

## Q1 2021 Earnings Call

### Company Participants

- Daniel Islaviero, CEO
- Pedro Freitas, Vice President of Finance, Procurement & Corporate Affairs
- Roberto Simoes, Chief Executive Officer
- Rosana Avolio, Investor Relations Director

### Other Participants

- Anne Milne, Analyst
- Ben Isaacson, Analyst
- Christian Audi, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good afternoon and thank you for waiting. Welcome to Companhia Paranaense de Energia-Copel Earnings Call to discuss the Results of the First Quarter of 2021. (Operating Instructions)

Before proceeding, we inform that forward-looking statements that might be made during this conference call related to Copel business outlook, projections, operating and financial projections, our goals and they are all based on the recent assumptions of the Company's management and on information currently available to the company. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur. General economic conditions, industry conditions, and other operating factors may also affect the future results of Copel and could cause results to differ materially from those expressed in such forward-looking statements.

With us today, Mr. Daniel Slaviero, CEO of the company; and Mr. Adriano Rudek de Moura, CFO and IR Officer. Copel's presentation is available at the Company's website [www.ri.copel.com](http://www.ri.copel.com).

Now, we turn the floor to Mr. Daniel Islaviero, CEO of the company.

#### Daniel Islaviero

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Good afternoon, everyone. Thank you very much for participating in this conference. I hope that all of you and your families are doing well and are healthy, and despite of facing a very challenging environment, we are very pleased to bring to you the results of this first quarter, which once again superseded our expectations and have a sound and consistent growth. In this quarter as broadly published in our notices of the market and specifically in our last call, we dedicated great efforts in our agenda to improve the governance in the company.

In addition to the help the Board in April 29, we had our Annual Shareholders Meeting, which increased the number of minority representatives going from two to three seats. They are Leila Loria, [ph], which are here with us and this call today. I would like to welcome them and to say that will keep on moving on and fast of Copel. The Board of Directors Chair is still (inaudible) you already know him, he is a great businessman and a great entrepreneur.

Here we have our EBITDA. We reached the BRL1.4 billion, a 13% increase and net income of almost BRL800 million, 50% up. As we have been saying, these results are thanks due to the execution of our business plan with focus in core business of energy efficiency improvement and discipline in capital allocation, always aiming to generate more value to the company. More is going to go into the details about the performance of our business units. But I want to stress the extraordinary work of Copel generation and transmission. There is a growth of 41% in its EBITDA compared to the first quarter of 2020. This is mainly thanks (Technical Difficulty).

[Call starts abruptly]

## Operator

...Safe Harbor of Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Braskem Management convinced 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 operation factors could also affect the future results of Braskem and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Rosana Avolio, Investor Relations Director. Ms. Avolio, you may begin your conference.

## Rosana Avolio {BIO 20386863 <GO>}

Good morning, all. We would like to thank you for joining Braskem on this conference call. So they will present First Quarter 2021 Results. Please let's move to Slide 3 in which we'll talk about the petrochemical context in 2021. In the first quarter of 2021, petrochemical supply was impacted by the severe winter storm in the U.S. Gulf Coast, which led to the unplanned production closures affecting resin suppliers. Additionally, demand continues

strong for (inaudible). Because of this context international markets were impacted and reached the highest level since 2017, positively impacting the profitability of petrochemical companies in general.

In the case of (inaudible) for instance, is spreads in the first quarter of 2021 were 103% higher than last year average. In the case of PE gas base, which is a spread that impacts Braskem business in Mexico and in the petrochemical cracking in Rio de Janeiro, depreciation was also significant and its price increased 92% compared to the average in 2020. Regarding the PP propylene spreads in the United States, spread grew 49% compared to 2020 average.

Moving to Slide 4, we will comment about Braskem's consolidated first quarter 2021 highlights. In the first quarter of 2021, the company's recurring operating result was \$1,266 million, 52% higher than fourth quarter 2020, explained mainly by the better spreads for PE, PP and main chemicals in Brazil, for PP in the U.S. and Europe and for PE in Mexico and also explained by the higher PP sales volumes in Europe. Compared to first quarter of 2020, recurring operating results in U.S. dollars upto 341%. Due to the better spreads for resins and main chemicals in Brazil, for PP in the United States and Europe and for PE in Mexico and also due to the higher sales volume of PP in the United States and Europe and of main chemicals in Brazil.

Moving to the next slide. On Slide 5, we will present the main highlights of Brazil's operations. In the first quarter of 2021, the utilization rate of our petrochemical crackers was 3 percentile points lower than fourth quarter 2020, mainly due to the impact of the (inaudible). In the Brazilian market, resin sales decrease in relation to the fourth quarter 2020 due to the weaker, but still healthy demand in Brazilian market, and also due to the lower product supply in the period. The reduction in exports is explained by the focus of the company on serving the Brazilian market. Given that, Brazil's recurring operating result was \$943 million, 39% higher than fourth quarter 2020, representing 7% of the company's consolidated segments recurring operating results. This increase in EBITDA is mainly explained by better PP, PE and main chemicals spread in the international market.

Moving to the next Slide. In this slide, we will talk about the feedstock profile in Brazil. In-line with the company's strategy to diversify suppliers, the Brazil segment continued to purchase naphtha via supplier agreements with international suppliers. In the first quarter of 2021, net imports accounted for around 7% of the total naphtha consumption in the quarter. It's worth mentioning that Braskem obtains longest payment term on naphtha purchase with foreign suppliers impacting positively in cash generation.

In the slide, we will provide an update on geological event in Alagoas. In this slide, we will talk about the provisions regarding the geological event in Alagoas. In the chart on the left of this slide, we present the balance of provision. In the first quarter of 2021, the balance of provisions related to the geological event in Alagoas was around BRL8.5 billion and during the quarter Braskem Reverse Provisions in the amount of BRL139 million. In the right chart of this slide, we present the disbursement schedule. Of the BRL8.5 billion, around 50% was recorded under current liability and 50% under no current liabilities. It's important to mention that the company cannot predict with certainty future developments

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in respect of this matter or its related expenses. And the cost to be incurred by the company may be different than the current estimated or provisioned.

