

Q3 2018 Earnings Call

Company Participants

- Edison Terra Filho, Head-Polyolefins South America and Europe Unit
- Fernando Musa, Chief Executive Officer
- Marcelo de Oliveira Cerqueira, Head-Chemicals and Vinyl Unit
- Pedro Teixeira Carvalho, Investor Relations, Controller and Project Finance Director
- Unidentified Speaker

Other Participants

- Andre Hachem, Analyst
- Pedro Medeiros, Analyst
- Unidentified Participant

Presentation

Unidentified Speaker

(Starts Abruptly) I turn the floor over to Mr. Fernando Musa.

Fernando Musa {BIO 17592170 <GO>}

Good afternoon, everyone and welcome, it is a pleasure to be here as Francisco [ph] mentioned, it's a partnership that has lasted for 20 years with APIMEC. I'd like to welcome, not only you, gentlemen and ladies present here, but also those following us on via webcast. We'll be showing a presentation which will cover topics relative to the businesses and we'll break it down by geography; Brazil, US Europe -- and Europe (sic - Mexico), then a broad overview of third quarter results and then we'll touch upon two important topics for our business which have shown important development recently.

Compliance and circular economy, both very important topics for the industry as a whole, and specifically for Braskem, we were happy to learn last week that we are in a good position at those [ph]. To that end, we will wrap up with an outlook for the industry going forward, and then a Q&A session. After that my colleagues will share the presentation with me and we'll start with Marcelo Cerqueira, who will talk about the Chemicals unit here in Brazil.

Marcelo de Oliveira Cerqueira {BIO 18679680 <GO>}

(Technical Difficulty) our raw material basis. We apologize, we're not getting sound here at the translation booth. 70% of the forum [ph] is allocated externally 30% domestically. In our Chemicals portfolio, we have about 40 products, though we only show a few of them

here on the slide, the most relevant, ethylene which is used for the production of polyethylene and polystyrene; butadiene used in for the production of synthetic rubber and also used in the household appliances industry.

Propylene -- for the production of propylene, acrylic acid which also be used for other products and also propenoxide; also polyurethane for the production of foams; benzene used for nylon and also used for detergents; and also for the production for polyester and along with ethane, which is another product which is quite important in our portfolio. On top of another important range of products, in other words, you say value diversified portfolio. In other words, we supply different production chains in Brazil.

On the next slide, we have our average utilization rate for the third quarter 2018, we had very good results, we reached 95% of utilization rate. After two quarters, in other words, the first quarter of 2018 where we had a scheduled shutdown starting Rio Grande do Sul and then we had an event and our goal was which led to a drop in production for a certain period in the northeastern part of Brazil.

In the second quarter of this year, the impact came from a scheduled shutdown in Rio Grande do Sul and also because of the truck drivers' strike. But in the third quarter we resumed good levels of production and we see already a difference in our numbers. But the worse production is at a normal level now. So year-on-year, we are slightly below year-to-date when compared to last year.

And in the bottom part of the chart, we see our production volume which follows the utilization rate, in other words, we saw a growth both abroad and domestically because of product availability. In the year-to-date numbers, volumes are very much in line, slightly above internally showing the good level of health and the high level of consumption here in Brazil. And we have reduced our exports of course, because of lower availability of products.

In terms of spreads when we compare this quarter with the previous quarters, we see results coming from the spreads on propane and butadiene, a very strong demand coming from Asia for those products which are used for domestic appliances. So that affected our Chemicals spread, and we see the numbers going up throughout the quarters. When we compare year-on-year, you see the fact that the first quarter in 2017, where we sell a strong increase in the prices of butadiene especially in Asia. That did not occur now in the first quarter of 2018. We continue to work closely with our clients to create value. We are able to see portfolios with great growth opportunities.

I have two examples here on the next slide, for hydrocarbon resins. One of these application is an adhesive product. So clients who produce diapers now have an application to improve the ceiling facility of diapers. So that's a very high added value products we have been introducing that type of products in trade fairs in Europe with very good results.

The other product which is also part of our portfolio which is less well known it's the PIB which we have developed to replace castor oil. The idea is to provide stability to

Masterbach. So it is a very versatile product used throughout the very wide range of applications as lubricants, adhesives, packaging aggregates, so it -- which is a very important segment in the industry and also add important value to our portfolio.

Along the value creation line, we are going to talk about our project for flexibility of raw materials. It started in November last year, and the idea was to provide more flexibility to Bahia -- for the Bahia cracker. Throughout the year we consumed 13% of the polyethylene -- sorry, for ethane, showing that really we are making the most of the project and it is giving back what we expected in terms of returns. In other words, we use ethane as a more competitive raw material when compared to naphtha.

The bottom chart we have another natural gas production in Brazil and there is an expectation of growth in production for gas and oil in Brazil, especially because of the pre-solved project and the gas coming from the pre-solved levels, it is rich and the raw materials we use for our crackers. So again, the outlook is very good in terms of opportunities for the chemical industry for the coming 10 years, that availability might increase two-fold in the next 10 years.

I'll give the floor now back to Mr. Santana [ph] for him to follow up with the presentation.

Unidentified Speaker

Good afternoon to everyone. And now I'll be talking about our Resins business here in Brazil, PE, PP and vinyl including PVC and also caustic soda. Our production capacity, if you look to the left in polyethylene, 3,055,000 tons a year, polypropylene 1,850,000 tons, all these capacities are greater than the demand in the Brazilian market today, which allow us to cater to the demands of our Brazilian customers and also have a strategy for target markets especially in South America and to complement with the assets we have in Europe and in US and Mexico.

With the portfolio that we have from Brazil. Our sales come basically two-thirds is domestic market, one-third is exports and for PE, PP and PVC sales, the food industry is the main destination, accounting for 23% of our sales and then manufacturing industry 13%, civil construction is very relevant for PVC and with 11% of our sales. And then you can see that there is a very wide range -- a broad variety of projects.

Let me start talking about polyethylene. 60% of the applications of PE are destined for the packaging industry, so flexible and rigid packaging, primary and secondary banks. So this is an industry that has a very fast response to improvements in economy, on the whole. So whenever consumption goes up, packaging consumption goes up. So the -- every industry uses packaging and bags, so it has a high potential of leveraging the production of polyethylene whenever there is an economic -- the economy picks up.

And then for PP, there's also packaging, but when I talk about polyethylene, we are more really -- we have a significant share in more long lasting goods, products such as home appliances and automobiles. For PVC then, this is very much related to civil construction and engineering. So in the last quarter, we already saw that there was a higher

confidence, it's an industry that will recover as the economy pick up and so that -- a product that as part of the vinyl chain together with the PVC, so 100% of our sales are meant to the domestic market.

Now, when we look on the next slide, slide number 11, you can see the evolution of demand of resins in the Brazilian market. And then you can see along quarter, Q3 is traditionally because of the seasonality, it's a quarter with the highest demand in a year with a growth that is slightly above the average of the second half of the year, because we had the truck drivers' strike which really affected the results or our performance in May and June. So but we have already overcome this problem year-to-date for the first 9 years, the growth is 3%. So which is more or less in line with what we expect and the growth of the GDP which is between 1% and 1.5%.

In terms of market share, the evolution of Braskem's market share is relatively stable kind of flat along this year and we are around 67% of market share last year in the same period our market share was 69%. We already know and even though there are 3 percentage point less, we know that capacity increased these for the production of polyethylene in other regions. We know that there would be an increase in exports that being sent to the Brazilian markets.

But even so, we see that Braskem's sales have grown 3% in this period. In terms of sales volume, that you see in the lower part of the slide, you can see sales in the domestic markets, they have grown 1%, if we compare '18 to '17 in next 4 months to 9 months about 1 million tons. As Marcelo said, as we had a level of activity of production that was slightly lower in the first half of the year, because of operational issues, plus the reduction of production in May because of logistic constraints. So year-to-date numbers is 4% lower than the same period last year, combining here both sales to the domestic markets and exports.

