

Y 2020 Earnings Call

Company Participants

- Edison Terra Filho, Vice president of Olefins & Polyolefins South America
- Pedro van Langendonck Teixeira de Freitas, Vice president of Finance, Procurement & Institutional Relations
- Roberto Lopes Pontes Simoes, Chief Executive Officer and Director
- Rosana Avolio, Director, Investor Relations

Other Participants

- Barbara Halberstadt, Analyst
- Bruno Montanari, Analyst
- Lilyanna Yang, Analyst
- Luiz Carvalho, Analyst
- Ricardo Rezende, Analyst
- Unidentified Participant
- Ziad Saada, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's fourth quarter of 2020 earnings conference call.

Today with us we have Roberto Simoes, CEO of Braskem; Pedro Freitas, Vice president of Finance, Procurement and Corporate Affairs; Edison Filho, Vice present of South America Olefins & Polyolefins; and Rosana Avolio, Investor Relations Director.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After Braskem remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions) We have simultaneous webcast that may be accessed through Braskem's IR website at <http://www.braskem-ri.com.br> and the MZiQ platform, where the slide presentation is available for download. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call on the website. We remind you that questions, which will be answered during the Q&A session may be posted in advance on the website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of Securities Ligation Reform Act of 1996. Forward-looking

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statements are based on the beliefs and assumptions of Braskem management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and, therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Braskem and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to 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's earnings conference call. Today, we will present fourth quarter 2020 and 2020 results.

Please, let's move to the Slide number 3 in which we will talk about Braskem main achievements in 2020. First, regarding financial results, the company presented net cash generation of BRL1.3 billion. Additionally, Braskem maintain a robust cash position in the amount of \$2.9 billion with sufficient liquidity to cover liabilities coming due in the next 84 months. In relation to leverage, the company continued committed to reduce its corporate leverage in order to be reassigned as investment grade company. For that the company implemented the initiative in the deleveraging plan, contributing to a 0.63 times reduction in corporate leverage. Furthermore, supported by the company's cash generation and commitment to financial health, corporate leverage measured by the ratio of net debt to recurring operating result was 2.94 times in US dollars, which represents a sharp reduction compared to 2019 leverage.

Regarding the geological phenomenon in Alagoas, one of the company's priority in 2020, Braskem entered into agreements for the compensation of residents, social and environmental remediation and reparation for workers and after the approval of those agreements by the court, the public interest civil actions filed against Braskem were terminated. Another highlight about the geological phenomenon in Alagoas was the conclusion of the expert and independent technical studies contracted by the company from international recognized entities for the evaluation of potential impacts in the surface of the region. In the operational front, the company announced a resumption of chlor-alkali plant in Alagoas, which allows the company to resume production of PVC and caustic soda with an integrated business model.

Moving to ESG positioning, any line with the company's focus on sustainable development since its creation in 2002, Braskem decides to expand its effort to achieve the goals associated with combating climate change and eliminating plastic waste. In terms of combating climate change, the company's goal is to reach carbon neutrality by 2050, while also reducing its greenhouse gas emissions by 15% by 2030. Regarding eliminating plastic waste, Braskem will work to expand its I'm green portfolio to include by 2025, 300 kt of thermoplastic resins and chemical products with recycling content and by 2030, 1 million tons of these products.

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Moving to the next slide. On Slide number 4, we will present the main measures taken by the company in response to COVID. Due to the spread of COVID, a series of measures were adopted to minimize the pandemic's impacts on the company's value chain, in production sales, as well as on the safety and health of the team members with the objective of support and cooperate with the value chain, Braskem made donations in the amount of around BRL10.6 million, including hospital materials, protective items, tests, hygiene kits and more. Additionally, in order to support its customers, Braskem granted a credit line of BRL1 billion to support mainly small and mid-sized companies in the chain.

In the operations and sales front, the company reduced its utilization rates and sales in Brazil and in the US in the second quarter of 2020. And then after demand recovered as from third quarter 2020, the company presented record high sales in Brazil in line with the strategy to prioritize the Brazilian market. Regarding safety, which is a nonnegotiable value for the company, Braskem adopted the following measures. Smaller teams for production and locking in the US, we multiplied for team members who work in their offices and medical support for team members with suspected or confirmed COVID cases.

Moving to Slide number 5, we will comment on consolidated fourth quarter 2020 and 2020 highlights. In the fourth quarter 2020, the company's recurring operating result was \$833 million, 22% higher than third quarter 2020 and explained mainly by the better spreads for resins and main chemicals in Brazil, PP in the United States and PE in Mexico. In 2020, recurring operating result was \$2,082 million, 38% higher than 2019 and explained mainly by the better spreads for resins in Brazil. PP in Europe and PE Mexico and also higher rising sales volumes in Brazil.

Moving to the next slide. On Slide number 6, we will present the main highlights of Brazil's operations. In 2020, the utilization rate was 4 percentile points lower than 2019, mainly to the temporary drop in demand and to the destocking trend in the petrochemical complex production change in 2020 caused by the pandemic. This effect was partially offset by the normalization of individual operations as from third quarter 2020.

In the Brazilian market, resin sales increased in relation to 2019 due to the stronger resin demand in Brazil, to the company's strategy to focus on serving the Brazilian market and also to the inventory rebuilding trend in the chain due to the acceleration in economic activity. Given that, the recurring operating result was \$1,641 million, 73% higher than 2019, representing 72% of the company's consolidated recurring operating results.

