

## Q3 2020 Earnings Call

### Company Participants

- Pedro Freitas, Chief Financial, Investor Relations, Procurement & Corporate Affairs Officer
- Roberto Simoes, Chief Executive Officer
- Rosana Avolio, Investor Relations Director

### Other Participants

- Ben Isaacson, Analyst
- Bruno Montanari, Analyst
- Fernanda Cunha, Analyst
- Luiz Carvalho, Analyst
- Ricardo Rezende, Analyst
- Rodrigo Almeida, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's Third 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; 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 [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 the website.

We remind you that the 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 Litigations Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of the Braskem management and on information that 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 will turn the conference over to Rosana Avolio, Investor Relations Director. Mrs. Avolio, you may begin your conference.

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

Good afternoon, all. We would like to thank you for joining Braskem earnings conference call. Today, we will present third quarter 2020 results. So please let's move to slide number three in which we will talk about Braskem new sustainability goals disclosed this week. Based on our sustainable development strategy and in line with the sustainable development goals of the United Nations for 2030 and the Paris Agreement on climate change, we recently informed the market our new goals related to mitigate climate change, eliminate plastic waste.

Our goal for mitigating climate change are; achieve carbon neutrality by 2050 and provide a 50% reduction in greenhouse gas emissions by 2030. Regarding eliminating plastic waste, our goals are: expanding the I'm green portfolio; aiming to include 300,000 tons of thermoplastic resins and chemicals with recycled content by 2025; and by 2031, 1 million tons of such products; and also by 2030, work to prevent 1.5 million tons of plastic waste from being sent for incineration, to landfills or deposit in the environment.

Moving to slide number four, we will present our strategy to achieve carbon neutrality and also to eliminate plastic waste. To achieve the carbon neutrality, the company's strategy will concentrate its actions on three fronts. First, reduction of emissions focusing on energy, efficiency and increasing the use of renewable energy in current operations, establishing partnerships, focus on innovation and technology.

Two, offsetting emissions with potential investments in the production of chemicals and polymers from renewable sources and capturing carbon emissions through research and development for the use of carbon emissions as raw material. Additionally, in the forefront of Circular Economy, Braskem will continue to pursue its mechanical and chemical recycling projects. With that the company reaffirms its commitment to sustainable development and its continuous purpose of improving people's life by creating sustainable solution for chemicals and plastics.

Let's move to the slide number 5, in which we will talk about the company's consolidated highlights for the third quarter of 2020. In this quarter, the company recurring EBITDA was \$699 million, 126% higher than the second quarter of 2020, mainly explained by the better spreads in the international market of polyethylene in Brazil, polypropylene in the United States and polyethylene in Mexico; also explained by an increase in sales volume in Brazil and in the United States due to the recovering demand for resins in the Brazilian

market and polypropylene in North America. Compared to the same period of the previous year, the company recurring EBITDA in US dollars was 69% higher.

Moving to the next slide, we will present the third quarter 2020 highlights in Brazil. In Brazil, the average capacity utilization rate of our crackers increased 17 percentile points in related to the second quarter and 2 percentile points compared to the third quarter 2019, reflecting the normalization of operations in this quarter. Resin sales in the Brazilian market increased 24% in related to the second quarter 2020 and 3% compared to the third quarter of 2019 due to the strong recovering demand for resins in the Brazilian market.

It is important to highlight that in this quarter, and in line with our strategy of prioritizing sales to the Brazilian market, the company exceeds 1,050,000 tons of resins sold in the domestic market, a historical quarterly record of resin sales in Brazil. Given that, Brazil's EBITDA was \$529 million, 148% higher than second quarter 2020, representing 70% of the company's consolidated segments EBITDA. The increase in EBITDA is mainly explained by the higher sales volumes of resins and chemicals in the Brazilian market and by better spreads in the polyethylene business.

In the next slide, we will provide an update regarding the geological event in Alagoas. In January, we signed an agreement with the Alagoas State Public Defender's Office, the Federal Prosecution Office, the Alagoas State Prosecution office and the Federal Public Defender's office. In this regard and to the best of our knowledge, Braskem estimated around BRL3.5 billion provisions. Of these amount, around BRL1.7 billion was related to support the relocation indemnification of residents of the areas at risk located in the affected region. Important to mention that this amount was transferred to a specific bank account managed by Braskem, therefore it's not been considered in our cash position.

Additionally, BRL1 billion was related to access to monitor and close the salt mining wells and BRL700 million for other measures not covered by the agreement with the authorities. In July, Braskem executed an amendment to that agreement with the authorities and informed the market the second relevant provision in the amount of around BRL1.6 billion. More recently, in September, we have informed the market an important development assessment of the potential impacts of the geological event in Alagoas. With the conclusion on September 14, the studies of exploring the independent technical engaged by the company from internationally recognized entities. In order to implement the potential new measures related to geological event in Alagoas, the company in light of the information available to-date estimate the additional amount of around BRL3.6 billion. Finally, just to reinforce, Braskem cannot predict with certainty future developments in respect of this matter or it's related expenses, and the cost to be incurred by the company may be different than estimate.