Moving to the next slide. In this slide, we will talk about the Financial Compensation and Support for Location program. In the first quarter of 2021, Braskem continued to make progress on its relocation and Financial Compensation of families in the districts affected in Maceio. The numbers of families relocated increased 25%, reaching around 11,500 families. Additionally, the number of financial compensation proposals submitted by the company increased 58%. Regarding payments made in this scope of the financial compensation and support relocation program, around BRL700 million had already been disbursed as of first quarter 2021.

Moving to the next slide. In the United States, the average utilization rate of our PP plants decreased in relation to fourth quarter 2020, explained by the impacts from winter storm Uri in the U.S. Gulf Coast. In Europe, utilization rate increase in relation to fourth quarter 2020, explained by the shutdown in the last quarter of the prior year.

In the United States, considering the sales over the new PP plant Delta only in the first quarter of 2021, sales increase in relation to fourth quarter 2020 and also in relation to fourth quarter 2020, mainly to the increase in production capacity after the commercial startup of the new PP plant in the region in September 2020. In Europe, sales increased in relation to fourth quarter 2020 and also in relation to the first quarter 2020 due to the higher supply of the product in the period. In the next slide, we will talk about an important highlight in the United States.

During the first quarter of 2021, Braskem made the first international shipment from new global export hub facility. The new hub offers packaging, warehousing and export shipment services to support Braskem's six PP plants in United States. Additionally, the facility has the capacity to support export shipments of up to (inaudible) annually to Braskem clients worldwide. The new logistics and distribution facility in the poor region of South Carolina significantly increased Braskem export capacity in the United States. Due to the current moment in the PP market in North America, Braskem is prioritizing sales in the U.S. market. However, over time, the new hub will enable Braskem to leverage the production of its asset on the U.S. Gulf Coast, Pennsylvania and West Virginia to better serve the needs of its international clients. In the next slide, we will talk about the main highlights of Mexico's operation

In Mexico, the average capacity utilization rate of our PE plant increased in relation to the fourth quarter 2020 due to the production base on an experimental business model implemented in January and February, following the unilateral interruption of natural gas transport service in early December 2020. In early March, after executing our natural gas transportation service agreement with Cenagas, transportation service were established. PE sales in Mexico decreased by 27% when compared to fourth quarter 2020 due to the lower availability of products in the inventory. Mexico's recurring Operating Result was \$94 million, 49% lower than fourth quarter 2020 representing 7% of the company's consolidated segments EBITDA. In the next slide, we'll talk about fast track solution in Mexico.

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In this slide, we'll talk about the expansion of (inaudible) from U.S. to Braskem Idesa. In December 2020, Braskem Idesa conclude the expansion of its fast track operation, which currently has expected ethane import capacity of 20,000 barrels per day. In the first quarter of 2021, to complement the supply of ethane. Braskem Idesa imported a daily average of 13,000 in one hundred barrels of ethane from the United States, which represented around 66% of fast track's current capacity. Additionally, the volume of import ethane accounted for around 30% of Braskem total ethane supply in the quarter.

Moving to the next slide. In the first quarter of 2021, we had a positive free cash flow generation of BRL1,766 million, mainly explained by the recurring operating results in the quarter, the monetization of fiscal fees credit in the approximate amount of BRL761 million and also explained by the lower volume of operating in a strategic investment. These positive impacts are mainly opposed by the negative work to capital change due to the impact from higher prices for resins and main chemicals in the international market, affecting accounts receivable and also from higher naphtha prices on the finished product costs in inventory.

Moving to the next slide. In the end of March, the average debt term was around 14 years with most of that maturing the long-term. Also considering its cash balance, the company has sufficient liquidity to cover that maturities in the next seven to nine months. During the quarter, because of the company's strong cash position and to reduce its gross debt, Braskem announced the total redemption of the 7.375 perpetual bond at face value in the amount of \$500 million.

Let's move to the next slide, which will talk about corporate leverage. In-line with its continuous commitment to financial (inaudible) and with the objective to be reassigned as an investment grade, company Braskem continue to reduce its corporate leverage. The leverage ratio measured as the ratio of net debt to recurring operating results in U.S. dollars in the first quarter 2021 at 1.8x, down 39% from fourth quarter 2020, which was 2.94x. Additionally, the company net debt decreased approximately \$1 billion compared to first quarter 2020.

Moving to the next slide, we will start talking about our ESG highlights. The EPS renewables we started up, its wind complex which is going to supply renewable energy to Braskem. The power supply is secured by a 20-year per chase agreement signed 2018. This partnership is estimated to result in the avoidance of 280,000 ton of CO2 and is one of the four power purchase agreement signed by the company as of 2021. The wind complex and it's construction compliance with the key guiding principles of sustainable development. This project is part of our carbon neutrality strategy. It's one of the agreement, which puts Braskem near to the mark of 1.5 million tons of CO2 emissions avoided through long-term renewable power purchase agreements.

Let's move to the next slide. Other important initiative related to climate change is the first collaboration between Trafigura and Braskem on the first naphtha shipment in the world to offset carbon emissions. Trafigura supplies important naphtha to Braskem petrochemical complex located in Brazil. In collaboration with the company, the first shipment was made with offsetting reductions of the carbon emissions associated with the feedstock, which includes extraction, refining and transportation process. The

calculation was made by Trafigura and the results were obtained from offset project based on the nature located in Indonesia and reductions based on energy gained by cargo vessels.

All of said data is assured by verified carbon standards. This project is one step forward on the work to offset Scope 3 CO2 emissions in which the company's contribution strategy is under development. Moving to the next slide.