Now, talking about profitability and the spreads that Marcelo mentioned. So here we have the spread and basically we measure the difference between the international reference price for our products minus the international reference price for our raw material, which is more or less gives us an indication of the evolution of the profitability of our products. Considering the polyethylene market in US with higher supply because shale gas in operation late in 2017 and in the early 2018, we have seen along quarters this year. If we look at the evolution at the first chart on the left-hand side, we see the evolution of spreads along the year from \$736 in the first quarter to \$537 in Q3. So and -- this is a natural movement and it's related to the cycles in our industry.

If you monitor -- if you follow our market indicators, you saw that along Q4, these numbers are now getting better. In Vinyl on the other hand or Vinyl and the spreads here, we consider PVC and soda or caustic soda, so there was a drop in the price of caustic soda because of lower demand but even so as we had further spread for PVC we kept it at around -- we kept our year-to-date spreads at about 2%.

If on one hand, we have a flat market share as I said in the previous slide, this is very much because Braskem has difficult market share in Brazil. We try to improve the quality of our

market share in terms of qualification of our product innovation and launch of new products which make us get closer to our customers and brand owners. The customers of our customers and in this manner, we are able to increase to have a closer relationship with these customers and make them loyal.

So I would like to highlight here the launch of Braskem Evance, which is an EVA, a special EVA line focusing high-performance especially for applications such as the footwear industry on the right-hand side, we have some important partners that we have that are using this family of products that we launched this year. And more recently at the end of the second quarter with a commercial launch in the third quarter, we launched the Green EVA similar to the Green Polyethylene based on sugarcane ethanol and then with an important appeal in terms of sustainability. The first partnership of Braskem Evance I'm Green is our Green line is where allbirds an American company that is very popular now, especially in comfortable shoes, which is a type of shoes that have been growing fast and have just won in an award last week, precisely because they launched a line of products using our raw material.

Another important launch are the PVC windows, so the evolution of the use of PVC in window frames consolidating -- they have been doing it for a long time, so we wanted to have a lighter profile that will be more affordable and therefore expand the use of PVC profiles in the construction markets.

Now talking about the results, Brazil's EBITDA accounts for a 60% of the consolidated EBITDA of Braskem and what we saw in the third quarter was a growth of 13% as compared to the second quarter this year. There was also growth as compared to the first quarter, very much because of the recovery of sales volume that we have had compared to the second quarter, and this will offset the reduction of spreads in -- of resins but we also saw when Marcelo was talking, that we attain that also in Chemicals spread.

If we look year-to-date numbers, first nine months of the year in the Brazilian operations, we are 27% below as compared to the same period last year, especially because if we compare that to 9 months on average, we had lower spreads and a production volume that was slightly lower reflecting what Marcelo said, because of the incident in our plant in Maceio. because that plant of chlorine soda in the northeast. So then further on other events ended up compensating and making up for the problems we had in production.

And last and summarizing our operations in the Brazilian market, I think that the main thing Braskem has 29 manufacturing plants and it's the only integrated petrochemical industry with first and second generation. We're doing naphtha, propane and ethanol and then we produce all chemical products and resin including in the vinyl chain. And we have a relevant market share, so our consolidated market share of 67% in the first 9 months of the 2018 and we have partnerships with our customers for innovation and development of customized products focusing specific needs. We also believe that we have a differentiated relationship with our customers in this manner.

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We can have prices that follow the quality of international markets, both here in Brazil as well as in other countries that are strategic for our exports such as for example Mercosur. Our exports are optimized by our commercial presence outside Brazil. So the fact that we manufacture polypropylene in Europe with heavy local production and that facilitates and add values to our exports of polypropylene manufactured in Brazil that is exported to Europe and the same applies to Mexico and the United States. And our scale in exports make it possible further whenever necessary to export whatever is not taken up by the demand in Brazil.

And as Marcelo said, our feedstock diversification is something that we better the strategy and we have been consolidating this diversification. So with naphtha accounting for slightly more than 82% of our raw materials and then, ethane, propane, refinery off-gas, propylene and ethanol accounted for another 15% for products with renewable raw materials. It's also important to highlight and many times in at first you will think that the first we also have a diversified base of naphtha suppliers, Petrobras today accounts for 43% of our naphtha, 50% -- 57% of the naphtha that we buy is imported from more than 20 suppliers, the international suppliers. So the international naphtha market is very liquid.

So now, I'm going to turn it over to Fernando to talk about US and Mexico, rather Europe.

Fernando Musa {BIO 17592170 <GO>}

Thank you. I'll be talking about both geographies for US and Europe. Starting with the US and Europe, it's a basically PP operation with 1.4 million tons production capacity in the US and 25,000 in Europe. It's stock basis propane bought from several suppliers in the market. We also have a very important contract with the US for propane supply. We buy it from a plant which processes gas and propane, turning it into propane. It's a long-term contract with an economic rational linked to the price of propane. It also adds a competitive edge to us.

In terms of demand, seasonally both market, the second quarter is usually more stronger. We have summer vacation right after that, so several clients filled up inventories in the second quarter, then we see a drop of 5% in the third quarter when compared to the second quarter, which is quite common. They, year-to-date, have some stability of sales when we add together both regions. It's a year where expectation fan to stablize both for Europe and for the US.

The auto market has been growing strongly, but this year, we see those sales becoming flatter, leading to a more stabilized market. As for the utilization rate on the same chart, operation have improved which were unimproved in the third quarter with 87% compared to 84% in the second quarter, but when compared to our historical levels, both utilization rate levels are lower. We have been facing some operating problems and some plants in the US. We have a very long shutdown in one of the plants which lasted for more days than we expected. That was an impact.

And in Europe, the challenges faced by the petrochemical industry because of the low level of the rain in river have impacted the availability of feedstock, especially for the

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plants, which is located by the river and that has impacted our production capacity, which in fact affected that comparison year-to-date between quarters and when we compare also US and Europe, you see a drop from 97% down to 80% -- 87% and then our teams have been working to overcome those challenges in the US. Expectations are that we will resume historical levels in the coming months.

In Europe, that river issue has been a big challenge and we do not have as of yet a clear picture of what's happening in the near future going forward. So with that, the challenge to access feedstock will remain, not only for us, but for most producers located by the river. From the sales standpoint, we saw a drop of 4% in year-to-date sales, and in part due to a reduction in demand, in part due to production challenges, which led the accumulated number, the year-to-date nine months to show a drop of around 7%, both in the US and in Europe.

Now, looking at the spreads on the next slide. The scenario is quite different between US and Europe. In the US, we see an increase in spreads, which is a consistent increase quarter-on-quarter due to a relatively good demand, less robust than expected, but still at a good level, and a good offer of propane, which has granted us a good level of competitiveness, especially with our propane-based contract. In Europe, the situation is quite different. We see a consistent decline quarter-on-quarter, leading to a difference in year-to-date. We see the US, the 14% plus. And in Europe, we see a drop of 22%, as shown by both charts when we're talking about year-to-date spreads.

The important message there is that, despite the drop we used to have a very good level of profitability in Europe. As we combine those factors price and volume results continue to remain strong when you look at the combined operations, leading to a number of \$182 million in the third quarter, 7% up from the previous quarter. And in the year-to-date numbers we see a growth which is quite robust at 12% to an increase or improvement in the operations profitability levels, especially in the US.

As for value creation, on the next slide, we highlight two different project. The most important of which is the construction of the new PP plant in the US, it is a project of \$675 million for a new plant, world-class plant, the largest plant in America with a capacity of 450,000 tons in with a start-up scheduled for 2020. We already have \$341 million invested.