Moving to the next slide, regarding the financial compensation and relocation program in September -- by September 2020, around 6,700 properties were relocated, more than 7,500 families were included on the compensation flows, around 26,000 residents were relocated and more than 2,000 families from Humanitarian Aid were shifted to the program. Additionally, the resident center is set up to service residence of the financial compensation and support for relocation program. There is also a program focused on picking up and providing healthcare and welfare improvement for animals. Around BRL180

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million was disbursed from the bank account of BRL1.7 billion mentioned before related to the expenses of the financial and compensation support for relocation program.

Let's move to the next slide where we will present the third quarter 2020 highlights in US and Europe. In the United States and Europe, the average capacity utilization rate of our PP plants increased in relation to the second quarter 2020 and also in relation to the third quarter 2019, explained by the higher demand in the United States and improved production capacity after operational issues in some plants in US and Europe in the previous quarters.

PP sales volumes were 10% higher compared to the second quarter 2020 and 8% higher in relation to the third quarter of 2019, mainly to the demand recovery in the United States and supply restrictions in the region caused by the Laura hurricane. EBITDA in the United States and Europe was \$133 million, 223% higher than the second quarter of 2020 and were presenting 18% of the company's consolidated segment EBITDA. The performance in the quarter is mainly explained by the higher sales volumes in the United States, due to increase in the country's industry activity.

In the next slide, we will talk about our new PP plant in US. The construction of Braskem new PP plant in United States was concluded and it has started commercial production in the third quarter of 2020. The new plant is located at La Porte in the State of Texas and has production capacity of 450,000 tons per year. In October, the production of our new PP plant in the United States was 36,000 tons, close to the monthly production capacity of the plant of around 38,000 tons.

Moving to the next slide, we will talk about Mexico results. In Mexico, the average capacity utilization rate of our polyethylene plants increased 4 percentile point in relation to the second quarter 2020, due to the higher ethane supplied by PEMEX combined with the ethane import from United States. Compared to the third quarter of 2019, the utilization rate increased 12 percentile points, reflecting start up of the ethane imports project in February this year.

In the quarter, Braskem Idesa imported 42 million tons or 8,000 barrels per day on average of ethane from the United States to complement the supply of ethane by PEMEX, which corresponded to 13% of the capacity utilization rate of the Mexico petrochemical complex. Polyethylene sales in Mexico decreased by 2%, when compared to second quarter 2020, due to inventory recomposition. When compared to the same period of last year, it increased by 12% given the higher availability of products. Mexico's EBITDA was \$97 million in line with second quarter 2020, representing 13% of the company's consolidated segment EBITDA.

In the next slide, we will talk about petrochemical scenario. According to the most recent projections by external consulting firms, the expectations for healthier resin spreads in all regions. Regarding the resins referred in Brazil, polyethylene spreads increased by 102%, polypropylene spreads increased by 26% and PVC spreads increased by 41% over the figures projected in the beginning of the year.

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These spreads improved mainly due to the strong drop in the naphtha prices and the demand recovery after COVID impact and also by impacts of Hurricane Laura in case mainly of the polyethylene business. In the case of the main petrochemicals spreads, external consulting firms expect lower spreads over the figures projected in the beginning of the year due to the COVID, the demand for basic chemicals was strongly impacted, which resulted in challenge spreads this year.

For the businesses outside Brazil, Polypropylene United in States increased by 9% and in Europe by 20% in related to the projections of the beginning of the year. And regarding the spread reference of Mexico, it has presented 13% increase compared to the figures projected in the beginning of the year.

Moving to the next Slide, during the third quarter of 2020, we had a positive free cash flow generation of BRL747 million, mainly explained by the increase in recurring EBITDA and also by the monetization of PIS/COFINS credit for around BRL332 million in this quarter. This effect was partially offset mainly by a bigger interest payment in the quarter due to the payment of the first instalment of semi-annual interest of bonds issued in November last year. Year-to-date, free cash flow generation was negative BRL757 million, mainly explained by the cash consumption due to the change in the feedstock purchase strategy in Brazil due to COVID.

Moving to the next slide, in the end of September, the average debt term was around 19 years with around 50% of the total debt due after 2030. Also, the company has sufficient liquidity to cover that maturities in the next 53 months. For that, we reiterate our commitment to maintain our strong liquidity position and cost discipline while continuing to implement the measures set forth in our deleverage plan.