Other important achievement is related to our commitment to eliminate the plastic waste through recycling initiative. Braskem is the first Brazilian company to receive the ISCC Plus, an international certification for the production of resins and chemicals from secular feedstock such as (inaudible) is the product of chemical recycling that breaks down the post-consumption thermal plants resins molecularly using yeast. The certification is based in the mass concept, which ensures that the input amount of raw material is transformed into an equivalent amount of final product in the certified plants.

The certified plants are the ABC petrochemical complex at Sao Paulo state and Triunfo Petrochemical Complex at the Rio Grande do Sul state. These control enable the sustainability of products to be duly credit and recognized. Moving to the next slide.

The COVID Pandemic has affected people's lives, especially with regard to the basic necessities. In this sense, the company allocated BRL50 million in 2021 to combat hunger and it has started to distribute 48,000 food staple boxes, 25,000 hygiene kits and three tons of vegetable to the surrounding communities in several states of Brazil. Also through its Employee Volunteer Program, Braskem will donate free food staple for each box donated by its employees. These actions are related to our social responsibility values, which aim to assimilate and support the local development of the surrounding communities of our operations.

This important moment calls for solidarity, joining forces and helping people's lives improve in Brazil to minimize pandemic's impact -- COVID pandemic has affected people's lives especially with regards to the basic necessities. In this sense, the company allocated BRL50 million to combat hunger and it has started to distribute 48,000 food staple boxes, 25,000 hygiene kits and three tons of vegetables to the surrounding communities in several states of Brazil. Also through its Employee Volunteer Program, Braskem will donate free food staple for each box donated by its employees. These actions are related to our social responsibility values, which aim to assimilate and support the local development of the surrounding communities of our operations. This important moment calls for solidarity, joining forces and helping people in need across Brazil to minimize pandemic's impacts. Let's move to the next slide.

Braskem was certified by the Brazilian Federal Revenue Service as an authorized economic operator in the compliance category. This is an international recognition for the adaption of practices and management process that minimize risks advance, existing in import operations and for the voluntarily comply with the compliance, reliability, and security criteria applicable to the global logistics chain, as well as tax and the customers' obligation. This recognition is in relation with international partners and offers benefits

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such as reducing ports time and cost. With this credential, Braskem expand its international footprint and reinforce image as an increasingly competitive responsible and compliant company.

In the next slide, we will talk about petrochemical scenario in 2021. According to the most recent projections by external consulting firms, the expectations for healthier PE and PVC spreads in 2021. In the case of PE, in the second quarter of 2021. It is expected more profitable PE naphtha and PE spreads since then seen in the last quarters. In the case of PVC, after the return of our chlor-alkali plant, this spread part better reflect the (inaudible) which is also more profitable than previous quarters.

Let's move to the next slide, which will talk about the scenario for PP. Similar to PE and PVC, external consulting firms are projecting healthy PP spreads in 2021 in the United States and also in Europe. In the case of PP, the main highlight is regarding spreads in the United States where projections point for a 25% increase in PP propylene U.S. spreads compared to recent years.

Moving to the next slide. In this slide, we will present the short-term outlook, focusing on the dynamics in the second quarter of 2021 compared to the first quarter of 2021. In the case of Brazil, ethane production to be in-line with higher production Rio Grande do Sul after the peak stop in first quarter of 2021 and also, with the scheduled shutdown and the Sao Paulo complex in April and May. Regarding sales, total resin sales should be in-line and the company expects to continue strategy to prioritize sales to Brazilian and South American market. Additionally, it is expected healthy spreads for PE and PVC.

In the United States, higher PP production in sales is expected. With expectations for normalized production at all plants following the impact from weather events in the first quarter of 2021. Additionally, it is expected the healthier PP propylene spread in the U.S. due to the continued strong demand and gradual recovering in PP supply.

Finally, from Braskem Idesa, PE production sales should be higher due to the return of gas transportation service and the expectation higher ethane supply through fast track solution, generation, a higher product availability. Regarding spreads, in-line with what we presented for the other regions, PE chain spreads in the U.S. should be healthier.

Moving to the next slide. To conclude the presentation, we will look at the May objectives of the company for 2021. For this year, the Company developed six main objectives in each strategy. Continue with the advance is related to the geological even in Alagoas find a constructive way to solve the shortage in Mexico, ensure the company's continued financial healthy, risk management and discipline in capital allocation. With Braskems image and recognition with team members, clients suppliers, investors and society, increased effectivity in innovation and speed up digital transformation and finally, advancing the implementation of our ESG commitments.

Lastly, but not least, safety in our operations are perpetual in non-negotiable value in our strategy. That concludes today's presentation. Thank you for your attention. Let's move to the question-and-answer session.

## Questions And Answers

### Operator

Thank you. (Operator Instructions) Our first question comes from Ben Isaacson from Scotiabank. Mr. Isaacson, you may proceed.

#### Q - Ben Isaacson {BIO 6619206 <GO>}

Thank you very much and good afternoon, everyone. Congratulations on the great quarter and thank you for the comprehensive review. My first question is on spreads and how do you see spreads playing out over the next few quarters? And do you see any lingering impact from the Texas freeze in Q2 as it relates to Braskem?

#### A - Pedro Freitas {BIO 21187627 <GO>}

Hi, Ben. This is Pedro Freitas. Good afternoon, everyone. Thank you for attending our call. We do see some lingering impacts from the freeze in Q2, Ben. If you look at spreads in the U.S. for polypropylene for example, they are still high compared to the historical norm. If you look at the presentation on Slide 22, you can see exactly that it's still an increase of about \$230-\$240 per ton in the polypropylene spread in the U.S. And that is, I would say (inaudible) decrease. So, we do see an improvement in terms of spread in the U.S. in the next quarter or in this quarter, the second quarter. If you look more towards the end of the year, I'll pick an example here of the PE to naphtha spread, it's both from \$1,100 per ton, \$700 per ton. So about 50% -- no, it's about 30% drop in the PE naphtha spread. So we do see this drop. But to give you an example, from an \$120 per ton in the PE naphtha spread is similar to the 2019 spreads, which will -- was a historical record of the company in results. So, we see spreads coming down in the second half of the year, but coming down to a level that is still very good. And more specifically in the U.S., we do see a very strong still second quarter in terms of spreads and then the second half of the year, probably a little bit lower, but still on very good levels.

