

## Y 2019 Earnings Call

### Company Participants

- Pedro van Langendonck Teixeira de Freitas, Finance, Investor Relations, Procurement and Institutional Relations
- Rosana Avolio, Head of Investor Relations

### Other Participants

- Bruno Montanari, Analyst
- Christian Audi, Analyst
- Hassan I. Ahmed, Analyst
- Luiz Carvalho, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem Fourth Quarter of 2019 Earnings Conference Call. Today, we first will have, Pedro Freitas, Vice President of Finance, Procurement and Corporate Affairs; and Rosana Avolio, Head of Investor Relations. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during this Company's presentation. After Braskem remarks are completed, there will be a question-and-answer section. At that time, further instructions will be given.

(Operator Instructions) We have simultaneous webcast that may be accessed through to Braskem's IR website at [www.braskem-ri.com.br](http://www.braskem-ri.com.br) and the MZiQ platform where the slide presentation is available for download. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call on this website. We remind you that questions which will be answered during the Q&A session may be posted in advance on the website.

Before proceeding, let me mention the forward-looking statements are being made under the safe harbor of Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Braskem management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to the future events and therefore, depend on the circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Braskem and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Rosana Avolio, Head of Investor Relations. Mrs. Avolio, you may begin the conference.

## **Rosana Avolio** {BIO 20386863 <GO>}

Good afternoon all. We would like to thank you for joining Braskem earnings results conference. Today, we will present fourth quarter and 2019 results. So please let's move to Slide number 3. In this slide we will present the Company's strategic pillars and its achievements. Regarding competitiveness and productivity, the Company presented a total injury rate, 58% lower than the industry average.

Also, the Company has continued the modernization project in the electric system of our plant in Sao Paulo. And the electric infrastructure upgrade project of our plant in United States. Regarding feedstock and supplies diversification, the main achievements were the important increase in the consumption of imported naphtha, and the start up of the fast track project in our petrochemical products in Mexico.

Regarding people, the Company has implemented its new career philosophy and Braskem was also acknowledged as an A List company with CDP water and Climate index. Regarding financial strategy, in 2019, Braskem kept the focus on capital allocation discipline. We have a reduction of 21% in operating and strategic investments. And also the company data liability management exercise prepaying most of its debts until 2023.

Moving to the next slide. On Slide 4, we present the main highlights of Brazil's operations. In 2019, the Brazilian market demand grew 2% in comparison with 2018 and 4% when comparing to the fourth quarter 2019, and also with the fourth quarter 2018. This improvement in the Brazilian market is mainly due to their business and food sectors and the gradual recovering of construction sector.

In the year, the utilization rate of the crackers worth 85% below 2018. Due to the lower supply of feedstock at the crackers by year, to the shutdown of chlor-alkali and EDC plants in Alagoas state. The scheduled shutdown of one of the production lines in Bahia as well. The international petrochemical spreads drop, especially the polyethylene spread represented a 36% drop, mainly because of the new capacity starting in United States, combined with weaker global demand. Considering this petrochemical scenarios, Brazil's EBITDA in 2019 was 67% lower than 2018.

Moving to Slide 5, we will comment about the Alagoas situation. In the fourth quarter, the Company has continued to operate the imported business model to keep its PVC production running and to import soda in order to supply the Brazilian market. Also in the fourth quarter, Braskem reaffirm its commitment with the safety of the communities affected by the geologic events through the following actions. Definitive closing of salt extraction activity in Maceio, by signing an agreement with Alagoas state, prosecutors, creating a program. And by signing an agreement with the labor prosecution of C4, implementing a program to recover business, and promote education for residents and workers.

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Moving to Slide 6, we will talk about United States and Europe operation highlights. In the United States, the fourth quarter demand was 5.4% lower when compared with the previous quarter due to seasonality and 10.3% drop when compared to the previous year due to the weaker auto industry performance fee, and to the lower growth of the global economy. In Europe, the demand also showed a drop of 3.8% [ph] compared to the last quarter and a growth of 0.7% compared to last year. This spread remaining sustainable levels in the United States and in Europe this spreads remain compressed because of the local economy in auto industry slowed down. Given that, the United States and Europe's EBITDA was 48% lower than 2018.

Moving to next slide, we will talk about Mexico operations. The demand in Mexico market showed a drop of 9% in this quarter due to seasonality of the period combined with the weakness of the Mexican economy. The Mexico operations were impacted by higher ethane supply. And as a consequence the utilization rate increased. This fact combined to the commercial strategy of prioritizing sales in more profitable regions, offset it partially the lower polyethylene spreads in the region.