The engineering phase is practically over, the procurement phase for equipment and raw materials is well advanced. And it's only a normal to be at this phase, we still need to procure some materials and they are acquired now at this phase and in terms of construction we are at about a quarter of the project finalized. There is a picture of the project in the bottom of the slide, you see both reactors and the gas phase already installed as well. And it's difficult to tell the picture -- by the picture, but it's very, very high. It's one of the tallest towers in the region. When you look around the other plants, you don't see anything like it.

On the right-hand side, we talk about product development. The market for PP when used in refrigerated environment, always presented a challenge of combining both

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chemical and physical properties of the products. Some plastic materials are able to deliver this resistance to colder temperatures, in other words, they maintain the transparency level. We have launched this year, a resin for that market of refrigerated products and we see a picture there on the right-hand side, you see the traditional product which is OPEC [ph] and with the new resin 6810, which has the same characteristics of the product on the right, but it also ensures a very good transparency level, which is quite important for some segments, such as ice cream, for example, and other frozen products. Customers like to visualize the product inside the packaging. So that was a very important launch in terms of creating value and outstanding partnership with some of our clients.

So in summary on the next slide, for our operations in US and Europe, we are today the largest PP producer in the US. Five operating plants in five different sites. One under construction. We have two PP plants in Germany. We have one product line, which is specialized in PP. The other one called the UTEC, which is a specialty application for high added value applications. We have build a plant in Texas, started later as a complement to one of our plants in Bahia, which also produces the same kind of product.

We have leveraged our international presence as of late, our presence in the US, our presence in Europe, in Mexico, all of that together have allowed us to have a much stronger commercial operation all around -- not only around locally produced PE, PP products, but also in selling products coming from Brazil, from Mexico and with the start up of the new plant in the US. In 2020, we will also be able to sell PP coming from the US. That gives us an ability to get closer to our clients, which is way ahead of the back -- way ahead of our current position.

And in terms of feedstock, as I mentioned, we buy also ethane to produce products, which both PP and ethylene, but we have a very diversified supplier base both in the US and in Europe. Diversified not only in terms of supply, but in contracting modes, pricing, which allows us to be very flexible when we negotiate those products. As for Mexico, on the next slide our (Technical Difficulty)

Unidentified Speaker

Started commissioning in late 2015 and we could do everything related to the cracker central with our polyethylene in the first half of 2016 to do our production capacity is 1,050,000 in both high and low density polyethylene in Mexico. It's a very competitive plant, it was the first plant in the new wave mentioned by Edison in polyethylene projects built in America, which has the benefit of shale gas because it's indexed to the US prices.

Operation rates this year have been suffering with operational challenges that we are dealing with. This is public information that to supply a part of our deficiency has started importing ethane coming from the US with our logistic operations similar to what we've been doing that with ethane going to Bahia as Marcelo mentioned. The utilization rate in the third quarter there was a slight recovery and then it dropped to 72, and it's important to highlight that in the second quarter, we had the downtime to correct some construction problems that we identified along 2016 and in early 2017 and this downtime corrected all the problems.

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So the cost of the downtime was taken on by the EDC Group and this led to a drop in production in 2Q and then there was a recovering of marginal production, which made it possible to keep the margins of sales in the domestic market and a slight increase of exports from Mexico in the third quarter as compared to the second quarter and year-to-date numbers, we can see very clearly our strategy of favoring our relationship with the domestic market as part of the philosophy of the project of creating value for the Mexican economy and creating a close relationship to assure a flexibility in supply and adding our sales in a local market by 2%. And we have also reduced exports in order to deal with the drop in production, because of the drop in operation rates.

In terms of spreads, in North America along the same ideas as Edison mentioned and here we are talking about polyethylene and ethane, then you can see that in the first half of the year was quite strong with the last polyethylene split still in shares of profit in US. In Q3, practically all plants that were built in US are already in normal operation. So we see the drop off the spread going on along the year, a significant drop of 20% of the spread in the combination of more polyolefin and that was available and also because all plants were fully operational and leading of -- this affecting the price of the ethane going from \$250 per ton to almost \$450 per ton, but today it's gone back to \$230 to \$240 per ton as the new plants were absorbed by the market.

In spite of the drop along the year, if we compare in the nine months -- first nine months of this year and last year, we can see a reduction of spread and a growth of 6%, very much because of the polyethylene prices, and in year-to-year comparison, there is an average maintenance in the cost of raw materials.

Now if we go to EBITDA, we can see a drop in the third quarter, which is a result of the tighter spreads. I mentioned a drop of 20% of the reference spread and here, there is drop of 12% with the EBITDA. And because we had favorable local sales and if we compare year-to-year, there is a slight increase of 4% for our operation in Mexico, which is about \$417 billion, which is very, very good, profitability 50% EBITDA margin over revenue.

So our Mexico project, summarizing, is the largest industrial private investment ever in Mexico with more than \$5.2 billion invested. We have created 26,000 jobs during the construction and 3,000 new jobs created in Mexico after our startup. One of the main drivers for the Mexican government in the past two -- accept the project was a replacement of imports, which has been going on and within in fact in the trade balance with \$1.5 to \$2 billion a year. And this project was -- everything was built with great concern in terms of sustainability, in terms of being ecological, eco-friendly, preservation of the local flora and so we created even a small museum in the community. And because it is a project in a community that needed to do in --- evolve in terms of the human development index, so we also invested in our relationship with communities, trying to provide benefits to them and at the same time having the benefit of using them as labor.

It is an integrated gas plant, projected global scale. The largest polyethylene manufacturer in Mexico. It's a joint venture. So there is Idesa involved, which is a player that has more than 50 years operating in the Mexican petrochemical industry. They are very good and it has been added great value in terms of good governance and good interaction with the local markets. The ethane supply agreement is a long time -- long-

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term, rather, agreement for the supply, it's international, there's more than 30 parties. By contract, it assures the delivery of volume for 100% of the unit's production capacity. And as I've said, unfortunately, there were operational challenges and difficulties in terms of importing ethane to meet the causes of the contract.

Although, this is not what we expected, the contract stipulates quite strong cause, the take or pay for Braskem. In case Braskem does not meet the volume that has been agreed and this cause has been accounted for and paid for PEMEX because they are not delivering the -- the volumes that were contracted. Another important highlight is that the project was done according to project finance with \$3.2 billion with the consortium of 17 banks, including many multilateral funding agencies, such as IFC, IDB, EDC, BNDES and BANCOMEX.

Now, I'm going to turn it to Pedro who is going to talk about the consolidated results for Braskem.

Pedro Teixeira Carvalho {BIO 19489140 <GO>}

Good afternoon. In the third quarter, we had growth resolve in terms of EBITDA, \$909 million, 4% up from second quarter, 5% of increase when compared to the same quarter of last year. And year-to-date, we saw a drop of 12% in EBITDA. It was an expected drop, as you will remember. In the first half of last year, especially the first two months of last year, we had spreads which were exceptionally good for benzene and butadiene. We had an atypical market situation which led to very high spreads, which did not happen this year. Most of that drop comes from that fact.

The second effect was as of last year, we sold our chemical distribution unit. And this year, we did not show it again, if you also that capital gain does not show in our numbers this year, of course. So when we compare the evolution quarter-on-quarter, we can identify an effect which was mentioned before by Edison and Marcelo, in fact coming from a lower production in the first half of the year because operating problems, which affected the whole half of the year, something which did not happen in the third quarter of this year.

As for CapEx investments below the estimated amount for the year, the main operating expense was a scheduled shutdown for the cracker in Rio Grande do Sul. And in terms of strategic investments, we have the US project. It was mentioned by Fernando before. And expectations for the year, we won't meet the CapEx numbers. For the -- the last quarter is usually the stronger in terms of investments, so we will get close to the forecast of the year, but not really meet that forecast. As for cash generation, we had a very strong cash generation this year.