#### Q - Ben Isaacson {BIO 6619206 <GO>}

Just one more question on the spreads before I get to the leverage. So, how would you rank PE, PP and PVC in terms of how tight those markets are? Whether you look at inventories, I guess in terms of how long it will take for inventory levels to get back to normal?

#### A - Pedro Freitas {BIO 21187627 <GO>}

All of them are pretty tight. Then, if I were to guess, I would guess that it's different per region. Okay? So I would say that in Brazil, we already see some inventories getting back to normal or closer to normal -- maybe not at normal. It usually takes about two to three months for inventories to normalize. But the lingering effects of the (inaudible) Texas means that it's taking longer for those inventories to be normalized. So, we're still at lower inventory levels in the value chain compared to the -- I'd say the five-year average. Still very low inventory levels. If I were to guess, I would say that probably PVC is a bit tighter globally, especially because we have not seen a lot of new investments in PVC globally. And then P, PE seems to be like they are on a similar position. But we think that PE



is going to structurally -- I mean you have more of the capacity of. So, to the end of the year, we think that PP should become softer compared to PE, but again as I've said, it's still on very good levels.

**Q - Ben Isaacson** {BIO 6619206 <GO>}

Great. And then just my last question. Your leverage has improved a lot. I don't have the number in front of me, but I believe it's sub to two, if I'm not mistaken. And one point, what does that mean? So what does that mean in terms of timing to and get to investment grade? And then what do you do once you're there? Do you want to keep your balance sheet at that level? Or are you trying to build up some firepower to do some acquisitions? What are you thinking about your balance sheet as you move towards investment grade?

**A - Pedro Freitas** {BIO 21187627 <GO>}

Ben, we like to have our leverage below 2.5. So that's in our dividend policy. We like to go back to paying dividends to our shareholders. So, we are looking at that possibility in the future as leverage comes down, but always following our dividend policy, which is, we have to look at current leverage plus the forecasted leverage for the next two years and that number needs to be below 2.5 for us to be able to pay dividend. In case of Brazil, we have the minimum dividend which is mandatory, which pay any excess dividends. That's what we would like to do. Retain capability of paying dividends. So this year, we don't have that capability and we had a loss last year. So we cannot do dividends. What we are really looking at today, first, second half of last year, was pretty bad right middle curtailing production, so we anticipate that the second half.

The second quarter of this year is going to be better than the second quarter of last year, so we see leverage coming further down in the second quarter, so we keep getting this type of question, what we're going to do with all this money, and how does that play out in some investment grade? We've been talking to the rating agencies, and showing them that our situation is much better than it was one year ago, when they took investment 20 loss of investment grade, right. So, just to explore this a low before there on the rating agency side. Last year they told us, look there are two factors that we're more relevant in their urgency. One was the moment in the cycle, overcapacity potential, and I mean 2018, I mean, very low results, right. And the leverage was pretty high as well, second point towards our goals and the uncertainty there on that, and third point was COVID and the uncertainties are uncoated.

So, right now, what we have is a much better financial situation, much lower leverage, below two as you mentioned at 1.8, forecast for even though are leveraging the coming quarters. We see, how I in a different light today, much lower uncertainties with the settlement that we had in December, and COVID, I mean in the end, you saw the results of the past three quarters, since the first half of last year will be pretty well despite of COVID. So, in all the arguments that the repeat of, and the last July, there are no longer in the table and actually what we have on the table with a much more favorable situation. So, our goal now, is to recover the investment grade, we'll be talking to them and let's see how big site right it's there, it's there team, but we've been emphasizing those points in that.

And then, on what to do with the cash flows, and what we are doing, is we are retiring gross debt, so, we are paying back that we did that with the perpetual bond at \$100 million on March, asking the expected cash flow materializes over that coming months, and quarters, we expect to keep retiring gross debt, as we cannot be dividends, we don't have substantial growth projects, or new investments in the company. So, in the end, that's what we are looking at for this year, for next year, if we have a net profit in the basis, then, we also anticipate paying some dividends, of course, within the metrics, that I mentioned in our books during the call.

**Q - Ben Isaacson** {BIO 6619206 <GO>}

That's very helpful. Thank you so much. Appreciate the time.

## Operator

Our next question comes from Christian Audi from Santander. Mr. Christian. You may proceed.

**Q - Christian Audi** {BIO 1825501 <GO>}

Thank you. Hello, Roberto and Pedro. First of all, congratulations on these results record, and really amazing across the board, so congratulations to the whole team. I wanted to focus on three questions the operation is going so well, but, I wanted to touch on the, on the topics that are little beyond operational to get your latest views more. Remember once, you've done a lot on the (inaudible) goals front, and you've been very transparent with the markets. But, if you could comment on this recent developments in terms of, is there really anything new there or not, that would be helpful? Second again, you've been working very hard as well, on Mexico, could you give us an update on how the negotiations are going? And if from a timing point of view, you believe that by the Q4, this could be resolved, or we just not have visibility to be able to talk about timing for them for these negotiations to be concluded? And then, the third and the final one is, if you have had any discussion with Petrobras, from the point of view of the potential sale of their stake on Braskem, because it is something that can create noise, generates potential overhangs which obviously is not helpful to your stock. Thank you.