In the next slide, we will provide an update on geological event in Alagoas. In this slide, we will talk about the latest update regarding the National Mining Agency official letter. In February, the company informed the market that the National Mining Agency in Brazil has said that they have reconsideration request made by the company requesting that the agency will consider its order directing the implementation of additional measures for the mine closure plan proposed by the company.

As disclosed in November, such additional measures would have on a cost amount of around BRL3 million if implemented. Additionally, the agency decision maintains in place the implementation of the measures complicated in the mine closure plan originally

proposed by the company. Lastly, considering that the mine closure plan is a dynamic process with complex execution, the agency will continue to oversight the results of the measures that have been taken by the company and further evaluations, requirements and provisions may be necessary in the future.

Moving to the next slide. In this slide, we will talk about the financial impact of the geologic event in Alagoas. In the chart on the left of the slide, we present the disbursement schedule. Braskem estimates that expenses related to the case of Alagoas will be incurred over the next five years in the total amount of BRL9.2 billion, of which BRL4.4 billion we expect to be disbursed this year.

And then in the right chart of the slide, we present how the company intends to fund the disbursement amount for 2021. The company has already set aside BRL1.3 billion in a specific bank account to support the residents program of the company. That is also a BRL1 billion that the company expects this year to monetize related to tax credit of PIS/COFINS in Brazil, and also we have \$300 million related to general liability insurance that the company is currently in talks with insurance companies.

Moving to the next slide. In this slide, we will talk about the return of the chlor-alkali production in Alagoas and the benefit of operating the vinyl business in our new integrated business model. In February, the company announced the restarting of chlor-alkali production at its units in Alagoas, which had been shutdown since May 2019. To restart the plant, Braskem concluded the project to produce brine as feedstock made from imported salt, which allowed the company to resume production of PVC and caustic soda with an integrated model. In terms of spreads, for 2021, the integrated business model improved the spread by around \$200 per ton, impacting in a positive way the profitability of the vinyl segment.

Moving to the next slide. In the United States, the average capacity utilization rate of our PP plants increased in relation to 2019 explained by the normalization of operations as from third quarter 2020, which offset the temporary slowdown in the second quarter of 2020. In Europe, the capacity utilization rate also increased explained by the operational adjustments in 2019. PP sales increased 2% from 2019 due to the higher supply of finished products in the United States and also in Europe. Considering that, recurring operating results in the United States and Europe was \$352 million, 7% lower than 2019 and representing 15% of the company's consolidated recurring operating results.

In the next slide, we will talk about the main highlight of Mexico's operation. In Mexico, the average capacity utilization rate of our PE plants decreased 2 percentile points in relation to 2019 explained by they shut down of the complex in December due to an interruption of natural gas transportation by the Mexican government agency that is responsible for the natural gas pipeline and transportation system in the region. In 2020, Braskem Idesa imported an average of 6,400 barrels per day of ethane from the United States to complement the supply of ethane Pemex, which corresponded to 10% of the capacity utilization rate of PE, which ended the year at 74%.

In December 2020, Braskem Idesa completed an expansion of the Fast Track operation, which currently has an expected capacity of 20,000 barrels per day of ethane or about 30% of the total ethane requirement of the petrochemical complex. Polyethylene sales in Mexico increased by 4% when compared to 2019 due to the higher supply of finished products available for sale. Mexico's recurring operating result was \$283 million, 22% lower than 2019 and representing 12% of the company's consolidated segment results.

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In the next slide, we will provide an update on Braskem Idesa operation. In this slide, we will talk about the last update regarding Braskem Idesa operation. In March, the company informed the market that Braskem Idesa has signed with PEMEX and Cenagas the following documents to enable Braskem Idesa continued operation. A memorandum of understanding with PEMEX setting out respective understandings for the discussion of potential amendments to the ethane supply agreement and for the development of an ethane import terminal subject to negotiation, entering into definitive documentation, approvals of Braskem Idesa shareholders and creditors and with reservations of rights and an agreement for natural gas transportation service with Cenagas with a term of 15 years, such term conditioned upon the execution of the definitive documentation that I mentioned before.

With the execution of those documents by Braskem Idesa, Braskem Idesa immediately start to receive the service of natural gas transportation, which had been terminated in December 2020. Additionally, the ethane supply contract between Braskem Idesa and PEMEX remains in full force. At the time, Braskem Idesa cannot predict the outcome of the discussions with PEMEX, its shareholders and creditors.

Moving to the next slide, where we will talk about free cash flow generation. In 2020, we had a positive free cash flow generation of BRL1,276 million mainly explained by the strong operating results of the company, the monetization of PIS/COFINS credit at BRL1,786 million and the reduction in estimated investments by 23%. Those impacts were partially offset by the impact of working capital on cash flow in the first half of 2020, which explained by the cash consumption due to the shift in the feedstock profile with lower volumes of naphtha being imported.

Moving to the next slide, we will talk about debt profile. In the end of December, the average debt term was around 19 years with around 50% of the total debt due after 2030. Also considering its cash position, the company has sufficient liquidity to cover debt maturities in the next 84 months.