Moving to the next slide, we will talk about the Company's free cash flow generation. In 2019, Braskem posted a consolidated EBITDA of BRL7.8 billion, of these EBITDA, BRL1.9 billion were related to non-recurring events or PIS and COFINS tax revenues, totalizing a recurring EBITDA of approximately BRL6 billion. The variation in working capital was positive by BRL2.4 billion, as a result of inventories optimization and expansion of the payment terms of imported naphtha. The total operational investment was BRL1.7 billion; BRL2.2 billion were related to interest pay; BRL412 million regarding income tax payment; and BRL903 million related to strategic investments of the company, mainly the new polypropylene facility in U.S. Adding up all these numbers, Braskem had a positive free cash flow before debt of BRL2.1 billion in 2019.

Let's move to Slide 9. We show the corporate debt profile of Braskem. At the end of 2019, the Company presented a cash position of \$2.3 billion. Additionally, the Company has a revolving credit facility of \$1 billion that can be withdrawn until 2023. In 2020, Braskem maintain its liability management strategy. We have issuance of BRL500 million of promissory notes and \$2.2 billion of new bond issuance fees.

Moving to the next slide, we show the main highlights of the year. With regard to the EBITDA and net income indicators, we see a drop impacted mainly by the down cycle polyethylene. But in the other side, the Company presented positive cash flow even in this scenario and presented a net debt in line with previous year and then the control, with no relevant maturities in the short-term as a result of the liability management that the company did last year. In this context, Braskem remain as an investment grade company by Standard & Poor's and by Fitch.

Moving to Slide 11, we will talk about the Company's commitment regarding to the transition to a circular economy. Aligned with our commitment with the circular economy, we've had progress some more on plastic goods production chain. In the beginning of the chain regarding product design, we have sold 161,000 tons of renewable resins under I'm Green Brand, and also engaged partnerships, the clients develop even more sustainable packages.

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In our production, 70% of OCS program were implemented. This program seeks to eliminate pallets that could be wasted to the environment from our production and logistic process. We have also achieved 26% of water reuse in our plants. We have been working on initiatives that promote awareness of plastics conceptions impacts to the environment. And then more than 150,000 people were impacted by them and we would like to highlight the Edukatu educational program, our partnership with Akatu Institute and also the partnership with Philadelphia Eagles to engage people with the circular economy in Philadelphia state.

Regarding the plastic [ph] chain support, 2,000 tons a post-consumer plastic were delivered to recycling collections, benefiting 37 cooperatives under the same MACH [ph] program. We are also founder members at Alliance to End Plastic Waste initiative and we seek to encourage projects that we reduce the plastic waste over the world. And we have been focused in promoting projects in Latin America. And finally 1,700 tonnes of recycling quoted resins were sold globally. And we have advanced also in partnership with two institutions to develop technology on those chemical recycling.

Moving to next slide. Regarding the climate changes, we have a strong and consistently recognized background in excess to mitigate and adapt our operations to climate change risks. Our inventory of CO2 equivalents emission has been subject to external verification since 2010. And we have said the relative emission per ton of product as the main metric to pursue operating targets. In 2015, we have started to develop an updation plan to be implemented among our operations in order to prevent the company from potential threat regarding climate changes.

It has mapped about 58 high risk, and our target is to reduce them to zero until 2023. In 2014 and 2018 we have said CO2 intensity emission targets for 2020 and 2030, following our aspiration to be recognized as the top performer company in factor regarding carbon efficiency. In 2019, we have concluded our 2018's emission inventory, achieving a reduction of 21% in CO2 relative emissions of our plants related to 2008 baseline.

In 2019, we have obtained leadership position in CDP climate in water and we were also recognized by the UN Global Compact as a leader company in sustainable development. We have also work initiatives focusing reduce our CO2 emission. We have obtained our first carbon credit certificate, result of substituting our vehicle fleets CO2 -- ethanol among 2018 and 2017 in Sao Paulo. And also we have closed a long-term agreement with Voltalia to purchase solar energy. Finally, we have obtaining progress in our adaptation program reducing high risk to 54% in '19.

Moving to Slide 13, we will comment about our priorities for this year. In productivity and competitiveness, Braskem will focus on the renewal of naphtha and ethane and propane contracts with Petrobras. And also on the start up of the chlor-alkali plant in Alagoas. In feedstock and supply diversification, we will advance on the studies for the complementary ethane import solution in Mexico. As for geographic diversification, the focus will be on the start-up of the new PP plant in the United States in the end of first semesters. And about people governance and reputation, we concluded the monitoring program under the global agreement that we signed in 2016. And now we seek for the issuance fee of the certificate of compliance by the authorities involved. The Company will

continue committed to address Alagoas issues together with all the authorities involved, ensuring the safety of the people and the safe return of our operations.

In 2020, we will keep investing in our commitment with the circular economy, focusing initiatives to engage the plastics good chain productions, boosting up recycling contact resins volume and developing technologies regarding chemical recycling. At last, we will focus on the discipline in capital allocation, keeping a strong cash position during the current scenario.