**A - Roberto Simoes** {BIO 16140701 <GO>}

Hi, Christian. Thank you for your questions on Braskem -- I mean, we are going to show the substantial improvements, we did in relocating people, and sort of making proposals to them, and also in getting acceptance on the -- at 99.6% in the Q1, our proposals accepted, and also in actually making the disbursements, right. So, we had, I would say very substantial improvements, or advances in that regard, and also, I mean you are learning, right. You saw that, we had a reversion very, let's say, it's a large number of BRL139 million, we reversion into Brazilian, which comes out of learning and out of improving the operation. So that we reduced the cost of, I was just about to call it kind of possible overhang in managing the situation there, so that was -- those were substantial advances. We didn't have yesterday a piece of news that came out in Brazil, around some, I'd say, moves by a community in Alagoas, and what they said was, that I mean they've been low more isolated, because the neighborhood is been relocated, and a

portion of that is not in the relocation program, so they're saying, I mean we had clients in our businesses, that were across the street.

That's sort of team right kind of more on the social impacts us relocating people, and looking at the people that are remaining in their original home. The concept of the settlement that we had back in December was, we will relocate people that are at risk, you can as a huge risk mitigation efforts, right. I mean, it's really getting people out of potentially risky situation, and that area that was the reason for this piece of news is not in a risky situation mean when we look at the criticality and even local authority that need that and they've done this publicly. I agree, that it's not a critical area for risk, it's more of a social impact, and then I'd like to remind everybody that the other settlement, that we had was on the social and urbanistic environmental aspects of the case, and there is about 1.6 billion high already in the provision to be invested, or to projects to mitigate the social impact of the situation around. So, we believe that once the, if the city wants to allocate a portion of that a portion 1.6 billion highs to that part of the community, we would be fine with that.

It's important that in the city needs to it will adhere to the settlement, so that we can start implementing the actions, so that something, that we're still working on the, but once that is done, we will be able to allocate part of those resources to that community. I mean you can., so, that's our view on how this year, and as well in the future. So, that's the Alagoas aspect on Mexico, I'll be very brief, I mean negotiations are still ongoing, I think everybody knows the underlying issue is the lack of ethane in the country. We been putting a lot of effort in increasing the supplier reported ethane, so our capacity to report right now, is about 20,000 barrels per day of ethane, and we are expanding the capacity to 26,000 barrels per day, in the coming out a month or so. So, and then PEMEX has been supplying supine, or the 35,000 barrels per day, so, if you look at those numbers, the potential maximum capacity right now, would be, or in the near future will be about 55,060 barrels per day, and so that's about 80%, 85% of capacity utilization. Going back to the negotiation, again it's growing terms still need to be aligned, and get to a final agreement is really, as you said, end of the year, and we have no control on timing right, and negotiation can be shorter, can be longer, but right now the outlook is for the end of the year.

And finally, on Petrobras, I mean there were some rumor in the market last Friday, and what we've got from all of that was that Petrobras made a public statement that Friday, saying that first one thing that the has been telling everybody equity, Braskem is not a core asset for them, so it's part of their divestment plan, but they also said last Friday, that they don't have any definition above the sale model. So, we don't have any other information, about this if their decision, but we don't have any news that they are really moving on selling their stake, and we know, part of the divestment program, we don't have any information about any short-term decisions right now.

## Q - Christian Audi {BIO 1825501 <GO>}

Very clear pivotal, and just a follow-up, the recent news implies in any way, that you would need to do anything beyond all the work, you know, that you've already done in provisioning for these events, or no that we'd be a development, that's part of the money, you've put aside that you've provision to be able the situation?

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**A - Roberto Simoes** {BIO 16140701 <GO>}

The short answer to that, we believe the provision is adequate, and correct, given the settlement and all the noise that we have at this moment, of course, it is a situation that may hold, so we make these changes, there is no way for us to control that. But, right now, and even in light of the piece of news yesterday, we believe that the provision is adequate, and we don't intend to change that.

**Q - Christian Audi** {BIO 1825501 <GO>}

All right, thank you very much.

**Operator**

Our next question comes from Guilherme Levy from Morgan Stanley. Mr. Guilherme, you may proceed.

**Q - Unidentified Participant**

Hi, good afternoon and thanks for taking my questions, my first question is actually a follow-up from the last one on Alagoas, I just wanted to put in other way the question. How easy it is for the city defense [ph] or the municipality, or any other public entity to like go, and reopen the agreements that were already signed, I just wanted to understand, to what level the agreements already signed are [inaudible] or they can still be modified? And, the next one, last quarter, we saw a material impact on, of working capital, and cash generation, I just wanted to get your view on, what should we expect into the next quarters and for the full year? Thank you.

**A - Roberto Simoes** {BIO 16140701 <GO>}

Hi, on your, different way of framing the question around the Alagoas, we settled the two settlements back in December, they had first, demand that was a part of that settlement, was the December demand and there is no provision for that to be changed automatically, okay. So, that's the basis for the risk here, and those two civil actions, were extinguished in December, so of course a new action could be proposed against the company. But, right now, I mean the civil actions were extinguished they don't exist anymore, and the basis for the settlement, and our obligation related to the news that was published back in December, and even a new map would not change that basis.

The second point, I would bring is the concept and reinforce the concept, that I just mentioned around what is behind those two segments, right. One is behind risk okay, so if the risk is to people that in the settlement has led to relocate, so we will need to (inaudible) that there was risk in a different area for us to start, even potentially start a discussion around including, that area in the relocation program, so that's the first point. And as I said, we don't have an indication, and we have substantially upgraded the monitoring the geological monitoring of the area, we don't have any indication of risk there, and we even have local authorities again, saying that it's not a matter of criticality, or risk in that region. It's a social impact, so that's the first concept, okay, location is linked to risk in our mind, and the settlement was done in a specific math back in December around that, on the relocation.

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On the, other part of the settlement that constantly social remediation, which links to what we're seeing potentially in that zone, because I mean we only, third, of all of this creating was we don't have any official position by any, so that's how we are addressing it. So, it's a social impact, we have funds that are targeted for projects yet to be defined around social remediation, so that's where this is coming at least in our perspective, that's where it's coming from, and it would be taken care of in that way. So again, to be more directing our answer, how easy it is to reopen, there is no reopening, they were extinguished, of course, a new one could be proposed, and that it will be a new discussion, but our concept is relocation is linked to risk, and we don't have an indication of approved, okay.