The year-to-date number is quite strong, but when we compare to the first nine years of last year, we can see that the cash generation to more than doubled when compared to last year. I have already mentioned the EBITDA, the variation in EBITDA which is not favorable for the company but the working capital for the company last year especially when we talk about feedstock suppliers that led to a reduction in cash generation. We had more cash allocated to the working capital and this year, the situation is different. We have

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a positive effect coming from the working capital. All the other numbers are in line with our historical levels and with our expectations leading to as I said, an exceptionally strong cash generation.

As for indebtedness, we have a long debt. Today, we have a debt coverage of about 13 months, so our cash today is more than enough to cover for the next 3 years. On top of that cash, we also have access to a credit line and standby, if you will, of another \$1 billion. And we have been working around refinancing and expanding that terms and we're also looking at the cost of that debt. So we are comparing costs and term and because of that, we worked around our perpetual bond and we redeem around BRL500 million -- \$500 million, sorry in September which led to a reduction in the cost of debt. We have maintained a strong cash position of \$1.5 billion.

And lastly, as for that debt leverage, it's under control. You can see a slight drop from 1.9 times that net over EBITDA down to 1.8 by the drop in EBITDA as we saw, which happened in the year-to-date last 12-months basis as I mentioned that has been dropping at a faster pace than that of the cash generation phase, and then we see a drop in the leverage level. As for rating, we have maintained the same rating according to Fitch and S&P. Last week Fitch reaffirmed Braskem's rating.

I'll give the floor now back to Fernando, who will be talking about governance and compliance.

Fernando Musa {BIO 17592170 <GO>}

As I mentioned before, this is a priority topic for Braskem. We have invested heavily both in everyday operations and in the interface with the Board. I mean, here we have a chart that shows the evolution of a series of elements, which is the components of our governance and compliance project. Points which in our view help improve our governance, helping improve our ability to manage compliance, starting with the number of independent Board members. Before we had two independent members in the Board.

Today, we have eight, including the Chairman of the Board. The Chairman of the Board is an independent member, quickly created a Compliance Committee, which was contemplated in the bylaws and with reports directly to the Board. We also have a Chief Compliance Officer responsible for the compliance area of course and who also reports directly to that Compliance Committee, I just mentioned. So there's a very strong link in terms of reporting, a direct report with the Board to the Compliance Department, which before report into the Legal Department, today, it is totally independent.

We have invested also in the series of processes and activities relative to compliance, which led that we need to increase the team, we moved some eight members in Brazil. So a team of 35 around the world. Most of the team is located in Brazil, but we have compliance structures in the US, Mexico and in Europe to address compliance activities.

We also have an ethics channel, which was managed internally before. Now, it is outsourced, it's managed by a specialized company that entailed a series of

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improvements in terms of capturing claims and complaints and that will ensure that anonymity is maintained throughout the process. And also have put together an internal audit department with a functional report through the CCO, but also to the Compliance Committee. And a series of studies have been conducted, which then helped us identify a series of possible improvements, which are now being implemented.

In terms of processes and policies, we also see a very strong development. In the past, we used to have a code of conduct which governed and listed and instructed the members how to behave, how to work, and the processes going through the procedures led to an important investment in terms of selling out all those policies and actually reviewing the code of conduct. We have a code of conduct for third parties, outsourced contractors, a series of guidelines, a series of policies, policies left to be approved by the Board and a guideline has to be approved by the Company's management.

So we have a very higher level of oversight now, not only of where but of how to implement those guidelines and policies. They are being surveyed, implemented in Mexico with a very robust effort of communication across the world. So all units are able to incorporate those policies with e-learning training onsite, training across all levels of the Company from the Board down to the operating team. And also a significant improvement in our interface with third-party contractors in terms of third-party risk management contracts, which now include anti-corruption provision.

So all those efforts have been put in place as we seek better governance for the Company, as we seek more transparency in our relationships with all our stakeholders, suppliers, communities and investors, but mainly as we seek to ensure ethical behavior across the Company. They vary, as I said, significant investment, which has helped the Company improve its processes, has helped us understand our challenges around the world.

Another important point I'd like to highlight, I'd now give the floor back over to Edison. She is leading this topic within Braskem to share with you our initiative around circular economy. This again is one of the largest plastic producers in the world and you have been seeing in headlines across the world how plastic have been a constant presence in the media because of pollution and waste and Braskem has decided to make its positioning more explicit in terms of plastic waste, in terms of circular economy. We've been working around that.

And I'd like to ask Edison to touch on that subject. Please Edison, you have the floor.

Edison Terra Filho {BIO 20119771 <GO>}

I would like to start remembering everyone, what we call the belief and the purpose of Braskem. So that we believe that plastic is very good in health, people having a better life and we believe that plastic and chemistry make life better and the purpose is to improve people's life by creating sustainable chemistry and plastic solutions.

So when we talk about circular economy, so we have the typical linear phase. We produce, use and dispose in a chain where we produce, use and re-use. So we want to you use product in some way either through recycling or re-using or using it for energy production, there are many different alternatives. I think that undoubtedly, we are absolutely sure of the benefits that plastic has provided to society.

And to-date, plastic is a fundamental solution for us to improve and increase the availability of food, to avoid loss in the production of food. So the world wastes one-third of the food it produces without plastics, this number would be even greater what plastic we are able to reduce that number. Just as an illustration of this one-third of food that is produced and wasted is accounted for 7% of the greenhouse effect gases that are annually produced in the world.

So in terms of plastic play a key role in the food chain, also in the availability of water and sanitation. Water is always present also in terms of a hygiene hospital, security or safety. So I could go on and on for a long time. So -- and the plastic is very successful and it uses - has a growing use, there is a problem that has -- that is becoming clearer and clearer that is that we need to think about what happens after consumption, what we need to do with residues so that we can responsibly deal with the management of weight and to avoid that plastic is disposed in an appropriate way in the environment.

So we have three main objectives. The number one is to communicate what we have already been doing for a while. I think Braskem ever since its creation has been supporting cooperative of garbage collection, recyclable collection. So we support the scrappers as I said and we want to work more and more with renewable sources. We made official the creation of another department focusing on the development of mechanical recycling solution. So the main objective is to communicate what we do.

Number two, we need to make explicit our intention of accelerating what we are already doing. I'll try to share with you what we've been doing. Alas, the third objective is to make any invitation to our customers and the customers of our customers and brand owners, or research organizations, academia and society as a whole to join Braskem and other petrochemical companies in this effort, because I think that this is a solution that will demand the efforts of many different stakeholders in society so that we can reach our objective.

So in a nutshell, we have listed 8 global initiatives that Braskem is already involved in, but we will be doing more intensely from our now on. Number one, we want to have partnerships with clients to develop products which can save recycling and re-use of plastic packaging. And we want to do it with our clients and with other partners.

So the petrochemical industry has been working for a long time in order to have more efficient packaging solutions. So in terms of sheets, plastics, thickness of film what we have today compared to what we used to have as he stated 10 years while it's completely different in terms of mechanical properties for the same packaging we have a much smaller use of material, sometimes the reduction is 10, 20 almost as much as 40% reduction in a rate of packaging.

We want to continue investing in new renewable origin resins. We want to develop and support new technologies and types of recycling. So as part of that recycle program there is a significant number of initiatives that we have worked on to close the cycle of certain products and it's joint work with our customers with a recyclers with the companies that collect the waste -- the recyclable waste and so the idea is to reinforce the work also bringing our technology development capacity.

So there is a team focusing on finding alternative and new technologies to improve mechanical recycling to enable chemical recycling when they transform a waste in raw material to make new chemical products or new resins to find waste for example, to improve the washing of waste to remove odor in during recycling and so on and so forth. Education program, Braskem has had a project with Educator for a while, so it goes through the effort of changing and improving our behavior as consumers.