Let's move to the next slide, which we will talk about corporate leverage and deleveraging plan. Corporate leverage measured by the ratio of net debt to recurring operating result in US dollars stood at 2.94 times in the end of 2020. This ratio represents a significant reduction in the company's corporate leverage, which has ended 2019 at 4.71 times. During 2020, Braskem implemented measures to reduce corporate leverage in order to be reassigned as an investment grade company. Since the end of the second quarter of 2020, the company has reduced significantly its corporate leverage going from 7.11 times to the end of the year at 2.94 time.

In 2020, the company made progress on the initiatives of its deleverage plan and ended the year with the following achievements. Issue of hybrid bond in July 2020 in the amount of \$600 million treated as 50% equity by Standard & Poor's and Fitch Ratings, reduction of investments from \$721 million to around \$555 million in 2020, below the target of \$600 million, reduction of around 9% in fixed costs from 2019, near the target of ending 2020 with a reduction of 10% and then monetization of around BRL1.8 billion in PIS/COFINS credits in the year.

Moving to the next slide, we started talking about our ESG highlight. In alignment with its strategy to expand the use of clean energy any its industrial operations, Braskem has signed an agreement to purchase renewable energy from Casa dos Ventos, one of Brazil's pioneer and largest investors in the development of projects in this industry. The agreement contributes to the feasibility of the construction of a new wind farm by Casa dos Ventos in Rio Grande do Norte state, which will ensure the supply of energy to Braskem for the next 20 years. In addition to energy purchase, Braskem will have the option to acquire an equity interest in the wind farms, which would enable a self-production model by the company. Regarding our carbon neutrality goal, this new agreement with Casa dos Ventos will have the company to reduce CO2 emissions.

Let's move to the next slide, where we will talk about the expansion of our biopolymers business. In February, the company informed the market that it's launching the at the Triunfo Petrochemical Complex in Rio Grande do Sul state to expand its current production capacity of green ethylene using feedstock made from sugarcane to produce green polyethylene, which have a negative carbon footprint. With an estimated investment of \$61 million, the expectation is to add 60 kt per year of green ethylene production by the end of 2022. Regarding our carbon neutrality goal, this project could help Braskem offset its CO2 emissions.

Let's move to the next slide. Braskem and Danish-based company announced in late 2020 the first production of MEG on a demonstration scale. This unit started up in 2019 to demonstrate the breakthrough technology that transforms sugar into renewable MEG. MEG is a raw material for making PET, which has several applications and is an essential input in sectors such as packaging, especially beverage bottles. Regarding our carbon neutrality goal, similar to the green ethylene, this project helps Braskem to offset its CO2 emissions.

In the next slide, we will present an important partnership between Braskem and University of Illinois, Chicago. Braskem joined forces with the University of Illinois, Chicago to research a route for developing ethylene using a technology that captures and uses CO2. The project is in the initial development stage and Braskem will contribute with its know-how in marketing feedstock and producing polymers to scale the technology. This disruptive technology of the University in partnership with Braskem has global potential for industrial applications by connecting the production of polymers to capture and convert of CO2. Regarding our carbon neutrality goal, this project is related to capture and use of CO2.

In the next slide, we will talk about petrochemical scenario in 2021. According to the most recent projections by external consulting firm, the expectation is for healthy polyethylene

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and PVC spreads in 2021. In the case of PE, in 2021, it is expected the spreads of PE to be better since 2017, reaching upcycle levels, mainly to the strong demand globally. In the case of PVC, after the return of our chlor-alkali plant, the spread better reflects the profitability vinyls, which is higher than the nonintegrated model spread as mentioned before in this presentation.

Let's move to the next slide, which will talk about the scenario for PP. Similar to PE and PVC, external consulting firms are also projecting healthy PP spreads in 2021. In the case of PP, the main highlight is regarding spreads in the United States, where projection points for a sharp increase in PP propylene spreads compared to recent years due to the strong demand and lack of new capacity in 2021. In addition, PP spreads for company's business in Europe and Brazil also have a positive trend in 2021.

Moving to the next slide. In this slide, we will present the short-term outlook focusing on the dynamics in the first quarter of 2021 compared to fourth quarter 2020. In the case of Brazil, ethylene production should be similar, despite a feedstock at the Rio Grande do Sul complex and a scheduled shutdown of the Sao Paulo complex in the quarter. Regarding sales, total resin sales should be in line with fourth quarter 2020 and the company expects to continue this strategy to prioritize sales to Brazilian market. Additionally, it is expected healthy spreads for all resins due to the resilient global demand.

In the United States, because of the impact from severe winter weather in February on the US Gulf Coast, utilization rates and sales volumes could be lower than fourth quarter 2020. However, it is expected healthy PP propylene in the US that will offset this impact on production and sales.

Finally, for Braskem Idesa, polyethylene production should be similar compared to last quarter with the partial restarting of operations in January using an experimental model and with the return of the natural gas transportation service in March. However, sales could be lower due to the lower availability of products in inventory. Regarding spreads, in line with what we presented for the other regions, the spreads for polyethylene base on ethane in the US should be healthier due to the continued strong demand and also the impact from the winter storms on the PE supply.

Let's move to the next slide, where we will present the outlook for 2021. In Brazil, after a strong economic downturn in 2020, the Brazilian economy is expected to return to growth in 2021, impacting in a positive way the demand for thermoplastic resins and as a consequence, the company sales volume in Brazil. In relation to petrochemical spreads, according to the projection of external consultants, the expectations for healthy spreads for all resins in Brazil. Demand for petrochemical products has been shown to be quite resilient, impacting in a positive way, the spreads in the region.