On the second point around working capital, we had an increase in prices, right, in the Q1, so that leads to higher inventory costs, of course higher payables, which helps some working capital, but also higher accounts receivable, so the net effect working capital higher price that is a consumption of cash. In the next quarters, we should see still some increase in inventory, I mean, we've been running, as well as I said in the whole supply chain has been running at lower than average inventory, but also we anticipate a drop in some of the product prices, or a decrease right now. Drop maybe be too strong, but the decrease in the product prices, so that the net effect of that, I think, I mean, it's, I think, it could be a positive effect, or neutral, I don't see a bigger cash consumption going forward, because of that.

We also have a lot of taxes to monetize, yes, so we have \$1.4 billion [ph] highs of the digital see tax to monetize that are already booked in our balance sheet, and about 800 million highs in cases that were not final in the court yet, but so those are also positive in fact, that becomes the year.

## **Q - Unidentified Participant**

Perfect, that's clear. Thank you.

## **Operator**

Our next question from comes from Anne Milne from Bank of America. Mr. Annie. You may proceed.

## **Q - Anne Milne** {BIO 1757455 <GO>}

Thank you. Congratulations, fantastic quarter. I'm happy to see that last year was tough at times, so I have a couple of my questions have been answered, but just two questions, one just to understand the main drivers of your purchase from NAFTA, whether it's imported, or from the local market Petrobras? It sounds like issues are roughly equal, but you got better financing and internationally, that obviously will hope your working capital and cash flow and so forth, or maybe there are pricing differentials discussed. And then, the second is just on the comment that you made regarding, what some of the other rating agencies were looking for?

And then the second is just on the comment that you made regarding what some of the other rating agencies we're looking for, one was the place in the cycle and talking about potential new capacity and overcapacity in this coming online. Maybe you could talk about

where we are now with China supply or from other locations? Although I think China was then the big worry from a number of the agencies and what you see there right now? Thank you.

#### **A - Pedro Freitas** {BIO 21187627 <GO>}

Hi, Anne. Nice talking to you. About this time, we would be in Miami. Right? In the Bank of America? The import naphtha, it does help over working capital. We can extend naphtha payment with international buyers up to a year. So, that's part of our cash management policy and with increasing the import of naphtha. Last year we had about 55% coming from Petrobras, 45% imported. The first quarter of this year, it was already 70% imported and 30% Brazilian naphtha and we think that the balance will remain that way for the remainder of the year. So 70% imported naphtha 30% Petrobras naphtha with the new contracts that we signed last year with Petrobras. The volume of the contracts with Petrobras was reduced and we'll be taking that kind of that ratio. The first quarter and I think going forward that's going to be the norm. So we keep, I would say, benefiting from that in working capital. Of course the first quarter we had kind of increasing prices and lower inventories. But over time that's going to normalize and we should see some benefit in cash flow and working capital coming from this strategy. In terms of China supply, we believe our assumption is that it's going to come to the market. The point or the question is when.

We think that some of it will come this year and some of it will come next year. I believe IHS is probably a little bit more bullish than us and they are anticipating little less capacity coming online this year and a bit more next year. So, if you look at the balance of new capacity, we tend to be more conservative. We are preparing for I'd say a bit longer market. Till this year, they are seeing we are more for next year, but we do see the capacity in China coming online -- about 4.5 million tons of polyethylene. That's our assumption. And I think a couple of other aspects just to point that out. Last year, we were short, about 60% of the new capacity that was supposed to come online 50% did not come online last year in polyethylene [ph]. So, we are seeing some of that coming online this year. The other aspect that is interesting, the forecast that IGF has for global demand again I think is about 5%, about 6% for polypropylene. The historical average for polyethylene has been globally around 3%. So 5% is 2% higher. The same applies for PP, historical average at around four this year (inaudible).

So even with more new capacity coming online. We also are going to see a bit more demand. So, I'll say the downturn in the cycle, the industry view and our view is that it's not going to be substantial and that's why we've been saying, look, our view is that the second quarter is still going to be a very strong. We're still having very high spread some disruption in supply chain. And then we see second half of the year softer, but still at good levels.

#### **Q - Anne Milne** {BIO 1757455 <GO>}

Thank you very much.

#### **A - Pedro Freitas** {BIO 21187627 <GO>}

Sorry. We tend to be more conservative than the average at the industry, so on our internal, view, we could have a surprise to the upside.

**Q - Anne Milne** {BIO 1757455 <GO>}

Okay, thanks. And just a quick follow-up on the supply agreement that you have with Petrobras and the difference between imported in Brazil. Our prices roughly equal between the two?

**A - Pedro Freitas** {BIO 21187627 <GO>}

Couple of relevant points there. If you look at just a raw price of naphtha, what we buy outside Brazil is cheaper. If we include logistics, the landed cost in Brazil depends on where we are buying -- some place as it's higher imported naphtha. In some places imported naphtha could be still cheaper. So, it depends on the supplier, the shift, etcetera; then it's more matched, more evenly matched, landed in Brazil. But the benefit that we have with, important aspect that we can choose the quality of naphtha. So if we need a naphtha after that is more aromatic that will produce more Benzene, toluene etcetera, we'd buy that. If we need a naphtha that is more chlorophenyl [ph], that goes more towards the ethylene propylene butadiene, then we buy that. So in the international market, you have more flexibility around the quality of the product and then that helps us. I would say have a higher value, composition of products in our sales. So, it does not change the cost itself, but it could generate, I would say portfolio of sales that is higher value-added for us when we import.

**Q - Anne Milne** {BIO 1757455 <GO>}

Okay, thanks. Good luck for the rest of the year. Talk soon.

**A - Pedro Freitas** {BIO 21187627 <GO>}

Thank you very much.