Let's move to the next slide, which we'll talk about the leverage plan. Braskem remains focused on implementing the deleverage plan initiatives to reduce its corporate leverage, and as a consequence to be reassigned as an investment grade company. Besides the conclusion of the hybrid bond issuance in July 2020, there are order initiatives underway for which Braskem already present results such as: Reduced investments from \$721 million to around \$600 million in 2020 with the expectation of ending the year in line with the target; reduction of around 9% of fixed costs in the year-to-date compared to the same period last year, the goal is to close 2020 with a reduction of around 10%; another initiative is related to working capital optimization under discussion with relevant suppliers of the company; and lastly, monetization of around BRL1 billion in PIS/COFINS credits in the year-to-date.

Moving to the next slide, we'll start talking about our ESG achievements during the quarter. The Alliance to End Plastic Waste, it's a non-profit organization to help to solve serious and complex issue, million of plastic waste on entering the ocean every year. As a member of the Alliance to End Plastic Waste, we have participated in the Progress Report. A report that celebrate the advance aimed at eliminating plastic waste in the environment. In this report, our CEO wrote a letter with Braskem 2019 main achievements.

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Our contributions were focused in three main fronts: business strategy focusing the sustainability development; promotion of the Circular Economy is stimulating new approaches from production to disposal; and strengthening of portfolio, technologies and business models based on biopolymers and plastic reuse. Aligned with the organization initiatives, we recognize the complexity of this problem and understand that the solution depends on joint efforts from different vectors of society.

In the next slide, we will present an important partnership former this quarter. We signed an agreement with Tecipar to remove plastic waste from landfills. This agreement will prevent more than 2,000 tons of plastic waste from being disposed annually in the landfill of Santana do Parnaíba, São Paulo. The volume is equivalent to 36 million plastic packets made of polyethylene and polypropylene. This partnership reinforce Braskem commitments to the Circular Economy and is in line with the company's business strategy, engaged in contributing to the development of the recycling chain.

In the next slide, we'll talk about chemical recycling. We also had advanced in the chemical recycling initiatives by signing a new cooperation agreement with Brazilian partners to invest on the development of catalysts. The agreement was obtained after Braskem participation on a selection process opened by SENAI through a public notice. In the chemical recycling, the discarded plastic waste is processed and transformed into raw material again that will be used to create new plastic resins.

Moving to the next slide, at Braskem opportunities are for everyone, this means that we pursue through our actions to become a more inclusive and welcome company, guaranteeing equal opportunities for all team members through a diversity and inclusion program.

In 2014-2015, we implemented some actions focus on women team members in industrial areas such as diagnosis of work structure for women in the industrial area. In 2016, we launched the Diversity and Inclusion Program with five work fronts: gender quality; social and economy; race and ethnic; people on disabilities; and sexuality and gender intensity. Between 2017 and 2019, we trained our teams both individual and leadership, our own diversity and inclusion, and in addition, the Diversity and Inclusion Program become global with initiatives in the US and also in Mexico.

This year, we continue to work to create an even more inclusive work environment by creating an internship program with a greater focus on diversity. Lastly, in our 2020 internship program, some selection criteria were made more flexible, such as the English-language which is no longer mandatory in 40% of the vacancies.

Moving to the next slide, to conclude the presentation, we will talk about the priorities for the fourth quarter 2020. In relation to productivity and competitiveness, the priorities we start up our Chlor Alkali operations in Alagoas and also to conclude negotiations to renew the supply of naphtha for the industrial units in São Paulo and ethane and propane for the industrial units in Rio de Janeiro. As for the diversification of feedstock and suppliers pillar, we will continue the ramp-up of the complementary solution for import ethane at

Braskem Idesa and continue evaluating the definitive infrastructure solution for expanding access to ethane in Mexico.

With regard to geographical diversification, our priority is to continue the ramp-up of our new PP plant in United States and maximize synergies among the regions where Braskem has industrial operation. Above people, innovation, governance and reputation, we will work to increase the volume of global production and commercialization of recycling resin and continue with the advance of the financial compensation and support for relocation program in Alagoas. In capital allocation and financial discipline, the priority is to continue with the implementation of the Deleverage Plan Initiatives and maintain capital allocation discipline.

That concludes today presentation. Thank you for your attention and let's move to Q&A session. Thank you.

## Questions And Answers

### Operator

Thank you. We will now open for questions. (Operator Instructions) Our first question is from Bruno Montanari from Morgan Stanley. Bruno, you may proceed.

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

Good afternoon, and thanks for taking my questions. I have two questions, the first one I understand it is difficult to estimate the full amount of the Alagoas provision, but how should we think about the timeline to, say, now this is over and there will be no more provisions and this is how much we're going to spend? And what is also the latest about your insurance coverage for the incident?