So assessment of the plastic lifecycle, we have been doing at our many initiatives and we want to compare different materials once we see which are the most appropriate not just in terms of waste generation, but also in terms of energy consumption, water consumption, O2 generation. Looking at the whole life cycle of products to support the measurement of communication of recycling and recovery indicators for plastic packaging materials. This is important and we may advance in measuring and so that we may effectively see how effective the actions that we're taking are and the last two points, points 7 and 8 are more related to the issue of solving the liability.

One to six are related towards really changing a linear in economy and making it into a circular economy to provide solutions in terms of the destination of waste and 7 and 8 are more related to the -- our liabilities, especially the issue of waste in the sea or in the ocean. So we wanted to have partnerships and to understand, prevent and solve the debris problem in the ocean. So we have already published a document which is in our website.

Want to talk about this scenario in how we are seeing the evolution of our business. Over the next few months or next year I am going to share with you a vision of our industry and so the indicators that are most widely used in the petrochemical industry. So our scenario slightly better than this, because of our spread, but this is the scenario that is consensus in the industry, so you can see for 2019 a slight reduction in the spread for chemical and this is related to supply and demand in new production capacity that will start some in US and some in Asia for these highly as Edison mentioned.

So new volumes that that will be part of our production capacity in US, so it just will affect a little bit of the spread, especially in the first half of next year. And so we are expecting an impact next year. In terms of polypropylene, in a different regions, especially in Europe in the US it's quite positive and in Vinyls a stability as compared to this year.

All these numbers, all these markets are suffering the impact of the dynamics of the dispute -- the commercial dispute between the US and China. So what we see that is going on today, there is a market expectation that this will go on for a few months. It's a rearrangement of global production chain. So people who used to buy from China and US

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today, they are seeking new markets and so demand is still there, offer is still there. So our supply is still there, but we will still be seeing the impact of this rearrangement in the near future.

I would like to make a comment about that, which is this difference in this rearrangement of chemicals and resins and finished products. In the short-term resin flow will change, it can rearrange itself quite easily. So instead of going from the US to China, it will come from Europe, Asia, Americas and go into China, and then the American products will go to different regions. We are already dealing with this in fact, in our everyday business and there is a second impact which tariffs are also impacting finished products and the transmission of production into a product that is sold in the US and manufactured in China is hairdryers, toys so once and so forth.

The movement of the production location is not as fast as moving the destination of a flow, that is very easy to do in our industry is very tradable. The second effect, we still trying to understand so the industry in the many countries and we will see this is unfolding over the next one or two years. This company start to reorganize their production chain. And this may be very positive for our presence in US, for example, is more products will be -- will start to be manufactured in US, especially in the durable goods that will be made in the US, demand will grow for us, but this impact will require some more time for the industry to understand that and for the many companies to understand what will happen. In some cases we -- we'll benefit from that and it might create some challenges in other regions.

While in anyway, this Braskem's strategy or the strategy that we have had from many years for more than 10 years, if I'm not mistaken in terms of go internationally, having geographical diversification that creates a scenario that makes it possible for us to navigate well in this environment. So for example, if the Chinese market has some sort of limitation in terms of whatever is produced in the US, we can send what is produced in Brazil and Mexico. So within the arrangement of the global flows, we can allocate or reallocate our production and this is very -- helps us a lot to reduce in fact, because we can adapt our commerce flows and adapt it to the new reality.

Here about supply and demand cycle. I mentioned the issue about chemicals and polyethylene, polypropylene, we have seen a growth of the US in its local demand and growth in economy which is good. And in Vinyls, is so not so much investment here but we think it will continue positive. Another element affecting the four segments that you can see here is Brazilian demand. So the expectation of recovery that the Brazilian economy will continue its recovery so we are hoping or expecting 3% or 4% growth in Brazil and we think that we will have a positive growth rate here in Brazil which is also positive for Braskem performance.

Now Braskem will talk about our priorities in the future.

Unidentified Participant

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In closing, I will touching upon our priorities on the final slide and broad overview of our strategy. We have four main priorities which summarized what we are doing in terms of operations and strategy, starting with productivity and competitiveness. We are talking about our global industry increasingly integrated with trade flows as we just heard in terms of the tariff dispute between the US and China, well that impact our local industry also we are very volatile industry in terms of feedstock prices.

And so for us to maintain our success pattern, we need to continue to invest in terms of increasing productivity and competitiveness and we're doing that across all our businesses, processes, product development, financial operations, management, commercial operations management. So it is a continuous search for higher productivity and a higher competitiveness. So that we continue remain as a global player in this market.

Our ambition under the same topic is to be a first quartile operator. In other words, that Braskem now its operations we want to remain as I said, one of the main players in the world and that of course entails continuous effort in terms of benchmarking, comparing what they do, once again trying to find the right level of investment to maintain Braskem at the top of the productivity and come back even as latter. Number two, given the impact of Number 2 in our capacity to produce and our capacity to be or to remain competitive in terms of cost.

We have also worked around diversifying feedstock as it was mentioned before. We have a series of initiatives, which will continue to explore around feedstock. We have been making investment decisions in the past, which have led our feedstock base to be very diversified, we have reached a balance between liquid base and gas base as we also create a flexibility of around 20% what do I mean? We want to be able to run 40-60 naphtha gas or 60-40 either through fiscal investments or through an improved capacity in terms of managing our industrial plans.

The words optimizing our operations on an everyday basis or having contract with our suppliers, which are more flexible, which allow us to create this fluctuation, if you will, as market conditions evolve. The third pillar geographic diversification. We target that in Mexico and their first acquisition in the US a second acquisition and in the US after that and then Europe, and now we are building a new PP plant in the US. So we continue to try and diversify, commercially, geographically and we also want to reinforce our presence in Asia.

Our first that's only but we have added personnel in that market to be able to better access the market. And again, it is a continuous search for projects that will enhance our diversification both in terms of production basis and in terms of commercial capacity across the globe. We want to be competitive, we want to be able to send our products around the world including an increasing number of geographies. This will of course benefit our businesses greatly.

And lastly, we need also to always have an eye on reputation and governance. This strengthen the company's image. We have been thinking that recognition, our main

ambition is to recognize by the industry, by our partners, by our investors and recognize as a company which has a positive impact both locally and globally, because we have innovative, ethical and sustainable way of managing of doing things.

As it was mentioned, the circular economy project is a very important pillar of that, that all of that combined will lead us to be in the first quartile as a petrochemical operator. We also plan to have -- plan to expand our capacity considerably in the next few years, to allow us to have an EBITDA of operations outside the Brazil that contributes with more than 50%, which will allow us to be seen as a truly international company.

Now that's a summary of our strategy. And our numbers of our -- for the third quarter, I think we can wrap it up here and we can start the Q&A session.

Questions And Answers

Operator

All right, thank you. Very good. We will now take some questions. But I'd like you -- I'd like to ask you -- please do ask the questions using the mic. State your name, your company and please speak close to the mic, there are people following remotely and they need to listen to you loud and clear. So let's start the questions and comments. Thank you. Now you have the floor. Use the mic.

Q - Unidentified Participant

Thank you. Thank you, Pedro, Thank you, Edison, Fernando for your presentation. My first question is for contract. The contract with Petrobras matures at the end of 2020, I'd like to first, there is anything new on that front. And the second question as it with PEMEX in Mexico. We heard that there could be some renegotiation, is this going to happen or is there any intention of searching for independent distributor? So what kind of a dynamic can we expect and also a question about the flexi relation of the crackers? Today, we have a growing demand for ethane or and a decrease in demand for naphtha? How do you see that playing out going forward? How do you see the market working around naphtha and ethane going forward?

