks.

### A - Pedro Teixeira {BIO 19489140 <GO>}

Thanks, Sarah, for your questions. Talking first, this has been on the move and talking about the utilization rates within Mexico, the challenge we faced in the second quarter came from two sides. First, we had on our side some issues identified during the previous months wherein we were running really hard, but we decided to -- we've got some time to fix, to improve. And at the same time PEMEX faced some challenges on their operational efficiency and effectiveness and then especially around their fractionation. That left to reduce supply for few days.

Those two topics have been addressed and as we move forward into the third quarter of July and August, we see the acquisition rates going back up towards something that is closer to what would be expected, given where we are in the ramp up curve of the project. I'd say that the first quarter was actually an outlier in the sense that it is extremely aware that you startup a project of big size and complexity in which the very high positions wait, so that we had in the first quarter, it was a coincidence of very, very positive scenarios all over where everything worked perfectly well.

FINAL

And unfortunately, this is now how those plants work. There is always some impact somewhere and so it could create -- the average of the first half, which is somewhat in the 90% range in Mexico compared to the utilization rate that we have been delivering in Brazil, which is in the 92%, 93% range. I would say that this is a good proxy for what you should expect going forward. As we mentioned before, those no improvements have been fixed and have been in our hands and PEMEX performance has been improving as they fix their operational problems in their end.

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

We will all at some point in the future be involved given the fact that Braskem has the object of the shareholder agreement on the concerning [ph] party. He is of course signer of the agreement. So this evolution will happen at a day time, in my expectation, that this is going to be once they have reached the decision among the three of them about what changes, if any, they would like to implement. So as soon as should we receive the information from the shareholders, we will communicate the relevant information to the market as we get them.

**Q - Sarah Leshner** {BIO 15039127 <GO>}

Great. Thanks very much and congratulations on the results for the quarter and (inaudible).

**A - Pedro Teixeira** {BIO 19489140 <GO>}

Thank you.

**Operator**

(Operator Instructions) Our next question comes from John Haugh of Morgan Stanley. You may proceed.

**Q - John Haugh** {BIO 2312391 <GO>}

Hey, guys. Thanks for the call. I just wanted to do one quick follow-up, so you have the -- the Board of Directors approved the polypropylene plant in Texas. Can you maybe go over where you are in the stage? Have you surpassed the studies and the feasibility stage? When do you plan to start the investment and maybe what time (inaudible) option that you are potentially planning for and are you going to look to take on a partner et cetera? Maybe you can give some further information on that. Thanks.

**A - Pedro Teixeira** {BIO 19489140 <GO>}

Hello, John, thank you for your question. So just a quick recap. This is our sixth production line in US in the polypropylene business. (inaudible) at our La Porte site, where we already

Bloomberg Transcript

FINAL

have another polypropylene line and this is also the site where we built our new tech line which are high molecular weight polyethylene line. It's a very large site where we have enough land and utilities and infrastructure available to support that new UTEC.

This project has been already (inaudible) for the last couple of years. We've got final approval from the Board to go ahead in June. We have finished of the -- what is called deep front-end engineering detailing which is the first phase of engineering. We have already signed an EPC contract, Engineering Procurement and Construction with one large construction company or OEPT company. This has been signed already. We are pretty advanced in the detailed engineering and in the procurement phase where most (inaudible) of the long lead items have already been purchased, the purchases already have been placed.

And we have started a couple of weeks ago to purchase some of the bulk materials as well that tend to be bought after you buy the long lead items in the large equipment. We expect to have construction starting over the next two to three months on the site. The finalizing parts of the sub-contracting that the EPC company is going to do with some specialty work that is related to the beginning of the construction. So the project I would say is migrating from an analysis phase to an execution phase really fast. As I mentioned detailing engineering already started, most of the relevant procurement activity is done and construction seemed to start.

As far as the structure of the project, we do not intend to have a partner. This is 600 -- up to \$675 million investment, which is something that Braskem's balance sheet can finance. It is an addition to the current business, it is an additional line into a larger site, so not only we don't see the need for bringing new partner, but if we work, we decide to bring a partner to add significant complexity given that it's a part of a larger business, part of a larger site. All those interests could be dealt with, but it will add complexity. So very different situation to the Mexico project where we have no business and a new country for us where having a local partner will make a lot of difference. For this, we don't need local partner, we are the local operator. It is a significant investment, but it's an add -- it's a busy business that has been earning for many, many years with five other sites around the country.

John, this is (inaudible) just to compliment on the financing, we have approved the project, the Board has approved the project considering corporate funding by Braskem, so any reduction on the cost of capital that we are able to achieve through, for example, special funding arrangement will be accretive to the value of the project. We are looking at alternatives that are useful for this CapEx project, such as ECA funding. So that will most likely be a source of funds for the project. And we are also looking at other alternatives, but as a whole all of these alternatives will add value on top of our perception of the value of the projects as approved by the Board.

**Q - John Haugh** {BIO 2312391 <GO>}

Okay, thank you very much.

**Operator**



(Operator Instructions) I'll turnover to the company for closing remarks. Thank you.

## A - Pedro Teixeira {BIO 19489140 <GO>}

I would like to thank all of you for joining the call. This was a very positive quarter with a combination of good results from an operational financial point of view, important movement in the strategic side with the approval of the investments in US. The end of our dialog with the auditors and therefore the publishing of our financial statements in regards to audited financials and then in regards to the 2016 balance sheet. And as a complement of that, as we rightly mentioned that today is the special day in Braskem history, it is our 15th year anniversary. And it's a moment where after a very positive, productive, successful first 15 years we are ready for continuation of the deployment of our strategy and we decided to mark that date, that event, that transition with a modernization of our plants, a visual entity.

You might have noticed in the presentation that the logo has been adapt and this is part of a broader repositioning and restatement of the brand that basically reinforce our core values, our core beliefs around our way of continuing, our way of challenging ourselves always in the search of better solutions (inaudible) through chemistry and plastics. During that we have improved the both the core of our strategy with our people and interacting with people, our clients, our suppliers and providing services, products, solutions for people in the society towards having a better life.

So, thank you very much for the participating and looking forward to talking to you in the next quarter.

## Operator

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

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*