And the second question is about Mexico, if there are any updates on the discussions with PEMEX about the take or pay volumes or potential revision of the ethane purchase contract? And also when we could see the conclusion for the definitive import solution in Mexico? That's all. Thank you very much.

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

Hi, Bruno. This is Pedro. It's a pleasure to be with all of you this afternoon to discuss our results for the third quarter. On Alagoas, what we have and we tried to be pretty clear around what we have provision and what is still not, we are still not able to foresee whether there is any additional amount on or not is this. And always with the caveat and with the view that it's a geological event. So, there are aspects of it which may be unforeseeable right. So, we are working with the known facts and known expert studies and that's what we're basing our decisions on. So, what I'm going to talk about a little bit, it's also I mean subject to this situation, right.

So, on -- I mean, you can think about Alagoas as kind of there is broadly, right. A side of it, which is relocation of people and another side of it, which is the -- what we call the social

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environmental aspects of it, which include the closing of the mine and other aspects which I'm going to talk about. So, on the relocation of people, we have put together the maps that are published by the civil defense, the maps that our own experts have developed and which we received in September. And which will add to the additional provision that we booked in the third quarter.

And then when we look at all the maps, all the risk maps that we have and looking even forward up to three, five years ahead in a prospective way, those maps consider that none of the other actions that we are undertaking in terms of soil stabilization that all of them failed. So, the best knowledge that we have today includes a certain area in Alagoas. The provision that we have booked includes that area, that known area and even what is foreseeable for the (technical difficulty) expert study.

So on this side, we think that the provision covers everything that we know, again, subject to the fact that these are estimates and assumptions that can be updated in the future. But, I mean, everything that we know is there in regards to the area of relocation of people even considering certain areas that may not be needed to be relocated. If the soil stabilization and the closing of the mine stop this subsidence and the situation there. So, that's the first aspect of it.

The second aspect of it covers the closing of the mine and the social environmental actions, okay. So, on that second side, what we have is we have booked a little bit more than BRL1 billion for the closing of the mine. And that is based again on expert inputs and also submitted to the Brazilian mining agency. So the plan to close the mine is a plan that is shared with the authorities in Brazil. And the amount that we have estimated for that today is a lot of little bit more than BRL1 billion.

The second side of that is what we call the social environmental aspects of the case. So, what do you do with all the land that there is there. Do you have to make any kind of compensation to the city? What do you do with -- I mean, are there any environmental impacts that should be accounted for? Are there any social impacts that are not covered yet by the relocation of people and indemnifications there. So, on that second side (technical difficulty) have booked is in total about BRL2 billion, maybe a little bit more than that including the BRL1.2 billion for the closing of the mine.

And other social environmental aspects that we have already considered which include, for example, as we have discussed in other calls tearing down the buildings, right, demolishing the buildings that are there and some other aspects in terms of safety, security, keeping the land, I mean, avoiding invasions into the land, people going back to live there. So that sort of thing is already covered. We are still in discussions with the authorities, with the prosecutors regarding the two main legal actions against the company, which are the state -- originally it was a state prosecutor case around relocating people, and the second one is the federal prosecutors around social environmental aspects.

So, the first one, I mean, we have included all the known areas. So, we believe that what is covered already by the provision is what will be needed. But again, there is still a



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discussion with authorities to close down that case. On the second piece, there are certain aspects of which we believe that could move quicker, because they touch on, for example, the closing of the mine and things that we already have a lot of information on. And that, I mean, we are trying to move fast on that, but again it's a discussion with the authorities. So, the timing is not controlled by us and there is another aspect of which, which is more related to the environmental impact. There is an environmental study going on in the region to see if the mining operation has created any environmental impact in terms of impact on biodiversity, impact on water et cetera, water quality.

So, that study is still going on. We think it's going to take a few months for that study to be concluded. So, I would say that that piece of the environmental action -- the environmental claim is probably going to be resolved only next year. So, my best estimate today is maybe a year from now or so, but I mean, those studies take time and then the conclusion of that is still going to take time. So, it's a long answer and I'm trying to be very transparent in terms of the amount and the timeline, especially, I mean, we think a piece of it could be resolved this year, a piece of it, we think probably will take us into the next year, especially because of these studies that are still going on.

On the insurance coverage, we are discussing with the insurers about, I mean, we have a civil liability coverage of \$200 million, as we have discussed. And we have submitted and are still submitting documents to the insurers to substantiate the claim. We have not received any values yet, but this is something that is going on as well.

Finally, on Mexico and updates on PEMEX and the ethane contract discussion, we are in touch with PEMEX, we have this discussion going on with them about any potential changes in the contract, but we don't have anything yet that is defined on that. It's -- basically it's still going on. We are still looking for a constructive solution and I'm afraid I don't have any concrete steps that have occurred in the past two months about that.