In the United States business, the company will operate the new PP plant throughout the year in 2021 and the company should increase the volumes of sales in the United States business. In addition, PP propylene spreads in the US are expected to remain healthy in 2021, as new addition on PP capacity in the region and plan only for 2022 and on. And the demand for petrochemical products has proved to be quite resilient.

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Regarding the company's business in Europe, sales volume should remain in line with 2020 in a scenario of maintaining the same production capacity in the region, but with healthy PP propylene European spreads. In the Mexico business, in early 2021, Braskem Idesa partially returned the polythene production base on our experimental business model, following safety protocols. Additionally, at the beginning of March, the natural gas transportation service that had been interrupted in December 2020 was reestablished. In relation to spreads, according to the projection of external consultants, the expectations for healthy spreads PE-ethane in 2021. Considering that scenario in the region and the production for CapEx, interest and income tax, the company is confident we have 2021 cash generation.

Moving to the next slide. To conclude the presentation, we will talk about the main objectives of the company for 2021. For this year, the company develops six main objectives in its strategy. Continue with advance related to the geological phenomenon in Alagoas; find constructive ways to solve the ethane shortage in Mexico; Ensure the company's continued financial health, risk management and discipline in capital allocation; strengthen Braskem's image and recognition with team members, clients, suppliers, investors and society; increase effectiveness in innovation and speed up digital transformation; and lastly, advance in the implementation of our ESG commitment and goals. Lastly, but not least, safety in our operation is a perpetual and 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. Thank you.

Questions And Answers

Operator

Thank you. (Operator Instructions) Mr. Ricardo Rezende from JP Morgan would like to make a question.

Q - Ricardo Rezende {BIO 16469276 <GO>}

Thanks for taking my question. Hi Roberto, Pedro, Rosana. A couple of questions on my side. The first one on your press release yesterday, you mentioned that you should see some sort of a deceleration on the spreads in the second half of this year. But then I guess that the major question that we have is when you look at the first half of the year, how to think about the spreads because again that we and most investors were looking for a peak earnings in the first quarter, but it looks like that with the winter storm in the US and with the spreads we might see the peak earnings in the second quarter? So just curious to see how do you think about the first half of the year. And then my second question is about Mexico. How should we think about the utilization for 2021 because the first thing that the government had pointing to a potential new agreement of 30,000 barrels per day of ethane supply from PEMEX. And then you just mentioned on your capacity to import about 20,000 barrels. So would that be the cap on the short term, when you think about utilization in Mexico? Thank you.

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

Hi Ricardo, thank you for the question. This Pedro and good morning to everyone. Thank you for joining our call.

I'm going to address the question around the acceleration first and then the question about Mexico. Okay. So we do see that the acceleration in the second half. Actually what we see is a lot of uncertainty. We have a conservative planning process. So in the end, we tend to be more conservative in the way we do our forecast. But even if you look at industry consultant, they are seeing a peaking spreads between March and April and then spreads coming down. So we believe that we are going to see a very strong first half of the year, that's the current outlook based on the spreads that we see that the spreads are forecasted by the industry and then a lot of uncertainty in the second half. So I would say, our view of a deceleration into the second half is following the industry trend, but also, I'd say, some conservativeness around the uncertainty by the end of the year.

On Mexico, what we have as a reference for utilization rate is we are getting now roughly 50% of the contract volume from PEMEX, the contract is 66,000 barrels per day. We're getting somewhere around 30,000 barrels. So a little bit less than 50% and then we, at cooperate, at around 80% until the process mentioned in April. So how do you get to the 80%, about 50% from PEMEX another 30% from the current Fast Track. And from April onwards, it is the expansion in Fast Track. We believe that we could reach about 90% utilization rate that's Fast Track could reach somewhere around 28,000 barrels per day, so that another -- their own 30% of our needs. And then we have a view for the future to develop the import terminal. And with that, then I think we could be more sustainably running above 90%, but that's going to take a couple of years to implement it.

Q - Ricardo Rezende {BIO 16469276 <GO>}

Okay, very clear. Thank you.

Operator

Mr. Bruno from Morgan Stanley would like to make a question.

Q - Bruno Montanari {BIO 15389931 <GO>}

Good morning, Rosana, Pedro. Thanks for taking my questions. The first one is about Mexico as well. I appreciate how this colder situation is, but there seems to be a lot of asymmetry in information coming out of Mexico right, with the government talking about the terms of the agreement. But this could be very biased and we understand all of the confidentiality agreements in place. At the same time, it makes it very difficult for the market to understand and try to forecast the margins in the future. So the question is, will the company, at some point, be able to talk about the details and the terms of the agreements, like the discount, the volumes and all of the KPIs?

The second question is about the US. So how long should it take to go back to full capacity now after the issues with the freezing in Texas? And would company capture those peak spreads perhaps with the inventory from other regions by any chance? And if I

may, a third quick one. We saw a strong domestic mix in Brazil in the fourth quarter. Was these result of restocking of third generation players? Is this sustainable going forward as well? Thank you very much.