A - Edison Terra Filho {BIO 20119771 <GO>}

So I'll start and then Marcelo might complement if he want -- wishes to do so. In terms of the naphtha contract with Petrobras, as you said, it will mature by the end of 2020, the naphtha contracts with Petrobras. We are midway through it now, it's a five-year contract, the negotiations for the renewal that contract is something that in our view, will happen next year. We won't wait until the very last minute to do that. Today, though it is not the priority for us. Now I think we can't wait for next year to address that issue. That's when we'll start the negotiations with Petrobras next year.

As for the Mexico question, PEMEX has been facing operating challenges as I mentioned, we have a contract which is quite well structured and as it was said, this has helped the company maintain its normal flow we have been having a very good open dialog with

them in terms of what they need to do to improve their operating rates across their whole system. They have their production system, the extraction, the exploration system, the transportation system. So it's a combination of systems that need investment. The good news is that, they realized that in the short-term that would not be possible. So they started to import feedstocks from the US and they're trying to work around more structural solutions, both regarding their assets and also regarding the importation of ethane.

As for renegotiation. As I said, we have a very strong contract. We know about the contract, their positions, their ballast for the contract finance was the main element that drove the investment decision. Our intention is to collaborate with PEMEX. We want to operate the plant at full steam so we continue to talk with them and trying to find the fast ways to do that. So they need to find a solution in terms of importation of imports, which will be more structured that will create or create opportunity for us to do the import, because import that produce resins, if they have some kind of problem or issue, it could be an opportunity to operate at a higher level for those plants.

At the same time, it can exceed the number of production, but we won't knock on their door to renegotiate. The contract is ongoing, is balanced. There will be a new President in the country and we have heard from the new administration that they are looking into all contracts, not only ours but all contracts that were signed for the past few years. So our focus will be to look for the best economic rationale, just as it happens with our long-term contracts, there will be times where it will favor us. Other times it will favor PEMEX, when ethane reaches a level of 450, it was good for them. So the challenge lies rather on the operating capacity than on the contract economic rationale. So we need to wait for the new administration to take office and then we'll be talking to them following that rationale to have a very strong economic contact with them.

As for naphtha and ethane and the plant have come off-risk, the logic behind investment is to create flexibility as Marcelo mentioned. 13% of the ethane was reduced because the rationale that we have become more competitive because of the -- as time goes by that might change in this particular industry. The concept, as I said is to create a better balance across everything we do, including naphtha and other feedstock and flexibility, so the commercial project falls under the flexibility umbrella. We can run the company for 3%, 4% or 5% with zero ethane.

This was put together, was built to be flexible. That's the rationale behind across flexibility and the mid to long-run view is to reach a balance for the whole system. Have naphtha, give or take gas or other feedstock always following along that flexibility concept. We won't start processing naphtha, right, yeah, do not see naphtha as the only possible feedstock to produce those products. Naphtha will remain as a competitive feedstock as it has been for some time.

A - Marcelo de Oliveira Cerqueira {BIO 18679680 <GO>}

Just complementing as Edison mention naphtha is quite free in the market and ethane is a raw material that started navigating in 2018, so the markets of naphtha and ethane are liquid. So we want to have competitiveness, that's what we seek.

A - Unidentified Speaker

Good afternoon everyone, I am from Banco Santander. So going back to Mexico and talking about the contract, you said that Braskem is seeking alternative. And so what would be the additional investment to increase capacity. We have seen a drop in Q3, how is the fourth quarter going ?

So I would like to ask a question regarding Brazil, there is a new government, new President Elect. Who can that affect structurally, your business looking in the long term in terms of imports and the flow of goods to Brazil thinking of China and then that after the growth of the US that is going on. Which would be the potential sources for you to seek organic or inorganic growth.

Q - Unidentified Participant

As I said, PEMEX is already importing ethane and is trying to change that into something more structural. They have adapted the few systems to create the capacity to import. As they advance the investments there may be an opportunity to use more of that structure that would be potentially built even by third parties. And then we might operate without making any investment.

So we are looking at the alternatives, we have the know-how of how to do it, how to deal with ethane from what we learned in Bahia, we already have logistic know how of how to do that. So, we are following up what PEMEX is doing and assessing the alternatives. Our preference is that a system built by third-party that could facilitate as there is an existing structure for the export of retaining US by company and ideally the same thing should happen in Mexico, with the new government in a previous reform, there wasn't a natural evolution. With the new government, we need to see whether PEMEX is going to build that structure, if they're going to have a third party building it and then depending on what happened.

We will assess whether there is any possibility for us to make any sort of investments there. But our priority is to discuss with PEMEX the contract and the delivery that they are mandated to make according to contract clauses. So we are going to go to them and tell well we have an obligation what are you doing to delivery, what has been contracted to supply overall materials and the fourth quarter is slightly better but we still have a lot of volatility. Sometimes they delivery 100% of the contracted amount, sometimes it's 70% on average, it is slightly better than it used to be for the something that will still need to follow up on an everyday basis.

I'm going to skip your question about tariffs afterwards we can go back to that and I'll talk about the potential projects for the propane gland in US. The teams of the many different businesses in the many different regions have been developing, many opportunities and ideas. Today, we have a quite interesting portfolio of investment with relevant impact in productivity with a slight increase in capacity the lines are getting slightly more productive.

We have chance to reduce bottleneck except for the US where the priority with a new plant we don't need to -- we just bottleneck anymore and we have a few projects in new

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plants either in partnership with some other company or our own projects, there's nothing that we would communicate externally. But we have a project pipeline and we are working and that may evolve we discussed with the Board in order to come to a decision and whenever we reach a decision, we will report back to the market.

The issue of tariff is quite complex, because the logic, it's the logic of an ecosystem. So as I was talking about China and US, the US has taken a position of raising their tariffs and the new government in Brazil is lowering tariffs, but it is important to understand that everything has consequences that need -- that we need to understand. So that the ecosystem may work. In the past, there were situations in the past, there not just Brazil other countries too, when lowering tariffs was a good idea because this provides more income available to consumers as prices go down without understanding, it's not quite like that. But things work.

And if there is not a transition process where other associate -- other costs associated to turn the operation of the country also get more competitive and therefore permit tariffs to be more adequate. And lastly, in our case, it's important to remember that although resin tariff is 14% in practice, in real life, it's much smaller and much closer to the tariff that we see around the world which is around 6.5%, because of a set of agreement that Brazil has that end up impacting our industry slightly different from other regions.

So, the appearance that there is a big discrepancy in practice in Mercosur, in Argentina, many products from Colombia that end up causing an impact on the markets significantly in other countries to send lots of products to Brazil. And it creates a challenge. So I think that there is a logic for the tariff. It's a toll that is used by all countries and in the case of the US and China, we are raising their tariff. So let's see what the government will do, so that we can understand.

So it's a change of the ecosystem as a whole. It may have a positive impact. Just to qualify the issue of the ecosystem. I think there is no secret that Brazil tax burden is one of the most complicated in the world of our tax contingencies in the balance sheet, almost all of them are in Brazil. In Mexico, there is none, neither in US or Europe, the number of people that we have here to deal with tax affairs is completely different from what we have abroad, that I was talking to Marcelo about gas in Brazil.

So it's something that is not -- there is no incentive to efficiency it means to Brazil has some structural issues in other areas that affect the competitiveness of Brazilian industry. And as Fernando said, we're here to look at the system as a whole. And adding in terms of cost, number one, the chemical industry in Brazil is very important. Every developed country has a strong industry.

On the other end, the regulation model and that we have in Brazil imposes cost to the industry, but also logistic issues. Today, it's very difficult to invest in infrastructure imports in the Brazil. So we need to have a competitive energy gas imports so that we may effectively compete in the global market with imports tariffs that are comparable to other countries in the world. I think this is important.