**Operator**

Our next question comes from Matt [ph] from BSBB. You may proceed.

**Q - Unidentified Participant**

Hi, it's Mathias [ph] from UBS. Thank you for taking my questions. My first question is there has been some news of specific players, interesting some assets of Braskem. Not in the company as a whole, but we were thinking here, what are the potential losses from thinking Braskem assets are separate units instead of the nationwide companies. Are there any significant losses in synergy either operationally or in terms of taxes that would make less sense in a way? That's my first question. For my second question, just a follow-up on Mexico. Are there any advancements in thinking of the long-term supply for a long-term solution for the -- I think supply. That's it. Thank you.

**A - Pedro Freitas** {BIO 21187627 <GO>}

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Hi Matthias [ph]. Thank you for your questions. So on the first one, the sale process is not a process that we are driving or participating in. Others standby to buy information. Having said that, I knew that everybody has said of this idea of breaking Braskem up. So, we've been putting some thoughts around that to see if there are any opportunities or idea that could increase the value for all of our current shareholders and some of the thoughts around your question, in terms of synergy, I think that the Brazilian operation, the integrated operation that we have today is highly synergistic so breaking up Brazil, I think would bring very significant dis-synergies to the business. That's the first consideration that I would make. It's an integrated production planning, integrated inventory planning, integrated commercial planning, integrated as feedstock procurement planning. So, everything is integrated. It's a single overhead, so there are lots of economies as well.

So, I would say that Brazil is highly synergistic with in Brazil. The synergy across regions -- and I tend to think of our regions as South America as one region, U.S., Mexico and Europe. That's how we tend to think of our region. There is I would say more substantial synergy commercially between Brazil and Europe because I would say after South America, the largest export hub for us is Europe. So there are commercial synergies in there and also our feedstock trading that is in the Netherlands. So, if you're thinking about the PP plants in Europe, I would say much fewer synergies, but if you're thinking about the whole, then you have commercial synergy especially because of the Dutch operation.

And then, the other area where I see some synergy across the different businesses is in the industrial area. We do internal benchmarking. We have every single improvement that one team in one plant identified, then spread out to the other plants, so you have a lot of cross-fertilization in industrial areas, which I mean is another way of gathering the synergies. I don't think that's very substantial, but anyway it's another of synergy. And then, the third one is, you asked about taxes. There could be tax implications of a breakup like that, but it will depend a lot on the former. And we don't have I would say a very depth analysis of their units more. It's more kind of a feeling, and knowing the numbers, and the cost of acquisition of the assets in the U.S., New York [ph], for example. So, there could be a substantial tax burden or not depending on the structure of how such a deal could be done.

But having said that, we are not at this moment doing that. So, we're not working on that. There is no ask for us to do that. The shareholders have not decided to do that as far as we know. So far, it's more curiosity. We hear the news, we hear it, we discuss a little bit to see what potential (inaudible). In the end of the day, anything that maximizes the value for the shareholders is what we should be looking at. So this is kind of where we are coming from. Is there anything in these rumors that could lead to some value unlocking for shareholders? If so, okay. If not, then okay we're not going there. But as far as we understand the sale of Braskem is an integrated sale of the whole company. That's how we understand it at this point.

## Q - Unidentified Participant

Thank you. On the update on Mexico, do you have any updates there [ph]?

## A - Pedro Freitas {BIO 21187627 <GO>}

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Yes. So, we are working on a terminal, on the project of a terminal to import ethane into Mexico. So that's part of the development that we're having and that also is part of the discussions with [inaudible 83:17]. So it's still a project in development. We don't have any final decision or even, I would say, the performance of that is still being discussed. The conceptual approach to the terminal, it's something that we are narrowing down to one solution. But we don't have that yet defined. The other aspect of supply of anything to Mexico is the (inaudible) bit earlier, we are increasing the fast track by about 30% and bring more imports into Mexico in the short term. It's the second expansion already. And just to bring out another aspects for you guys, given the expanded spreads in the first quarter of the year, which I mean, we all know they were a very high EBITDA margin in the first quarter. It was around 40% with the operation running about 60%. Again very, very positive results from Mexico in the first quarter. So that shows really very good assets that we have there.

### Q - Unidentified Participant

Okay, thank you.

### A - Pedro Freitas {BIO 21187627 <GO>}

Once we get 100% supply, we will foresee even better.

### Q - Unidentified Participant

Yes. Thank you. And congratulations on the results.

### Operator

Our next question comes from (inaudible) from Credit Suisse. You may proceed.

### Q - Unidentified Participant

Hi guys, good afternoon. Thanks Pedro, Rosana for taking my questions. I have a few follow-ups. I mean, it's been a while I don't participate in the conference call. So, if you could maybe expand a little bit some of the topics you've already discussed in this call. In particular, in relation to the cash flow dynamics. You had a lower free cash flow than would otherwise expect from the very strong operating results. I know you already commented about inventories. If you could also comment on the tax credits you've already received, how much there is still to monetize going ahead? It seems it's a very high pay and then it appears that the liabilities in Alagoas might as well be part of that working capital dynamics.

So just a follow-up on the cash flow dynamics to understand whether the operating results are translating into cash flow dynamics. The other follow-up is regarding Alagoas and what I will call sort of new normal after the moment of crisis where you had the actual risk to people, but I understand there is a social impact to having such a big area in the city entity, and I imagine there will be plans around revitalizing that area and other social implications. So, I wanted to get your sense and I believe there is no certain answer at this point, but I wanted to get your views on what happens after this and what will be Braskem's role, let's say in revitalizing that area? And then maybe last one of the follow-

ups regarding the sale. If maybe you could just comment if the management team is involved in any way in that process for a strategic partner, data rooms, etcetera.

And then finally, maybe the only new topic is around yes, PP and the role of plastics. In particular, if you see any angle for Braskem in the many discussions we see taking place right now around green refineries, hydrogen, plants and so on. So those follow-ups. And then just that new one. Thanks.