So we conclude the presentation of the results. Thanks for the attention of everyone. So let's move to the question-and-answer session.

## Operator

Now, I will turn the conference over to Pedro Freitas. Please, Mr. Pedro, you may proceed.

## Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}

Thank you. Thank you, Rosana for the presentation. It's a pleasure to be talking to you again after the results of 2019. And I appreciate your time today to talk to us. I would like to start just by making a brief comment on COVID-19 and the way that Braskem is addressing the challenges around the virus. So briefly, we are -- I'm thinking about this challenge and we are remaining around this challenge around three broad themes. The first one is our non-negotiable commitment to people's safety and that's driving a lot of our actions around our plants and our offices. And I'm going to dig deeper a little bit deeper in each of the three. But just so everybody gets the entire view, safety is the first concern. The second concern or the second focus is around our operations and cash flow. So, say on the business side, our reaction and adjustments to the prices. And then the third one is, how can we support our customers, our value chain, our suppliers and also the broad Societe Generale.

So going back to the first topic around people's safety, as I said, it's our non-negotiable value within Braskem. And what we're doing is -- a little bit different across different regions. But in broad themes, we are operating with minimum things in our plants. So it's important to understand that Braskem or the petrochemical industry as a whole, but we as part of the industry, are an essential part of the fight against the virus. Plastics are used in medical supplies, also in hygiene, also, I mean, in packaging for home delivery.

So you see plastics and chemicals, I mean, you have hypochlorite for hygiene again. So, you have different plastics and chemicals being used across the world in the fight. So it's essential that Braskem keeps operating, that's the first point. So we need to keep operating but with safety. So we have reduced the size of the teams in the plants to just a bare minimum, the essential number of people to give you an idea. In Brazil today considering both Braskem team members and also contractors, we have reduced the number of people inside our plant by more than 60%.

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So we are working on that, we are rescaling shifts, in the U.S. We are -- we have a few plants where there are people in lock down or lock-in, inside the plants. So you have entire shift, that are living in the plants and then they rotate in the plants there. So different ways in different places on how to react to that. Also social distancing, so in the cafeterias, we have increased the separation of people. On the buses, for people that are coming and going to the plant as well, we increased the number of buses, to keep people separated within the buses. These are some of the -- some ideas or some points around what we are doing.

In the offices, that's another interesting aspect. Braskem has been preparing for a couple of years now to work on a more digital platform. So once we decided that people would no longer go to the office and I will give you the example of the headquarters in Sao Paulo. There are about a bit less than a 1,000 people working there, day-in, day-out. We decided that we would no longer -- or ask people that did not have a mandatory requirement to be in the office to work from home. Next day, there were only 20 people in the office. So from a 1,000 to 20 people in one day and the company has not stopped operating. So this is part of the digital transformation that Braskem is pursuing, and it has shown that it bears fruits and this was a very clear example -- very fast to implement or to flip the switch there.

On the second bucket around the operations, again different impacts in different places, still very volatile. In Europe, we had a scheduled turnaround that was going to happen in one of the plants. A couple of months from now, in May, because of COVID, that turnaround was postponed. But we were already building up inventory in that plant, in anticipation of the turnaround. So what we did now is, we have stopped that plant for one week or 10 days, so that, the inventories go back to normal levels since the turnaround is not going to happen.

In the U.S., we are running pretty hard. I mean, the U.S., our product, the product suite, the main products are producing in the U.S. is polypropylene. Polypropylene goes into medical disposables like syringes and other disposable hospital materials. So we are running hard on that. We have adjusted our production footprint, because automotive industry is not pulling so much. But on the other hand for hygiene, health and also packaging, the demand has grown, so we have adjusted.

So for now, the U.S. has been running pretty well. And then in Mexico, we have started the operation of the fast track, bringing more ethane into Mexico. So actually in Mexico production has increased on average over the first quarter. So we do see more production in Mexico, and we still see again demand for our products there. And in Brazil, the situation is a little bit more nuanced across different products and different parts of the value chain. Automotive and construction has slowed down a lot. So PVC, for example, is a product where demand has fallen, right now, because of COVID, most of PVC goes into construction.

On the other hand, we had an uptick in demand for again health, hygiene, medical and packaging. So these things -- not necessarily affect each other directly. But we are adjusting our production. So some plants are running close to full capacity, some other plants are below that. And in all regions, it's an ongoing exercise. Every week we review

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the production planning. Usually the production planning is reviewed every month. We're now doing that every week just to make sure that we are not producing more than we need or building inventories that we shouldn't build. So it's a careful exercise of market intelligence, demand planning and then production planning that is being reviewed weekly now. Because the situation is changing dramatically from week to week, there are examples here in Brazil, where let's say last week, one product was -- had very low demand and now this week, it's in high demand. So the value chains are still adjusting and adapting to the new situation. So this needs to be revised very, very frequently and we're doing that.