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

So thank you, Bruno. Good morning. So on Mexico, I think it's important to say that MoU that was signed has conditions around things and the parties to negotiate a series of topics over the next few months. Those topics include volumes, prices penalties, the historical liquidated damages followed by PEMEX, the terminal, the term itself of the contract so all of this is subject to negotiation. So we will disclose that whenever we have a final agreement with them. So that's our view, we're not going to disclose any additional information, which is still subject to negotiation.

Regarding the US and your question about taking advantage of a peak spread, we have, in the US, roughly 35% to 40% of our production capacity outside of the Gulf Coast. Those facilities in the Northeast of the country has been operating, they were not subject to the cold freezing there in Texas. So the volumes coming out of those facilities have been -- we kept reducing them, and we are benefiting from that. We have three sites in the United States, one in La Porte, one in Oyster Creek and one in Seadrift. The two larger ones in Seadrift -- sorry, in Oyster Creek and La Porte have resumed operations already and the only one that still scheduled to come back over the next few days is Seadrift. So at this point, we keep running, I would say, our operations. We have been able to come back with operations in the large markets of our production. I would say, maybe 10% to 15% is what still offline at this point. But that should come back, unless we find some issue, but it should come back in the coming days.

I think another point that is important to emphasize is that the fact that we had on spread is more, I'd say, the more valuable or has a better impact than the loss in volumes. So we believe that, looking at the short-term of the first quarter. January, February, March, the overall impact is positive for the company, given the situation and also our ability to come back with volumes the way that we have been able to do. Final point on that is important, also to mention that that situation is specific to the US, we don't see the same kind of effect in Europe or in Brazil. So if you're looking at the positive effect, it's fully localized in the US.

And then for your final question around the Brazilian market and the inventories in the value chain, I'm going to invite Edison Filho, who is our Vice President in charge of South America. He is here with us. And I'll ask Edison to answer that.

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

Okay. Thank you, Pedro. Thank you, and good morning, everyone, and thank you for the question.

What I would say, we saw an increase in the overall resin market in the fourth quarter that is around 11% compared to the previous quarter and at the same time, you know this by our operating rate that we had an operating rate in the fourth quarter that was 2 points

below the third quarter, mainly because of unexpected industrial issues around the credit rating in Sao Paulo in ADC. We don't see most of our customers building inventories. In fact demand is quite high during the complete second half of the year, so they were not able to believe even though they wanted. Then what we noticed, there was an increase on imports, mainly in November and December. So maybe on this flow of imported product to Brazil, I would say, a recovery on the new debt target levels, but I don't see that as part of the initiative from Braskem.

Q - Bruno Montanari {BIO 15389931 <GO>}

Great. Thanks for the answers.

Operator

Mr. Ben Isaacson from Scotiabank would like to make a question.

Q - Ziad Saada {BIO 20955296 <GO>}

Hi, this is Ziad on for Ben. Thank you for taking my question and congratulations on a strong quarter. Just a few questions here for you. First, some headlines are pointing to an increasingly difficult macro situation in Brazil with the COVID situation, some FX volatility and some uncertainty in just the economic outlook. Can you talk a bit about the potential risks to your operations if these materialize, if the country were to go into shut down or quarantine? And maybe what kind of measures you have in place to kind of address those concerns?

And then separately, can we talk a little bit about your capital allocation leverage now has improved materially over the last few quarters. Free cash flow generation is positive and it looks to be positive if those spreads maintain over the course of the next half at least. So just maybe some guidance on where your capital allocation priorities lie today? Thank you.

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

Hi Ben, good morning. I'll ask Edison Terra to address your first question around the Brazilian market and uncertainties and then I'll take the second one.

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

Hi Ben, thank you for the question. Basically what we are seeing in the market, we are working with an increase in the market, I would say, a little bit higher than the Brazilian GDP for this year, mainly to the situation on new habit and what we're seeing from our customers. So I would say that our resins should be between 5% and 6% -- present 5% to 6% growth during the year. I would say that there may be an effect of a potential increase on the effect of the pandemic. However, we have seen that our people, our customers are much more prepared to face those situations. You have to consider that our business and most of our customers' business I consider as essential on essential operations to fulfill and to fight the pandemic. So I would say, we don't see a major decrease as an effect of a potential increase and the measures to protect from the pandemic.

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

Just to add to that, one question that you may have is also around the uncertainty around FX. So I think one point that we have is we are a naturally hedged business. So we do have an exposure to cost reais, and we have a currency hedging program to address that and the risk I've to explain is actually an overall evaluation of the real. If the real is more devalued because of volatility, that's actually good for the results of the company. So just to emphasize the point.

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

Just to complement there is that we also have, I would say, Brazil is our target market from our assets in Brazil. We also have a regular business in South America, which is very relevant, and we also then complement the offer of our products our regular exports to other regions as well.

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

So and then to address this point or the question around capital allocation and free cash flow. So last year, as you saw in the presentation, we had a total CapEx of around BRL2.7 billion, BRL2.8 billion, including strategic investments. Our operational CapEx of BRL1.7 billion was around \$250 million, so that's much less than normal for the company. The normal CapEx for the company is between \$500 million, \$600 million. So we do have for this year a catch-up in operational CapEx, the operational CapEx for this year should be around \$700 million, as we showed in the presentation. I mean \$167 million from Braskem itself, and then another \$34 million in Braskem Idesa plus another \$100 million in strategic CapEx. So the overall CapEx for the company this year we are forecasting it close to \$800 million, and a part of that around more than \$100 million of that is catch-up from maintenance and sustaining CapEx that we did not do in 2020.