Finally, on the last point about the Fast Track in the definitive solution, I'm happy to say that in the third quarter the Fast Track contributed 12 percentage points to the operations of Mexico. So, we ran close to 84% utilization rates, 12 points of that were because of the Fast Track solution. There were two next steps there, one is upgrading the Fast Track. We are working on a pier in the harbor and with that we will be able to discharge more ethane.

So, the utilization -- the Fast Track utilization could go up to 20% or maybe even more than that of the site needs. So, that would put us on a running rate of Braskem Idesa north of 90%, which is what we would expect from the beginning. And then the definitive solution, which is a pipeline were still engineering work around that. So, we don't have a decision on that, but the project is advancing. There are a couple of different solutions, different routes for the pipelines and different harbor that are being contemplated and it's something that is still under evaluation in terms of which one is the best approach for this project.

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

Thank you, Pedro. That was super color. Thank you very much.

## Operator

Our next question is from Ben Isaacson from Scotiabank. Ben, you may proceed.

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

Thank you very much and good to be on these calls, and thank you for the very comprehensive overview. I have three questions. The first one is, given the provisions that you took in September, do you still expect your leverage to be at or below 3.5 times by the end of 2021? Number two, on PEMEX, if you don't have -- if you don't reach a constructive conclusion, what is the legal threshold or how close are they to falling below the 70% threshold and what happens once they fall below that point? And then my final question is, I have noticed over the last few years you've been decreasing your naphtha exposure from Petrobras, but it's actually increased this year. What are the reasons why it's increased and is that temporary and how should we think about that going forward? Thank you very much.

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

Hi, Ben. And thank you for the questions. On the leverage, I think everybody saw that our leverage, which was north of 7 turns and net debt to EBITDA in the second quarter fell below 5 turns in the third quarter. So, it was a pretty steep deleveraging basically because of the recovery in results, right, in the EBITDA. Our net debt has been pretty much stable for the past, I would say, many years within a band, but pretty much stable. Looking at the year-end, we have been talked -- talking to you and telling that we thought it could go down to somewhere around 4.5 turns. Because of this extraordinary performance in the third quarter, we now believe that it could be below 4.5 turns at the end of this year. And we still have the goal of getting to 3.5 turns by the end of next year.

Of course, any settlement in Alagoas could change that perspective, but right now this is what we are -- we have as a goal. We have not closed yet our budget for next year. Because of the high volatility in the markets, we decided to close the budget actually in the beginning of January, so that we know how the year end was for 2020 and also, we have a closer look and closer feeling of how the market will perform in the turn of the year, beginning of the year. So that then we can have our budget approved by the Board. So that's going to happen in the beginning of next year.

Next year, we are going to have some benefits or some, let's say, tailwinds helping us to improve our results. I'd like to mention, I mean, the new plant that started up in the US, the Delta project, it's already running at close to capacity utilization. So, the ramp-up was pretty steep, pretty good and we expect it to contribute a sizable chunk to -- of EBITDA starting next year. I mean, it's already contributing, but looking at our full-year results, Delta for sure will be a good contributor to results.

We are also going to have the Chlor-Alkali plant back in operation in Alagoas. And with that, we do expect to have recovery also in EBITDA, which I mean our estimate is that we lost about \$60 million to \$80 million in EBITDA because of that plant being stopped. So that going back, I think, that's also good. The ramp up in the Fast Track that I already mentioned. We also have a perspective of better markets next year, some market

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growth, which could also impact both our volumes and spreads, right. So, overall, we do expect a better year, next year, at least looking at the driver that we have today we do expect that. But as I said, we haven't closed our budget yet. The goal is to get to 3.5 turns.

On PEMEX, PEMEX has been supplying us at 70% or a little bit more than 70% every quarter. So that legal threshold you mentioned has not been reached. There is, as far as I recall, no legal obligation for us to do anything, but we -- I mean, there are certain rights that we get, if certain conditions are not met one of them being the supply threshold. So, we are -- I mean, we keep looking for a constructive solution with PEMEX, as I said, but of course, we are also looking at all other alternatives that are available to Braskem Idesa including legal alternatives if need be. So, that, I mean, we are looking at Plan A, Plan B, Plan C in this situation.

And in terms of naphtha, what happened was, I mean, as you saw for the past couple of years, our strategy has been to import more naphtha then consume from local supplier from Petrobras. There were a few changes that occurred in the beginning of this year that led us to increase our purchases from Petrobras but I would say that was kind of an exception to what we expect to be the norm going forward.