Another aspect still on the operational side, which I also think is important, is our financial situation. As you know, and Rosana presented that, we did a large refinancing of our debt in the end of last year, that was in anticipation of the downturn of the petrochemical cycle, which we were already going into, I would say, end of last year, beginning of this year. So we didn't do it. This is of course because of the crisis, but it put us in a very comfortable financial situation. Looking forward to the next, I would say, three to four years, until 2023 at least, most of our debt has been refinanced. So again looking at the cycle, this was our reason, and it's now proving to be good for us because we don't face any significant cash constraints or crunch going forward.

And finally on the third bucket, in terms of our supports to clients and society as a whole -- I mean, as I said, our products are very useful in fighting the crisis. So for example, we just announced last Friday, we are donating the plastic resins to make up to 60 million face masks in Brazil. We have other initiatives going on in Mexico, in Europe and in the U.S. But that's one example, we are also working with our clients, in Brazil, especially the small and mid-size clients, supporting them with -- I would say, a very competitive credit line for the next couple of months. We're also looking at doing the same or similar programs in Europe, again. And in the U.S., focused again on small and mid-sized companies, helping support them through the crisis.

So I'll stop here and open for questions, but I just wanted to highlight what we're doing in the current environment.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) We have a question from Bruno Montanari.

### Q - Bruno Montanari {BIO 15389931 <GO>}

Good afternoon. Thanks for taking the question. I have a few questions. I'll stick to two of them. We have seen quite a sharp increase in naphtha spreads since the beginning of the year, as a result of the decline in oil price. So thinking about higher spreads and potentially lower demand, how should we think about the net benefit or net damage of these to the company's cash flows in 2020, assuming that spreads of course stay at current levels. From what you mentioned, it doesn't seem like demand has declined a lot. On the other

side of the equation, spreads are much higher, more than double. So that would be my first question.

And second question, listening to your comment, Pedro, about lowering people inside the plant by 60%. Does this mean you could operate on a leaner company after the crisis, of course, not with the bare minimum. But if you can navigate such a period with that much less people, I was wondering how the future could look like once we get out of these very unfortunate situation? And a quick one -- a quick third one. What would you say could be your overall utilization rate at the worst of the demand contraction both in Brazil and the U.S. and Europe? Thank you very much.

### **A - Pedro van Langendonck Teixeira de Freitas** {BIO 19740578 <GO>}

Thank you, Bruno, for the questions. I'll tackle the first one, starting with the first one. So we did see an increase in naphtha spreads and there is a -- if you look overall, there is a slowdown in demand. And again, it's a very uncertain scenario for -- even for the next week, I would say. What to say over the next month. So we could still see a further decrease in demand or stability or even growth. We don't know, right? It's very hard to predict that, right now. Very hard to answer your question on increased naphtha spreads versus demand. I think it will depend a lot on how long those two effects remain in place. Because I mean, we were coming into a downturn in the cycle. So assuming that, the structural certification of the industry from a supply demand -- from a stable supply demand perspective, would be lower spreads in general. You can still go through a period where oil prices remain low and then the spreads would be good. But it's very hard to say when it comes back and then whenever it comes back, how does it affect demand itself. So the interplay there is very complex to predict.

I'm afraid, I don't have a very good answer for you. I would say that right now, that interplay I would say is probably likely positive. So better spreads against the lower demand, but that can change, as I said, even next week. So very hard to predict that over the course of the year. On the second question...

### **A - Rosana Avolio** {BIO 20386863 <GO>}

And if I can add just one comment on that. In our results, Bruno, because of inventory costs, we only have this positive benefit starting in April, okay? This is an important point.

### **A - Pedro van Langendonck Teixeira de Freitas** {BIO 19740578 <GO>}

Thank you, Rosana. That is indeed an important point. Our result cycle is different from the kind of the spot prices that we see today. So we do carry inventory costs over time, which take one or two months to hit our results. So first quarter we will still not see -- I would say the benefit of the higher spread that we see today. On the -- say the operators and the point on, can we operate leaner? We have a constant process of revising our operational footprint. And I do not believe that we can operate materially leaner than in the past. The reason for that is, that why and to understand that, it's important to see why we were able to reduce the 60%. Actually, I mean, we're only performing those maintenance activities that are immediately required for safety reasons or for critical operational reliability situations. So the day-to-day preventive maintenance -- predictive



maintenance that's not happening right now. It's more kind of the critical aspects of maintenance that are being addressed. We're not doing the rest. There are improvement projects, so investments -- small investment that are done in the plants, we are not doing that.