So if you take a look at the last slide in the presentation or the annexure slide number 23, you can see there a lot of, I mean all of this information. If the scenario that you pointed out is true, we may end up with significant cash flow generation from operations in the year. And what we are planning to do and what we're doing is actually, we are paying some debt, prepaying debt. We haven't started to do that. We ended the year with a very high cash balance and we have now paid the perpetual bond. We are aiming at recovering our investment grade by the end of the year, if not sooner. That's the challenge that we have to convince the rating agencies that by the end of the first quarter of the year, we would be ready for that, given the trend that we see in reducing leverage materially. And also, I mean, a strong cash position, the long-term maturity in our debt. So I think we have a lot of requirements there to be able to fight for that investment grade back through the course of the year.

Q - Ziad Saada {BIO 20955296 <GO>}

Great. Thank you very much.

Operator

Mr. Luiz Carvalho from UBS would like to make a question.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Hi, Roberto, Pedro, Rosana and everyone. Thanks for taking the questions. And first of all, congratulations on the derisking the Alagoas and Mexico. It would say this might be pretty much advancement to the main issues. If I may ask the first question coming back to the capital allocation strategy. Looking to the spread scenario and the FX rate and wages pointed out 2021, we are seeing going to be close to \$3 billion, a CapEx of, as you said, Pedro, \$800 million and I add the interest of around \$500 million, right? So that probably can lead you through a cash generation, or free cash flow, sorry, of around \$1.7 billion, \$2 billion by this year-end. So just would like to understand if these numbers make sense? And second, if be it say, this cash generation will be primarily used to debt prepayment in order to reduce the leverage. So if that's your main priority right now?

And the second question is as you made significant advancements in terms of PE, Alagoas accident and also on Mexico, I would say contract now, but do you have an MoU with PEMEX, did you guys receive any request from the controlling shareholders Odebrecht and Petrobras with regards -- any information about the company for potential divestments from the controlling shareholders? These are the questions. Thank you.

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

Hi, Luis. Thank you. Thank you for the question. So on capital -- on your first question on cash flow and capital allocation. I mean the EBITDA number is yours, right? We still see a lot of uncertainty in the second half of the year. So I would say that this number is possible, but different numbers are also possible. So we have to see how the year goes, especially in the first half. I think by June, July, we'll have more clarity around that number. I do see where you're getting that. If you look at the spreads that industry consultants are using or forecasting, you would get to somewhere around that number. And then I refer back to my -- the first question that I answered today and you see, part of the question around the uncertainty in the back end of the year. Your numbers, I mean \$800 million in CapEx, is what we disclosed. The \$500 million in interest is roughly what we have. Income tax, I mean if we have the results that we are forecasting, we should be paying more income tax, as in the Slide 23 of the presentation, more in the range of \$200 million to \$300 million at least is kind of our forecast. It's also important to mention that, as part of the Alagoas settlement, we are putting BRL1 billion, so just \$200 million or \$170 million, \$180 million in the Alagoas account through the year, so that's another use. And depending on the insurance discussions. I mean if we don't get the insurance pay-out by the end of the year, there may be another \$200 million to total Alagoas. So, we do have those other, let's say, cash uses going forward.

And then with the balance of that, Luiz, really what we're seeing is -- we don't have any major CapEx or projects on the work. I think that the more relevant one that we have is the expansion on green polyethylene that we announced a few weeks ago. That's a very significant move by the company towards our goals to reduce our carbon footprints, and also, I mean serve our clients with this polymer shift, I mean we had record sales last year and we see strong demand for green polymers in the market continuing going forward.

But for this year, I mean with just \$50 million, I mean the \$60 million investment is not even this year, right? Part of it is in this year another part is next year. So in the end we don't

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have any major CapEx in the works. We don't have a major M&A also on the work. We do keep looking how are the opportunities, but we don't have anything going on. So really what we are seeing is prepaying debt is the main move that we have. Again as I said, we do have a clear target and ambition to get back our investment grade this year. So paying back debt, paying down debt I think it's one way of us to emphasizing that and trying to achieve that goal.

And then on the second question about controlling shareholders what we have, I mean, it's what we disclosed to the market somewhere in the middle of last year. We have a request from Novonor to support them with the sale of their controlling stake in the company. As far as we know, the official process has not started yet. We have been collaborating with them and sharing information that would allow them to open a process, a sale process of their stake in the company. But as far as we know that sale process has not been initiated yet. I would expect it to start sometime soon, but we are not a part of that process. We are not, let's say, in the driving seat in this situation.

And regarding Petrobras, we know from just news, news articles, that they are willing to sell their stake, but we don't have any direction from them on how they want to do it or plan, so all of that I think it's still being defined by Petrobras themselves.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Okay, if I may just do a follow-up on the first question related to the insurance payment. What's the real discussion that you're having with these guys? And what is the likelihood that you can have any, I would say, any reimbursement from insurance company?

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

Yeah, Luiz. So, regarding that the insurance companies. I mean it's a \$300 million policy. So the discussions with them are underway. There is a lot of back and forth discussions and also submission of information. Of course, nobody is going to make a \$300 million check without having technical analysis, detailed in-depth evaluations, so we've been providing the insurance companies and their expert support with these technical documents. So they are going to, I would say, a great depth. It's a very complex geological situation.