So, looking at Petrobras, the supply in the beginning of this year I would highlight two important [ph] points. One was with oil prices falling, it makes more sense for us to -- given the structure of the contract make more sense for us to get supply from Petrobras. But also I think more importantly the market was long gasoline in the beginning of the year, especially with COVID, I mean, a lot of refineries starting et cetera. And then Petrobras came to us with, I would say, a good proposal that would be beneficial to Braskem in terms of consuming more naphtha from them and reducing imports of that, Petrobras then could run their refineries at a higher rate, that could be mutually beneficial.

We've got a discount there around April of \$15 to \$35 per ton, which is very substantial. So, that was a good deal or good approach for us there. Going forward, we expect to have more imported naphtha. Looking at the contracts that were already closed for the South and for by year, the volumes there are smaller than the historical the volume that we have in the current contract. We expect the volumes for the Sao Paulo cracker to remain the same as we have today. So, we expect to have more import of naphtha going forward.

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

If I could just ask a very quick follow-up, when you think about the PEMEX, there's two issues, one is you are forced to run at a lower operating rate. The other is that you're making less margin per ton. Can you provide some color of the magnitude of the impact on a margin per ton basis, how much are you losing by importing ethane from the US Gulf versus from PEMEX?

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

Bloomberg Transcript

Yeah. So, the import cost is around \$200 per ton, I mean, full cost, fully landed. So that's about the margin that we're losing.

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

That's great. Thank you very much.

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

Just an additional comment that I think is relevant, with the additional solution the step 2 to step 3 that I mentioned, I mean, step 2 of Fast Track and then the pipeline, those costs should be lower going forward, because I mean we would be able to bring larger ships. So, reducing shipping costs in the first step. In the second step, I mean, it's a pipeline, so it's much lower cost than running trucks, which is what we're doing today.

## Operator

Great. Our next question is from Ricardo Rezende from J.P. Morgan. Ricardo, you may proceed.

**Q - Ricardo Rezende** {BIO 16469276 <GO>}

Hi, Pedro. Hi, Rosana. Thanks for taking my question. So, the first one is on free cash flow, I remember that earlier this year we talked about the free cash flow for the year and we even discussed if there was going to be possible to have breakeven for the year. How do you see cash flow on the fourth quarter and also how do you see the fourth quarter given that there is seasonality, but at the same time we're seeing this improve on the demand side?

And then the second question is on your ESG initiatives, congrats on that announcement. My question is, is there any relevant CapEx involved on the implementation of these ESG initiatives? Thank you.

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

Ricardo, thank you for the questions. On free cash flow for the fourth quarter, we are seeing a scale in October. We have seen good market performance, results were better than we were anticipating for October. And looking at the end of the year, I mean, we see some of our clients still in high demand mode. We see also some sectors that have given people kind of their holidays, in Brazil, it's usual to have in the year end a collective of holidays, right. Some factory shut down and people over Christmas and New Years, they go home. I mean, a lot of plants are closed, even for maybe 15 days sometimes.

So, even Braskem does that with, I would say, the administrative people and even some of the industrial people. So, we think that some of those companies will not -- they have already given because of COVID, they have already given their employees the holidays. So, we think that December this year will be a typical in the sense that it could -- we could have a positive surprise in volumes in December higher than what would be usual.

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Looking at cash flow again for the fourth quarter and then for the year-end, I mean, positive cash flow in the fourth quarter, for the year-end and looking at the full year, we think that cash flow could be neutral, potentially still positive by the end of the year. We have a much lower amount of interest to pay in the fourth quarter compared to the third quarter. In third quarter, the interest payments for the bonds were really material. Fourth quarter, it should be a much lower amount. And also, I mean, a more stable operating cash flow. We also have resumed imports of naphtha and as you know for imported naphtha, we are able to negotiate many times extended payment terms. So, that would also help with working capital. So, in all, I would say that good perspective in terms of maybe even achieving positive cash flow by the end of the year.

In terms of ESG, so I will split that into two pieces, right. There is a piece of that which is what we are already doing and many initiatives that we are already promoting in terms of Circular Economy, innovation around recycling, chemical recycling, mechanical recycling as Rosana mentioned in the call. And also reducing our carbon footprint, we're doing a lot on the energy front, working with sustainable and renewable sources of energy, wind, solar. So, and I mean right now, and I would say, for the next five years, the CapEx numbers for all of that they are not expected to be very material because it's still, I would say, in some cases, like energy, it's a third-party investment, we are actually enabling investment by third-parties to -- in solar farms or wind farms.

And in the other businesses, I mean, we expect, for example in recycling, it's an investment in technology development, but that should yield results in the future, right. So, it should come back to us. So, looking at all of that we are -- we don't anticipate, again, a very material investment beyond what we're already doing, what we are doing is tweaking the investment portfolio towards the sustainability investments, which are synergistic in many ways with what we already do.