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And we need to keep alerts to what will happen from now on. There are many situations today, in which, customers have alternatives many customers set forth and we have in Manaus, the duty free zone that has got us directing production to the Brazilian market and as Pedro said, we need to look at the system as a whole, because just as there is renegotiation and then they've had some states that offer benefits in local state products for imported products and it mitigates slightly those are different. So there are many variables that should be considered and addressed. Thinking of the whole. As a remainder you can send me your questions through the web. In the meantime, we're going to answer some other questions.

Good afternoon. I am (inaudible) from HSBC. Which synergy do you see for a possible integration?

A - Unidentified Speaker

I am going to answer your questions just in theoretical approach, because the possible transaction is being conducted by our controlling shareholder and the participation in the company's management is just in terms of supporting the due diligence in terms of obtaining information. So I will take, what I will do if I whereby in Brazil?

I think that and there are some significant opportunities of synergy that go along the line of continuing some actions that Braskem has, they can then they have created value. As we acquired polypropylene plants in US and Europe and integrated them in our management model, we could start some action that were important. And Brazil is structurally an importer of polypropylene and then Europe imports polypropylene, we manufacture a range products that is wide in Europe, because when we bought the plant, the previous owner was operating in a number of segments and needed a project.

As we learned to manage the system, we started getting some of the products that are sold in Europe and then were no longer manufactured in Europe and are exclusively manufactured in Brazil. They are projects with slightly higher value added, than some of the things we used to see in Brazil. So it improves exports from Brazil it goes for market that we are already serving in Europe and frees up space in the plants in Europe for us to manufacture products that are more competitive for that specific asset. So as we manage the network as a whole, we create this type of opportunity in optimizing assets, in optimizing flows as is our many flows of resin go into different region -- there are many different uses in managing the network as a whole and making use of its synergy.

So in here there is synergy, so part of the synergies here obviously in a transactions such as this is a simplification of overhead which would make the greater complexity of the combination. It's not just take all administration from one or another, but we don't need that sum of both, because there are many synergies. There are some opportunities in the logistic management and raw material management so you move more things, there will be synergies, the use of ship, of train, cars so the logistics system in Europe. So there are many different operational synergies.

Lastly, there would be a long list for me to go. So there is a set of synergies which is a combination of the capacities of the two company that although we look at the list of

players of the chemical and petrochemical market, maybe Lyondell is the most similar to Braskem in terms of product portfolio and also of geo -- in terms of geographical presence. At the same time, there is a lot of complementation, they are not in South America, we are in Mexico, they are in Mexico and US so it's a relatively manufacturing operation in Europe, Texas, they have been in the manufacturing in Europe. So we will complement each others and we have another new PP plant in Europe.

When we look at the system as a whole. So today for Braskem to build a new PP plant in Europe might not be the best opportunity, but as a whole, it might start making sense. So Braskem did not build the PDH to have access to propane. So is the combined -- the new combined company should be built a new plant in Europe and the US to improve supply, maybe if combining the two together. There are many possible strategic options and in our industrial scale may set difference so the combination could provide access to new opportunities. And this is a simplified list only, it's just from the top of my head thinking of what I would do. If I were there and I were buying this LyondellBasell.

Q - Unidentified Participant

Good afternoon. My name is Gonzari [ph], I'm an investor. So the question is about the new terms for the New York Stock Exchange.

A - Unidentified Speaker

I'm sorry but the sound from the questions mic is impossible to understand. Let's go to the answer then. So the first thing to mention that Braskem have already published the necessary documents early in the year. And what we are doing now is working around our internal controls. We had a term which was extended this week and thereby, we did not conclude all the ongoing works. So he asked for an extension.

What I can tell is that the team has been working hard and focused to finish that as soon as possible. That the scope changes with time. So as new headlines emerge or new fact emerge, we need to check and see if it's all according to plan. So it's a bit of a moving dynamics, if you will. With what we have today, that additional deadline is in line with our expectations. Well of course, there's always a certain level of uncertainty because of this moving quality of the process. But in terms of resolved numbers, we are not concerned about that. It is rather a work around internal controls as I said and meeting the deadline.

Operator

Thank you. We'll now start the Q&A. (Operator Instructions) (inaudible) from UBS has a question.

Q - Unidentified Participant

Good afternoon, everyone. Thank you for taking my question. I have two questions, the first one about the deal with Lyondell again. What are the main hurdles for that deal. As Mexico involved, as Petrobras involved, what are main hurdles for closing that deal? The second question has to do with the EBITDA generation outside of Brazil, your guidance is

to generate around 50% of EBITDA abroad? So my question is, how do you plan on reaching that number and when? Thank you.

A - Unidentified Speaker

I'll start with the second question, first. It's not a guidance, it's rather an ambition, a wish that we have and there is no defined deadline for that. We want to work towards generating EBITDA abroad at a level above 50% in the mid to the long run. Just as we talk about the balance for feedstock with a flexibility range of around 20%, we're also talking rather about a mid to long-term ambition than a guidance. There is no defined specified deadline as I said for that.

As for the deal with LyondellBasell, my ability to answer your question is quite limited. As I said, the role of the management has been to support the diligent process. We have not participated in any conversations between the management and Lyondell about the deal specifically. We are not active participants in drafting contract. I wouldn't even know if they're already talking about trading contract.

In my view, what I can tell you is that, we are close to the end of the deal, we have already answered a significant amount of questions coming from the controlling shareholder. But as I like to say, it's only final when the contract is signed. And our expectation now are that as shareholders are in negotiations with possible buyers, other questions might emerge. So it is an open process.

I wouldn't know if there are any hurdles as you mentioned as your question talked about hurdles. It is a very complex deal which involved two different geographies which are unknown to Lyondell, namely Brazil and Mexico with all the idiosyncrasies involving those geographies both countries going through government transitions, very complex, was talking about a very big company such as Braskem, different countries, different geographies. So to me, we are all within the expected process for such a huge deal.

Once again, given the specificities of our structures and also due to the participation of Petrobras, so I do believe that Lyondell is addressing the same thing with Petrobras. But again, I'd like to insist that this is just off the top of my head, I'm not a participant in that process. If I were the CEO of Lyondell, I'd also be talking with Petrobras, that's what I would imagine. He's an intelligent man and he is probably doing that, talking to other stakeholders. If there are hurdles as you mentioned, I don't know, I wouldn't know. The 20-F issue might be relevant, yes, but I wouldn't know how that would fit in this specific deal, we'd have to ask Lyondell directly actually.

Q - Unidentified Participant

Okay, I got it. Thank you.

Q - Andre Hachem {BIO 20209966 <GO>}

This is Andre from Itau. It's another question. For the trend of a closed economy, you have the Green qualified in that made of ethane. Has it become more viable in terms of price? Do you think there is any more space for this product in the future? And there was a

problem with supply recently. And the last question is you are quite good at cash. So what is your cash projection, the CapEx from now on is quite okay? How do you imagine that you're going to manage your cash and the cash and the payout of dividend?

A - Unidentified Speaker

So it's a complex question. Three people will answer it. So beginning with the issue of renewables. I think there is a difference that is important for us to make clear. One thing is the cost of ethanol-based heating, the structurally different cost has ethane -- naphtha based ethane versus ethanol basis and have different drivers although we know naphtha and ethanol. We're already talking to each other in the fuel market they had some relationship.

What we see ethanol and being less correlated to the foreign exchange rate, it's more price in the relevant naphtha. So from time to time, there may be variations in relative cost of production of ethanol-based ethane and structurally speaking on the whole, naphtha-based ethane is slightly cheaper. But there are times when, for example, when the BRL -- when the BRL-USD FX rate is forward will be around per dollar, the cost is almost equivalent.

So what defines the pricing of Green Polyethylene is not that. So Green Polyethylene today is the niche product and it competes with other renewable source through resins. And if we are to compare the pricing of Green Polyethylene versus the other resins, it's the most competitive resin available.