So that technical assessment by the insurance companies need to be completed, and then after that is when we would expect to see any, let's say, payment from the company. Our advisors, tell us that we do have a strong claim on that. So we are now just going through the process, which I think is natural in the case of this magnitude.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Okay. Thank you very much.

Operator

Ms. Barbara from JP Morgan would like to make your question.

Q - Barbara Halberstadt {BIO 18022271 <GO>}

Hi. Good morning, everyone. I just actually wanted to make a follow-up question on the rating agencies and the GIG call for this year. In your discussions with them what they are expecting to see from the company before they make a decision on an upgrade? The downgrade was based not only on the higher leverage that the company was experiencing at the time but also weaker market fundamentals in the sector. So just wanted to understand in the conversations with them what they are expecting to see? And is there any target leverage that is specified, if you could provide a little bit more color on that it would be great? Thank you.

A - Rosana Avolio {BIO 20386863 <GO>}

Hi, Barbara. It's Rosana. Thanks for your question. So about the reasons why we both are very right here. First, it was a movement that we did -- that the agency did are we're a petrochemical company. So it was that Braskem is specific, it was more in the context of the pandemic impacting volume and demand. And then since then as we disclosed the leverage plan and that helped the company to deleverage as well. And as we improved the results in the second half, we are showing the agency that it's a very fast movement of de-leveraging of the company.

So in general and in our talks with the agencies, the kind of goal that we have is to be around 2.5 times net debt to EBITDA with our Braskem Idesa. We do think we are confident for this year, as we mentioned in the presentation, as Pedro mentioned as well, we are confident with spreads and then with the cash generation of the company. Again, being conservative in the second half of the year, but we are working hard, we are talking with agencies. We are delivering not only the initiatives that I mentioned before, and we do think that we can first carryout those depository outflows and maybe by the end of the year an upgrade of -- I mean, moving to IG.

Q - Barbara Halberstadt {BIO 18022271 <GO>}

Okay, great. And then with the timing for this discussion with Anderson & Anderson [ph] going your target is end of the year? That I understood very well.

A - Rosana Avolio {BIO 20386863 <GO>}

Yes. This is kind of internal target. Barbara, you know the agenda, right? It depends on agencies call. Maybe their analysis, what we are showing them in terms of the leverage of the company every month and we share the monthly results with the agencies. But in the end, it depends on their analysis discussion in the committee.

Our work we are doing, we are delivering. As I mentioned, we've presented -- remember in the end of second quarter last year, we presented leverage 7.1 times. And then in the end of last year our leverage went down to below 3 times. So it's a very fast process that we showed the agency. So we are confident with that agenda for this year.

Q - Barbara Halberstadt {BIO 18022271 <GO>}

Okay. Thank you so much, Rosana.

A - Rosana Avolio {BIO 20386863 <GO>}

Thanks, Barbara.

Operator

Lilyanna Yang from HSBC would like to make a question. (Operator Instructions) Lilyanna Yang from HSBC would like to make a question.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi. Thank you for the opportunity. I actually have three questions here. The first one is on Mexico, right. Well, if you can give us overall numbers about the cost of imports of ethane, Braskem is getting ethane from PEMEX, what do you see the cost differential there? And also on that line. Do you need a waiver from Braskem via the bondholders for the potential amendment in the ethane contract with PEMEX?

The other question is, if you could talk a little bit -- I know you indicated you more cautious on the second half of 2021 spreads, but can you give an indication of where you see the experts in terms of spreads for 2022, overall big ballpark numbers? Is it going to be showing like a reduction of 20% over '21 or something of that sort? Any color there would be welcomed.

And the third question is, I wonder if you could compare the economics of your green polyethylene project with the conventional PE project? If you expect to get an economic profit with these green PA [ph] plant and what kind of return differentials between the green and non-green PE projects? Just big picture numbers here would be great. Thank you.

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

Hi. Lilyanna, thank you for the questions. On the cost to import ethane, it's between \$180 to \$200 per ton currently, and it should go down with higher import volume. So as I mentioned earlier, starting from April we expect to expand the Fast Track Solutions to 28,000 barrels per day. And with that, that would be around 40% of the lead of Braskem Idesa and with that, the number of \$180 to \$200 per ton should be reduced, right, because it has economies of scale as you increase the volume.

On the bondholders, I would say, any approvals discussion, they are still in the early stages. So we will evaluate that through the period, but right now we don't have that perspective yet. Then following up on the next question on the expectations for 2022. In broad line what the industry experts are saying is a return to the spreads of 2020. That's overall I'd say, on average the expectation that we have for 2022.

And finally on the green polyethylene. What we have, first for Braskem to approve any investment we do a return calculation, right? So there is a positive return on this investment. So you asked in terms of economic profit. It has a positive economic profit. So we do have that and kind of the groundwork has been done on the project to be a, I would say, a profitable project for the company.

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Regarding margins and comparison to regular polyethylene, what I would say, I mean I'll speak two things there. One is more conceptual. The nature of the spread is different, right, so you have in regular polyethylene or faster polyethylene you have two spreads that you can consider in our case. One is spread to be ethane price and the other is the spread to naphtha, right? And the spread in the green PE is mostly the spread of the green PE price to ethanol and we have several types of contracts of green PE. Some of them are even linked to the ethanol reference. So in the end you have kind of a fixed margin on that production. So it's a different type, I would say, green PE tends to be a bit less volatile because of that hedge that we have in the commercial contracts. And so it's a different kind of perspective, right? The other aspect that I would mention is -- so it's hard to do this comparison, because I mean we're comparing the spread of ethane to the PE and also naphtha to PE spreads, so very different things, but those are more cyclical in nature.