So one, I would say, consequence of that is that, we can operate with fewer people, but we're not capturing potential value opportunities for the long-term. So we are going to do those, but we're not doing them now. We're probably going -- when the situation gets back to normal, then we will go back and implement those projects. The other thing we're doing is, when you are running an operation, sometimes for example you would have five field operators as a rule, right? For a certain amount of time, you probably can operate with four, so that's the sort of thing that we are also -- we're also -- we have also looked at shift schedules. And I mean, for now, some people are working more than the normal. So we have fewer people, but they're working more hours. So all of that has also an impact on extra hours -- additional costs that the company may incur to have fewer people in the plant.

So I would say the current situation is not sustainable. And maybe when we come back, there -- some opportunities will be captured to operate the leaner, but I don't think again, they are very material. And on the last question, overall utilization, we can -- so I would say that we have many different ways of adjusting our utilization rate, right? So we can choose to stop a plant or we can reduce the overall level of utilization across all plants or I can stop one line of a crackers or different approaches for that. So looking at overall utilization and how does that interplay with the future, again, I go back to my first answer, right? Very hard to predict right now. The average of the year could be -- if we don't stop any line completely and no plants are stopped completely, the theoretical number, that I would work with, is somewhere around 70%, 75% as it's kind of the minimum. But we can go below that on average if we stop a plant or a site or something like that.

#### **A - Rosana Avolio** {BIO 20386863 <GO>}

And it could reduce a little bit more the 70% [ph] or 75%, but in a short period, no, I mean, per month. So we could adjust that normally continue (inaudible) no longer period. If that happens, we will need to shut down one of the lines for salt or Bahia cracker for example.

#### **Operator**

Our next question comes from Luiz Carvalho.

#### **Q - Luiz Carvalho** {BIO 18040760 <GO>}

Hi, everyone. Thanks, Pedro. Thanks, Rosana. I have also two questions here. The first one is about the recent events and the impact on Mexico. And of course in Pemex, with the low oil price, but also your partner, it is, which is now with a very high leverage. So if you could share a bit more color on the Mexico, I would say supply side -- but also in terms of related to the financial situation of your -- I don't know if your partner in the project and how, what are the actions that Braskem might need to take in order to protect and continue to, I don't know, to have the project running under healthy circumstances.

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And the second question is about -- I mean taking it to be -- I mean the advantage that you already comment about, the difficulties to understand, due to the forecast and so on. But something that has been our concern recently is about liquidity, right? And then your EBITDA drop it from, I don't know, \$3.5 billion in 2018 to potentially 2020 more than 50%. And of course the leverage went up. So one, how you're addressing this topic with the credit rating agencies? But also what kind of actions do you say, the management is taking to address the liquidity issues, I don't know, extending the debt maturity, renegotiating. So what are the main concerns from your end in this topic? Thank you.

## **A - Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}**

Luiz, thank you for your questions. I'll start with Mexico. So I mean, on the supply side, PEMEX has been supplying roughly 70% to 75% of the contract volumes. So that is going on. At times it goes even up to 100, then at times it drops to below 70. But on average that's the range that we have been seeing. We have -- and that has been consistent. Even with the recent events there, we didn't see any change in that profile. And what we have done now -- we have started the operation of the fast track. So the fast track is -- this project to import ethane into Mexico. It can serve up to 15% -- 20% of our needs with this solution, which is kind of a -- I'd say, it's not temporary, but it's not the permanent solution. It's kind of a semi permanent solution, where the ethane comes by ship from the U.S. Gulf Coast. And then we have trucks, bringing the ethane into the plant.

The permanent solution would be to replace the trucks by a pipeline or something that would be more definitive there. But it's been operating -- it's ramping up very well. So we've seen a more consistent increase in production, as I mentioned earlier, in Mexico. And even with the current oil price, I mean we've been receiving the -- the ethane from PEMEX. On the financial situation of Idesa, I'm afraid you have to ask Idesa. I would not, I'm not the right person to answer that.

The project itself has good cash flows generation. And even with lower polyethylene prices, we do see that it's -- still has a good profile from the project itself. So Braskem data has been running well. It has, I would say, been able to incorporate the new ethane very well into the production. So I would say that, it's running as expected in the current environment. Moving on to the liquidity and leverage point, I would say that, first, we had a very good, I would say, a strong cash generation last year, a little bit north of BRL3 billion. So that's a first point that I think it's important. We ended up the year with roughly \$2.3 billion in cash, plus the billion dollars in the revolving credit facility that we have available, right? Since then, the cash position has remained strong within normal oscillations. We have decided to draw the revolving credit facility now in the beginning of April. We have done that as a precaution. So we've seen many companies doing that. And given the uncertainty of this scenario going forward, this is like an insurance policy, right? So we decided to get the funds into Braskem to be on -- I would say, on the safer side. But it's -- I wanted to emphasize, this was a precautionary move, it's not because we are facing any cash constraints.