And on the other hand, I mean, if you're looking at the long -- if you look at the long-term goals, right, 2050 zero carbon ambition, for that we don't know yet, all of the solutions that we will need to implement to get there, right. So, I would say that the 2025, 2030 targets we have are, I would say, more known road map. And there are many partners who are working with us on that. But the long-term solutions, we don't know yet. And that's the effect.

I would like to close this with just highlighting, again, the sustainability is a strategic pillar of our business. We're not talking about sustainability starting now. Now, was the announcement about our ambitions around carbon neutrality and reinforcement of the commitment that we already had around Circular Economy. But I would like to remind everyone that in the charter of the creation of Braskem back in 2002, the one of the first items there, it's in our website everybody can look at it, I believe item number four, there was a commitment to sustainable development practices. So, it's a long-term, long-standing commitment of the company and we are just moving on that going forward.

**Q - Ricardo Rezende** {BIO 16469276 <GO>}

That's very clear. Thank you so much, Pedro.

## Operator

Our next question is from Rodrigo Almeida from Santander. Please you may proceed.

### Q - Rodrigo Almeida {BIO 20698362 <GO>}

Hi, Pedro, Rosana, thank you for the call. I have two questions here from my side. The first one is related to the PP plant in the US given the solid start and the good demand over there, do you foresee any faster ramp up for the plant or is it more of an operating side, any color that you could give us on the more, say, medium term ramp-up of the plant would be nice to understand?

And the second question is related to the working capital initiative that you mentioned. I understand that you're now increasing the naphtha imports will help working capital dynamics, but what else could you do on the working capital front to benefit from that a little bit more. Thank you very much.

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

Hi, Rodrigo. On the PP plant, I mean, it reached 95% utilization rate already. So, it's -- I mean, I would say, it has ramped up with, I would say, a simpler, a more unsophisticated portfolio of products. So, now the effort is to specifying the plant additional grade that have not been produced yet. And we are moving forward with that one thing that is helping is that the recovery of the market in the US have led some clients to fuel some restriction and supply from some of our competitors. Also given the hurricane that occurred in the Gulf Coast, so some clients have been reaching out to us looking to specify and amalgamate [ph] the product from the new plant faster than we expected.

So, that could also help us on the market side. But, again, it's already running pretty well. In terms of working capital, just a few comments, right, if we break down our working capital, you can look at accounts receivable with the recovery in the market and also the moving exchange rates, the accounts receivable in reals are higher now and that's natural, that also -- that actually reflects a good moment in the business. And we have a very, I'd say, thorough credit management of our client exposures. It is expected that there would be an increase in accounts receivable, because of the recovery in the market and also exchange rates.

Inventories have also gone up a little bit, because of exchange rate, but we are working on several digital tools to manage inventories better. So, there are several initiatives in our digital center that are geared towards reducing working capital especially inventories. We are looking at the way that we are doing our forecasting process. We are implementing warehouse management systems, a new warehouse management system that probably will reduce the amount of parts we have in our inventories, in our MRO inventories. Also work in terms of feedstock, we're working on that. We're working a lot on investment on the inventory. And on the supplier side already mentioned the increasing imported naphtha, which also helps with working capital.

And finally, we have a lot of taxes to recover, right, tax credits to recover in our balance sheet. The largest amount of that is related to a specific tax recovery in Brazil called it was

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a claim that we won in the courts. We call it the PIS/COFINS tax. We have still in our balance sheet somewhere around \$300 million of PIS/COFINS to monetize. But we have already calculated in this claim, there are certain specific claims that have not yet been awarded by the courts. But those could amount to an additional BRL2 billion. That could add to, I'd say, more future cash flow, non-operating cash flow that we could be seeing in the future. It's exactly the same type of claim that we have already won. It's just a matter of the courts getting to that case and awarding the same decision that was already awarded in multiple other places in Brazil.

**Q - Rodrigo Almeida** {BIO 20698362 <GO>}

Perfect. Thank you very much for the complete answer, Pedro.

**Operator**

(Operator Instructions) Our next question is from Luiz Carvalho from UBS. Please, Luiz, you may proceed.

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

Hi, Rosana. Hi, Pedro. Thanks for taking the questions. I have [ph] two quick questions here. Pedro, I know that you don't give guidance for the following year, but of your best knowledge looking to these spreads and utilization capacity, what do you think that into the next couple of quarters would look like in terms of when you compared to the results that you've just presented in the third quarter and, of course, comparing the year taking into consideration the seasonality of the (inaudible) of the past quarter, right.

And then the second question, it's mostly a follow-up on any update on the controlling shareholder, I mean, potential divestments anything that you have been consulted with that you can share with us? Thank you.