## **A - Pedro Freitas** {BIO 21187627 <GO>}

Thank you for all the questions. On cash flow besides working capital that we already covered as you mentioned. In January, we also had a substantial interest payments, which are half yearly for the bonds. And with the FX, depreciation when you look at the numbers; those numbers are bit higher. In dollars, they are not [ph]. The other aspects still of cash flow. We spent about (inaudible) little bit more in Alagoas which also takes away some of the free cash flow of the company. And finally, even though we have a separate bank account for that, some of that is coming from this bank account, but we are putting the full amount in our free cash flow calculation here. And the other aspect is around the tax credit that that you asked. We have monetized BRL660 million in the first quarter. We still have about BRL1.4 billion to monetize and plus BRL800 million [ph] to be provisions because they are not yet final decisions by the courts [ph]. So, if it's still I would say, we still have runway in terms of monetizing credit.

As I said, working capital impact should be lower in the coming quarters if prices don't give us any surprise and the interest payments are our half-year. So that should give you a view on the kind of the rest of the year. Then because of the increased results, our tax payments have been a bit above what we would expect with all results. Results were being a little bit more, income tax, but that again is not that material. As you saw in the chart there, it's about BRL300 million in the quarter. Switching over to Alagoas and the question around the space there. I mean it's still categorized as rating are. So nobody should be there. We do have people in the area to work on the backfilling of the wells. So, backfilling some of the wells with sand. So, we do have operators in the area.

We do monitor the risk and as I said, we have substantially increased the monitoring and the instrument, the sensors in the area to make sure that nobody -- and safe situation, but we don't have any plans to be around in the future. So far, with this area and nobody should be doing anything in there until there is stability and there is -- kind of the stability of the mine is really a sure thing. And that's going to take a few years. On the sale, we have put together for Novonor for them to good I mean to work on the sale. Of course, taking care of confidentiality and across our any competition, competitive issues, but that has been the extent of our involvement so far. We do believe that the future we will be a bit more involved especially, as it goes into a stage where management presentations are required or even when a contract has been discussed. So, we do believe that in the future, we should be more involved. But right now the extent have prepared these including (inaudible).

And finally around ESG, thank you very much for this question. It is an area where Braskem is really improving on already very good bases that we had. We've been working on ESG

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and standard development for more than a decade now. And we do have some numbers to show around our historical reduction in emission around some of the work we've been doing around recycling and other aspects of the business that are very favorable. Just to give an example of the recognition we get from there, Braskem is a AAA company in the carbon disclosure project for water efficiency, for energy efficiency and also for the work with our suppliers. So, it is an area we have been investing for a few years now and looking at the future and as you asked about the role of plastics -- plastics are very good solution for mankind.

So, we see that there is an issue with around the most consumption, disposal of plastics and how we work on that. We see that as a business opportunity and we have set up for now for two-three years recycling business teams to develop opportunities around recycling. It is a different business model compared to what we have at Braskem so far. If you look at the petrochemical world, there's a few very high scale, very large factory that are producing a lot of volume. So with very few, very large-scale investments. And with recycling, it's going to be many low-scale project and developing that is a challenge. Last year we saw 10,000 tons of recycled polymer. Our public goal for 2025 is to sell 300,000 tons. So, it's multiplying by 30, the quantity or the amount of recycled plastics sold last year. It is a substantial challenge and we are organizing ourselves to address that and we see that as a business opportunity.

The other area that we are also evolving a lot is around renewable chemicals. We have announced in January the expansion of our green polyethylene business. We are going to increase the size of that plan by 30%. It's a \$60 million investment that will come online the second half of next year. So, it's going to increase our footprint in the renewables business substantially. It's again, a very, very exciting development. And we do see a lot of market potential for this. So, we are looking even for ways to accelerate the expansion of that business, looking at how we can fund that in different ways so that it doesn't hurt or doesn't change our credit metrics. But I think the same time, we are (inaudible) new sources of funds to be able to accelerate the capture of that value. So that's another area that we'd be looking at very closely.

We have also R&D development around renewables; one that is published is Green Energy. We are not in the energy business today, but with this development green energy could be a breakthrough, that could even be depending on how the technology grows in demonstration scale in terms of the technology. But if it progresses well and then goes into industrial scale, could be a very sizable market for us to get in the future. Again also investing and developing our footprint in renewable chemicals, which is another way of mitigating the carbon footprint of the company.

## Operator

(Operator Instructions) Now, I will turn it over for the company's closing remarks.

## A - Pedro Freitas {BIO 21187627 <GO>}

Well, I'd like to thank everyone for joining us in this call. And just wanted to end with a couple of remarks. First, as you all noticed, it was a very strong first quarter driven not only

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by an international scenario, but also by the ability of Braskem's team members and the teams around the world to really operate very efficiently and to capture all the opportunities that the market put out there for us. So in this scenario, we closed the quarter with a very positive cash flow generation and the leverage of 1.8 churns, which is a very important reduction from what we had in the last quarter. Three months. we have reduced our leverage by more than 1 churn of EBITDA.

Also, important to comment that we have reduced our gross debt by about \$700 million in the three-month period shows our commitment to keep reducing our gross debt going forward. We keep very committed to our financial liquidity and also to get back to investment-grade, from the rating agency. The second point I'd like to emphasize is that we are very confident that in the second quarter we will also have a very good industry dynamics and that our operations will run well. We expect to continue to have a good financial performance given the scenario. And also, the way that we've been running the business. We will keep the leverage in Braskem which is one of the main priorities for us this year.

So, I'd like to thank all of you for your participation and look to talk with you both when we release our second quarter results, but also just to remind everyone, we are holding an ESG Day in May 17. So 10 days from now or 11 days from now, we are having an ESG Day where we're going to disclose some of our achievements and also some new commitments around sustainable development for the company. So thank you, all, very much.

## Operator

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

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