Our financial policy, which defines how much cash we need to carry is very conservative. So to give you an idea, it assumes that we have no access to any cash except from receivables from customers, for a year. And we need to carry enough cash to make -- to be able to face all of our payments for a year, only getting money from clients as part of

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normal operations. Again current situation is more volatile, that's why we decided to be more cautious and draw the RCF. But I would say that the current situation right now is stable. We have been doing some moves or some action within Braskem, to preserve liquidity. And one of them, for example, is the reduction in the CapEx forecasted for the year. We don't have a number yet, but based on the discussions that we've been having, I think that we are going to cut CapEx this year by at least 10%.

We also have a positive impact from the FX devaluation of the held evaluation. A lot of our CapEx hitting is in reais. So that's going to be a fewer dollars going forward, right? With the devaluation of the reais. So that is also a positive effect that we see, be it on CapEx -- be it on our fixed costs. So we were already working on that. We also think that, I mean the monetization of the PIS/COFINS tax credit is going to continue this year. So that will add another BRL800 million this year to our cash flow. That's our expectation. So I would say that we are working hard on -- preserve cash. At the same time as we are also being cautious on how we handle this situation.

On the rating agencies -- the rating agencies do see the strong liquidity profile of the company, that's their main concern right now. I mean, I would say most of the conversation has been around this particular topic, it's less on leverage, it's more on liquidity. And they seem to be comfortable with what we have in hand right now. Leverage has gone up, as you can see and over the last year. And given the downturn in the cycle and potentially lower EBITDA this year, which is still very hard to predict. Leverage could go up even a little bit higher what the rating agencies have been telling us and have written in their reports is that, they want to see Braskem deleverage in the 12 to 24 month range. So that's the expectation they have.

We are actively working on initiatives that would lead us to that outcome. But now with the COVID situation, some of those plans, I think will be postponed. So they were work in progress, and now the current market situation, the financial market situation, I would say, has at least postponed that. I would say, most of those actions, except for CapEx and cost reduction, that's ongoing, but the rest, I think we need to wait for the situation to be a little bit clearer.

**Q - Luiz Carvalho** {BIO 18040760 <GO>}

Okay. Thank you, Pedro.

**Operator**

The next question comes from Hassan Ahmed. Please, you may proceed.

**Q - Hassan I. Ahmed** {BIO 7430123 <GO>}

Hey, good afternoon, Pedro. Pedro just wanted to revisit some of the commentary made by one of the people, I guess, was asking the question and your response to it. Just around the whole naphtha spread side of things. I mean, obviously as we take a look at what happened prior to the steep oil price decline, naphtha spreads were fairly negative, right? And then all of a sudden the sort of oil price decline happens and all of a sudden naphtha based ethylene margins blow out, right? But, I mean, I would imagine that there is

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no one in the industry who believes that those levels of margins are sustainable even if oil and naphtha remain at current levels. Because clearly, there is a lag between naphtha prices going down and co-product credits, which is where the bulk of the naphtha based ethylene economics come from, resetting, right? Because obviously crude and naphtha move in tandem with each other and co-product propylene, butadiene and the like take a while to reset. So now with that said, I mean, question one is, are you in agreement with that view? And part and parcel with that question is that, if you are in agreement with that view, and we go back to the old naphtha price regime. I mean in that environment, I would think that the naphtha based guys are still the marginal producers. So what then would happen to -- particularly in light of some of the sort of semi demand destruction we've seen with COVID in the like? What happens in your mind to curtailments, I mean, do we see continued operating rate reductions in Asia? Do we see some project cancellations? How do you sort of think about that, both in the near term and some of these Phase II projects that have been announced?

### **A - Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}**

Hi Hassan. Thank you for your question. These are very complex questions, especially in the uncertain situation. They are normally very, very difficult to answer. And in the current environment, I would say they are next to impossible. But I'll give it a shot, okay? So the ethylene cash cost, as you know has been or -- at some point over the past couple of weeks has been negative in Asia. So actually the co-product credits was larger than the whole cost of naphtha plus running the crackers. And then you would -- players in Asia were left with negative cash cost for ethylene.

I agree with you that there will be a reset, so either the oil price goes up, because a naphtha goes back up, because of some resolution of the Russia, Saudi Arabia, let's say, oil dispute or co-product prices will come down and then we would be left with -- I would say tighter spreads in the naphtha crackers, in the naphtha based industry in general. What is the difference between those two situations? We were already forecasting tight spreads for the year. So setting aside a little bit the volume point and I'm coming back to that later on. But setting that aside for a bit, just on the spread compression, we were already being very conservative in our approach to spread. So I would think that, I mean, spreads, I would expect them to tighten again. But depending on the level of the oil prices, what industry players could get is -- if the oil price remains lower, we could see a working capital -- positive working capital impact from companies because they would be taking working capital out of the system, right? So I think that the main impact that you could see is that, except for the volume impact.