The green PE spread, I would say, tends to be less cyclical going forward. And the other aspect is, of course, this is still a specialty in the polymer world. So it tends to have let's say, a higher margin overall. But again, depending on moments in the cycle. For example, the spread that you see here today on PE to ethane is above \$1500 per ton, then I would say that and that is a very attractive spread today, right? So overall those are the perspectives that I could share with you on green PE.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay. That's helpful. Thank you very much and congrats on the strong results mainly in Brazil.

Operator

Mr. Matthias [ph] from (inaudible) would like to make your questions.

Q - Unidentified Participant

Hi, thank you. Thank you very much. I had two questions. The first one is, as you're suggesting the focus now in the second half or for the remainder of the year is going to be capital allocation and deleveraging, trying to get back to investment-grade ratings. So can you just tell us what's a minimum cash level that you're comfortable holding? We recently saw you doing a liability management exercise or tendering for perpetual bonds. So again, can you just tell us what's the kind of cash balance target towards the end of the year? That's one question.

And the second question, I think it was asked, but I apologize for the repetition. What's your expectation on the timing for the roughly \$300 million of the insurance on Alagoas? Do you think that that could happen this year? Thank you.

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

Hi, Matthias. Nice talking to you. On capital allocation and cash balance by the end of the year. So our -- we have a financial policy that is by nature conservative. It was designed after the financial crisis of 2008, 2009, and so it's good part of the company to carry a

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substantial amount of cash above our, I would say, operational needs, right? And usually that number of minimum cash that we need to carry by the financial policy is around \$1.5 billion. It fluctuates. It tends to fluctuate between \$1 billion and \$1.5 billion, but I have in mind as \$1.5 billion. So that's kind of the cash balance that I think that sustainably Braskem should carry going forward, plus the revolving credit facility. That's a large cushion there. The financial policy does not require us to have the revolving credit facility, but it's, I would say, it's another layer of cash availability in case of need.

So I have this \$1.5 billion in mind and we'll see through the course of the year, right? Today, we are, I mean, we closed the year at \$3 billion. We've paid down the perpetual bond, as I said, so that's \$500 million. So the remaining is at around \$2.5 billion. So you can see that we still have, I would say, excess cash in our hand. The objective is to pay down debt going forward, but we will always consider the uncertainties through the course of the year, right? So depending on how Mexico Alagoas going forward. The lingering and residual uncertainties around Alagoas how those are resolved through the course of the year.

Insurance, the question that you asked as well. So all of those are events that through in the course of the year we will have more clarity around and also around the cycle. I think the cycle is the most important one of them by far. So as we have more clarity through the course of the year, then we'll see how I mean, how deep we can go in this liability management. But right now, I mean, we have this year of \$1.5 billion cash by the end of the year. Maybe a little bit more depending on lingering uncertainties of course at that point.

On the insurance and the timing, it's a process that is not in our hands. So it's a process that is depending on the technical analysis by the consultants that the insurance companies have hired. I think that process is still going to take many months. To me it's a bit uncertain by now. I was more bullish in the beginning of the year, but by now I think there is uncertainty whether we'll be able to receive, I would say, all of that amount by the end of the year or we'll only receive a part of it, or even if it's going to be a discussion that goes into 2022. So I'm afraid we still have a lot of uncertainty around that timing at this point.

Q - Unidentified Participant

Understood. Thank you.

Operator

I will turn over to the company for closing remarks.

A - Roberto Lopes Pontes Simoes {BIO 6707850 <GO>}

Hi, everyone. It matters to be here together with you. I would like to thank you all again to join us for this call and I want to end with a couple of remarks. Firstly, although the year of 2020 was impacted by uncertainties and volatility, such as the COVID pandemic and the weaker global demand for fuels, which affected our fuel and ethanol price. We maintained the ability to absorb the rate very efficiently even in the rough moment, keep our

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customers and keep discipline in our capital allocation, given that we closed the year with a positive cash flow in the region and the leverage of 2.94 times, an important reduction from last quarter's leverage. This reduction reinforces our commitment to our financial liquidity and to be reassigned as an investment-grade company by the credit rating agency. Second, the trend for 2021 has been positive so far, not only because of the strong petrochemical scenario this also spread for all of the products, but also because we already announced the two important value creators that builds up the company.

The resumption of our chloralkali operations in Alagoas, which allows Braskem to produce PVC and caustic soda on an integrated basis. And secondly a new investment to expand our production capacity of green ethylene in Triunfo reinforcing our position as a global leader in biopolymers production. For 2021 our main objectives are, continue with the advances related to the geological phenomenon in Alagoas, by the constructive ways to solve the ethane shortage in Mexico, ensure the company's continued financial health, risk management and discipline in capital allocation.

We strengthened Braskem's image and recognition with the team members, clients, suppliers, investors and society. Increased effectiveness in innovation and speed up digital transformation and finally advancing the implementation of ESG commitment. Thank you very much for your participation and looking forward to talk to you when we release the first quarter of 2021 results.

Operator

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

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