Well we say to our customers is that, if they cannot see any value, if they not capture a value in using Green Polyethylene or is they have an internal indicator or some -- the internally of equating sustainability which is important. So it doesn't make sense -- for the migrating from Green -- from Naphtha Polyethylene to Green Polyethylene, so it is dispatched from cost, it's related to the value and so the issue of raw material.

What I mentioned here about the ultra-deepwater oil, it's related to the shortage of ethane and propane domestically in Brazil. Brazil before the ultra-deep oil Brazil used to be very deep -- poor in these raw materials as the ultra-deepwater oil came and became more available structurally this issue is being resolved. Specifically, we had some shortages in refineries, where this raw material is extracted from gas.

So we should bring the raw material from the US, bringing raw material from the US at a limited volume, so there is a logistic at a limited volume complementing the specific failure that we have because of Petrobras, but structurally speaking as we have more oil coming from ultra-deep waters, we think that the supply will be at a good level.

So this decision combined the future prospect of Investments. And so as Fernando mentioned earlier on, the maturity of these projects as compared, payment of dividends by the company. We have approved with our Board, rather approved is a clearer policy in terms of which are the parameters for us to define the volumes that the company may get at. So there is a legal limit of 25% of net profit of net income, and according when we analyze the dividends, we are going to look prospectively into the future to see what have

in the future and according to these projections, the average should not exceed 2.5 times.

So we think it is natural that we pay out dividend so as we said, there is nothing at the advanced stage of a maturity there we don't have any major projects. We have the smaller project that are the point of being approved. Then on the other side, we have strong cash generation, so naturally something will happen. But this will be decided further on as we define the budget and we know what will come in the future. Considering, we are running late, we'll open for another question from the audience -- live audience in another question from the web.

Operator

Mr. Pedro Medeiros from Citibank would like to ask a question.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Good afternoon to everyone and congratulations on your performance and thank you for opening for questions. I have two questions. One is slightly more strategic. I would like to hear your opinion as to the expansion of capacity and the possibilities for expanding capacities. When do you the time will come for you to start considering investment in new polyethylene capacities, new PE capacities?

And the second question is looking more the trend of performance in 2018, we discussed a long time about supply of raw materials, but in 2018, you have demonstrated significant reduction as compared to the historic average in terms of naphtha provided by Petrobras in Brazil? Could you comment whether there is any targets, any level of equilibrium or how much you could process of imported naphtha?

And the last question looking into the two next quarters to understand, and you've addressed this in the presentation. Is there any plan of scheduled downtime that is relevant in the next two quarters that we should take into account? Thank you very much.

A - Unidentified Speaker

As to the capacity expansion for PE, okay. Among our assets in Brazil, we have at least three alternatives to expand capacity in those assets. Capacity expansion projects usually have a good level of profitability, provided we have feedstock and demand. And also there are -- there is a possibility -- when we have that, we have a good possibility to expand our (inaudible) acid both for the cracker and for the PE plants. Unfortunately what we had as a scenario for the past few years, starting in 2013, '14, '15 and '16, we saw a drop in market demand in Brazil and that delayed possible decision. But all the projects are ready.

It's only a matter of having availability of feedstock but some of the smaller projects it would be a matter of simply redirecting projects towards our PE plants for the (inaudible) plant we have to solve a raw material issue as well. Today, we have about a third of our PE production, from one-third to 40% of our PE production is exported. So we have no

problems in meeting a strategic market demand both in Brazil and abroad, markets that we could service from Brazil, especially in Latin America.

Just a brief follow-up in terms of feedstock naphtha, specifically has Edison mentioned when he made his presentation, we've been expanding our supplier portfolio globally. And with that, some opportunities have emerged that have shown us that we can better use better negotiating conditions going forward. So, we saw opportunities and we ended up importing more naphtha than buying from Petrobras.

In terms of bringing naphtha to Brazil, we have a limitation because of logistics issues. We depend on Petrobras' infrastructure to bring back naphtha in, on top of what we already bring in about 57% but there is room for us to advance and some certain point on, we would mean to assess cost, it would be an economic decision at the end.

In terms of scheduled shutdowns, the third question, we do have a scheduled shutdown at one of our plant in Bahia, that's for next year and then for 2020, we have a scheduled shutdown for PP -- a PP plant -- I'm sorry, 2021 as well. There was a change in the Brazilian legislation which allows us to conduct an internal study that will allow us to extend the campaigns to another 8 to 9 years. So that's something we're going to be doing throughout the next five years. We have already started and we should have a potential expansion of field campaign.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay.

Q - Unidentified Participant

Good afternoon, my name is (inaudible), I'm an Investor. I would like to, first of all, congratulate you on the results on holding this type of event. I'd like to ask you to please talk a little bit about social projects that you support vis-a-vis the tax incentive act? Are we using those tax benefits? Are we using that to the full extent that we can?

A - Unidentified Speaker

Okay. That issue around relationships with society and communities. That's a priority for us. And it is in line with our intention of being good corporate citizens, we invest a lot of effort in social project. We do use incentive laws, but we invest a lot more than we benefit from the law. All initiatives are geared towards needs that we identify from the standpoint of the communities located around our industrial plants, and then we focus our energy also on priority topics. For example, the cooperatives of residual scrapers that we do across Brazil.

So, yesterday by the way, we had a meeting to discuss the topic and we are now going through a moment, where we will fine-tune the way we approach that. We are conducting a very detailed study of the surroundings of our plants, including socioeconomic indicators, human development indexes, we have hired survey companies to try and identify demands coming from those communities. And the idea is to work closer with those communities in a more efficient way. So it's a -- so to answer your question is a

combination of incentives and investments, but it's always more on our side, we invest more than we benefit. But given the size of the company, it is a relevant amount of investment. But the impact is quite also quite significant.

Another component we have -- we discussed yesterday coincidentally, is to try and find a balance in terms of allocating efforts, both in Brazil and in other geographies where we operate. Of course, the priority would fall in Mexico, given that Europe and US are geographies where we have a higher level of development and so instruments such as those, of course, they are used, but they are used differently in those more developed society.

So we have a fact of efforts. That in Brazil alone, the private social investments has impacted over 180,000 people either directly or indirectly. People who were touched by those projects they include, the revamping of an elderly home, to reforestation, environmental education program, revamping of public schools. So it's a series of activities that we execute.

If I could add, we also sponsor Brazilian para athletes, and the sponsorship will continue throughout the current Olympic cycle. We have a partnership in the US with the Philadelphia Eagles around sustainability initiatives. We are also supporting a recycling project inside the Philadelphia Eagles stadium. Initiatives that we also have in place in Brazil in terms of recycling.

So now our questions-and-answer session has ended. And now we go to the next phase is the delivery of a 20 year of frequency feel that our team make offers to all companies that have consecutively -- that consecutively make the efforts and do their best to publish their practices and also in order to encourage them to continue and we hope that you get to 30 years, so I am going to turn -- to give you the CEO.

A - Fernando Musa {BIO 17592170 <GO>}

And now for the closing remarks, I would like to thank you for your presence, the partnership with APIMEC, is an initiative that is very important to have this dialog with the markets with a community of the investors so that you understand better Braskem but also for us to understand your expectations and your questions also direct the way we communicate with you and we learn a lot here. And so it's a day-to-day dialog that our Investor Relations team has with all investors and we tried to incorporate this in our communications with you.

And just in closing, in addition to thank, I would like to reinforce or to stress our strategy that is being quite successful in meeting our customer needs, in operating our plants with safety within the concept of sustainability that have enabled the reduction of our indebtedness level and that put Braskem today at a condition, both in terms of its presence and globally and in many geographies where we operate in a position of highlight with a portfolio pipeline of new projects that we're working on and over the next few years we hope to mature that should start in our pursuits to continuously create value to all our shareholders.

So once again, thank you very much for your presence and see you next time when we publish the results for the year of 2018 in the beginning of next year. Thank you very much.

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