And then we go to the volume impact. So on volumes, there is demand destruction that you're seeing. I don't think a lot of that is sustainable, I mean, people are still going back to buying cars or building homes or I mean -- buying refrigerators. So there may be some behavior changes in the population going forward, that could lead to slightly large -- higher or lower demand growth. But I don't think that we would see, I would say, sustainable demand destruction going forward.

The only aspect of demand destruction that could come is -- if the global economy remains weak for a long period, and then you would see families and consumers without disposable funds, disposable cash to buy, right? If that happens, then you could see kind

of a -- people are talking about the U shape or the V shape or the L shape of recovery. My base case today is still the U shape. Then we move to an L shape, yes. But right now, I think at least my view is the U shape. So there is a drop, but then a recovery in demand going forward.

**Q - Hassan I. Ahmed** {BIO 7430123 <GO>}

That's right.

**A - Pedro van Langendonck Teixeira de Freitas** {BIO 19740578 <GO>}

That should lead to cancellation or postponement of projects. Will that happen? Right now, nobody has announced anything. But if the projects remain being deals at the rate they are, right now, non-stop. Then of course you would see lower operating rates going forward. The flip side of that is, if the oil price remains low, chemicals and plastics will have a lower price. So they will be more competitive against -- compared to alternative materials. So you could see some positive demand upswing there, if the situation remains on a low oil price.

So again, I don't have a firm scenario. But those are the elements that I would consider going forward.

**Q - Hassan I. Ahmed** {BIO 7430123 <GO>}

That's very fair. That's very fair. And obviously on the demand side of it, we are already beginning to see some sort of a thought process change, where a lot of sort of region, states, provinces that we're talking about sort of single use plastic bans in the like, at least for the time being have sort of put that aside.

Now as a follow up, Pedro, on just the polyethylene side of things, one of the burning topics obviously had been and continues to be sort of the -- the sort of differences in supply-demand dynamics between the different rate for polyethylene out there, right? And historically, as we all know, pricing movements between the three different primary grades tended to happen in tandem, right?

And now with the sort of relative tightness on the sort of low-density polyethylene side, which obviously you guys have a decent exposure to, relative to slackness on the high density and the linear low side. For once it seems that, low density seems to be getting better pricing than linear low and high density. How are you guys thinking about that? Do you think that over the last month or two, I mean, I believe Exxon came out with prior to sort of the market going nuts. Exxon came out with a price hike for low density and wasn't really say much about the high density or the linear low. So do you think this is the start of a new trend, keeping in mind the deltas between the supply-demand dynamics of all the grades?

**A - Pedro van Langendonck Teixeira de Freitas** {BIO 19740578 <GO>}

Well, just I would say one comment. We have seen in the past, so if you go back, probably 10 years you're going to see that low density has -- had a premium or had a higher price

than the other two grades of linear low.

**Q - Hassan I. Ahmed** {BIO 7430123 <GO>}

No, but I'm talking about pricing movements, as in like \$0.03 a pound price hike, all grades seem to have the same, right, month over month?

**A - Pedro van Langendonck Teixeira de Freitas** {BIO 19740578 <GO>}

Yeah. I mean, I don't have a very firm view on that. We can talk to the commercial team and get back to you, but the -- I think the main consideration there is that, most of the capacity that came online, especially in the U.S. over the past, let's say five years is high density and linear low.

**Q - Hassan I. Ahmed** {BIO 7430123 <GO>}

Correct.

**A - Pedro van Langendonck Teixeira de Freitas** {BIO 19740578 <GO>}

We have a lot of new low density. We do have, for example, in our project in Mexico, we do have about 20%, 25% of the capacity, there is low-density, and the rest is high density. So we do have some new low-density investment, but most of the investment were in high density and linear low. And including some swing plants that can swing from linear low to high density. So there is, I would say, a more restricted supply of low density globally, and that shows in this price differential. In terms of the more specific pricing move that have been happening over the past, I would say couple of months, then I would need to get back to you.

**Q - Hassan I. Ahmed** {BIO 7430123 <GO>}

Perfect. Thank you so much, Pedro.

**Operator**

Our next question comes from Christian Audi. Please, you may proceed.

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

Thanks. Hi Pedro and Rosana. I had two questions. One focused on leverage, the other on CapEx. Pedro, you mentioned on the leverage, obviously we had seen those pickup in your net debt to EBITDA. Is there a range as you look into 2020, notwithstanding all this uncertainty. Is there a range that you feel comfortable with in trying to maintain that level during the year. And also is there a range that the rating agencies are seeking? Or they simply want to see you the leverage as you mentioned before? And are you keeping an eye on any specific, Pedro, covenant that could be reached given the higher levels of net debt to EBITDA that you have reached?

And then on the CapEx front, I was just curious, you mentioned the potential cut of 10% in CapEx. Can you remind us what percentage of your CapEx is in dollars versus reais?

Because obviously as you pointed out, you'll be helped by the depreciating real and also what does cut translate into your inability to ramp up production, should the economy come back sooner than expected? In other words, is this cut more not fundamentally important projects that will -- won't impact your ability to ramp up your production quickly, should the economy come back sooner than you think? Thanks.

## A - Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}

Hi, Christian. Thank you for the questions. So on net debt, I mean the rating agencies, I would say, beginning of last year, they had -- a couple of them had -- have a brief commentary on that, that we published saying that, in a cyclical industry like ours, they could see on the low end of the cycle as we are right now. Could see leverage going up to 3.5% or so. So that would be kind of understandable. They prefer, that we would be below 2.5%, net debt to EBITDA. As we've shown, we closed the year with 4.7%, so we are above, even the 3.5%, right? So that is a fact. We do have another aspect that the rating agencies also look at, which is the debt profile, and the maturity profile of the debt. So when they look at that and when we look at that, we see that, I mean, up to 2024, we have a comfortable debt maturity profile. So that gives us time to kind of have a glide path within one to two years, to go back to this range of, I'd say 2.5% to 3.5% depending on where we are in the cycle.

So low end of the cycle could be 3.5%, high-end of the cycle should be even below 2.5%. So that we have some space to go through the swings in results because of the cyclical nature of the industry. So as I said, we were working on some initiatives, some alternatives to address that. Right now, some of them are accelerating like the CapEx reduction, some of them we are revisiting because of just the way the financial markets are, so some alternatives like for example, we have some auxiliary assets which are not core to the business. They're important assets, but that we could divest. So that sort of thing is what we were discussing and looking at, as alternatives.

So again, we are above the range we would like to be. But we do have this, I would say time frame, the space that is given by the debt profile of the company to go back to. I'd say, a more normal leverage number. On covenants, just briefly, we don't have any financial covenants on our debt. So we haven't reached those because they don't exist. In terms of the ramping back up on the return, in the back end of the crisis, I would say that, I mean it will depend a lot on how and where demand goes back. But we keep producing all products, it's not like we have stopped production of any product.

So maybe we'll hit some utilization rate, that if we were doing the investments that were planned, maybe you could reach, I don't know, 95% utilization -- 95% utilization rate. Maybe now without those projects being implemented, we'll go back to 90%. How much is that and these are just examples, right? These are not real numbers that we're working with. But just to give you the example, how much of that marginal production or sales volume that we are losing out, by not having those investments made now. I mean, potentially and given all the spread scenario that I was -- that I briefly discussed in answering Hassan. Potentially that marginal production is very low value anyway. So we think that we are not missing out on any large value perspectives because of the way that we're handling CapEx. We hope we are not wrong.

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

Great. Understood. And given, can you give us a sense of what percentage of our CapEx is in dollars versus reais? Because I was just thinking of the depreciation of the real continues obviously. You wouldn't -- necessarily have the credit CapEx anymore beneficial...

**A - Pedro van Langendonck Teixeira de Freitas** {BIO 19740578 <GO>}

Sure. Sure. So, of the maintenance CapEx about 80% is in reais and 20% is in dollars. I would say the -- just regular maintenance CapEx. Of the total CapEx, remember that we have the Delta project, the new plant -- the new PP plant that is being, by the way that project keeps going. And we still do anticipate that the new plant will come online, is still in the first half of the year. But with Delta and the other, I would say larger projects, then about 60% is in reais and 40% is in dollars, for this year.

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

Right. All right. Thank you very much.

**Operator**

(Operator Instructions) Now, turn over to Mr. Pedro Freitas for closing remarks.

**A - Pedro van Langendonck Teixeira de Freitas** {BIO 19740578 <GO>}

So I would like to thank, all of you for participating in our call today. It was a pleasure talking to you, and I hope that we can keep the dialog going in the coming months. It's going to be very volatile, very uncertain. I would say that Braskem is prepared. We're getting ready for the downturn of the cycle. So now we find that, I would say, in a good situation with a longer debt profile, without any relevant maturities in the short term, robust cash position. So that gives us comfort. And then the other aspect, which is, I would say more strategic and more structural for Braskem, which also shows its value at this point, with the diversification that we have, geographic diversification, product diversification. So looking at all of that, it gives us more resiliency because sometimes when region is not doing so well, or product is doing better, so we can, I would say benefit from the value of mitigation that diversification brings.

So our strategy has been showing that, it is -- I would say, being proven and it's showing that, it is a robust strategy, moving forward. So overall, I would like to thank you and hope to keep with the dialogue with you.

I hope everybody is safe, and stay safe. Goodbye.

**Operator**

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



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