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

Hi, Luiz. Thank you. I mean, looking at the basics of the business, I would say that utilization should be higher than this year, I mean, because of COVID and the hit that we had in the second quarter. So, and we do expect, I mean, higher demand next year compared to this year just by market growth everywhere. So, in terms of volumes, we think it could be a better year next year.

The second main aspect of our business are the spreads, right. And there, I think, there -- the signals are still a little bit mixed on the one hand we have demand growth. So that helps with higher spreads, but on the other hand, we have several players and suppliers that this year they have stopped, some have not come back yet. So, the balance of -- and there are new plants that were delayed from this year to next year, right. So, the balance of supply-demand for next year is still a little bit unclear. So, given the situation, I mean, I don't think spreads next year will be much higher than this year, they could be lower, especially in polyethylene. In polyethylene this year we had spreads that were much higher than we expected.

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So, I think, there may be some reversal in the PE spreads for next year. But when we look at PP and PVC, they are doing pretty well. And I think there it's more solid. I mean, there is not enough, not a lot of new PVC capacity coming online. We are seeing delays of the new PP capacities coming out every quarter. So, I mean, to give you an idea of what I said, right, the spread in PE was close to double of what we were expecting. So, it's really uncertain, but I would not expect materially higher spread. It could be, I think, the same or maybe even a little bit lower, a lot will also depend on, of course, on the oil price and how that occurs, right? And how long that any changes in the oil price flow through to the final products.

And the last aspect of this still on kind of the -- on a running rate is FX, there was a strong devaluation of the real this year, which is very good for us. And I mean, then I think it's anyone's call, right, what's going to happen with FX. All the analysts that we follow and everything that we look at lead us to expect an FX that is at around BRL5 or north of BRL5, which is pretty good for us. So, again, I would say, we have good perspectives in volume and FX and mixed perspectives around spreads they could be same, a little bit better or little bit worse than we had this year.

And finally, we have all the aspects that I already mentioned, right. The new plant in the US, the coming back of the Chlor-Alkali plant in Alagoas, the increase in the Fast Track solution in Mexico. So, there are certain aspects of our business that will, I would say, comparing on a year-to-year basis, there will be some positive discontinuity in terms of those, I would say, clients, right.

In terms of Petrobras, the controlling shareholder and their -- so they advised us that they would start a process, a sale process. We have established with them a protocol for exchange of information and we have started to provide them with pieces of information around Braskem, so that they can prepare the sale process, but we are not a part of that process. So, we will not -- we are not expecting to have to engage with multiple counterparties and I mean that we are trying to keep that disruption away from the company.

And to provide Petrobras, as a controlling shareholder, they have a right to the information. And then they will talk to that potential counterparties and decide what to do with their stake. So, and the only new thing that I have to say is, I mean, this process of exchange of information has started. But I'm not aware of any, let's say, next step in this process or any external step that may have happened at this point.

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

Okay. Very clear. Thank you very much.

**Operator**

Our next question it is from Fernanda Cunha from Citibank. Fernanda, You may proceed.

**Q - Fernanda Cunha** {BIO 20784520 <GO>}

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Hi. Good afternoon, everyone. I have a couple of questions on the Mexico project, can you explain how can we think of margins going forward with your Fast Track import strategy, it just -- it seems to me that this quarter versus second quarter your margins actually they went down when spreads were significantly higher, and I'm talking against second quarter for this year. So, I'm trying to do this reconciliation and how we can think about the margins going forward?

And then the second question I have is, on the imminence of a second wave of COVID, what lesson can -- have you learned from the first wave and you think that margins could be better protected from the learning that you had?

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

Hey, Fernanda. It's Rosana. Thanks for the questions. About the margins in Mexico, I mean, we have been running the Fast Track since first quarter, right, since February. And in terms of margins that this is luxury [ph] because we do have additional costs that are important, as Pedro mentioned. But we do have more right and we are talking about fast tracker in a referral [ph] putting PEMEX plus the Fast Track solution, if your great project is to generate good margins to generate cash flow. So, even considering that considering the Fast Track solution that we are ramping up is still a very positive project. We have great margins even in the down cycle.

**Q - Fernanda Cunha** {BIO 20784520 <GO>}

I agree with you, but I just wanted to understand why did margins dropped like from 54% EBITDA margins in the second quarter to somewhere like 40%, 45%. I know there is an impact from the receivables from PEMEX, but at the same time, you think it now [ph] come down so strongly. So, I know revenues, from my math, it should have come down like 9%, it came, like 27% down. And so I'm just trying to understand what would be the normalized EBITDA margin as we (multiple speakers)

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

The margin dropped because we are raising our Fast Track that I just mentioned. But we are talking about 48% EBITDA margin, right. We do not see that in any other company are projecting low. If you compare, for example, to Brazil where we have a much more diversified feedstock profile, a lot of products, EBITDA margin is 24% this quarter. So, even with a drop in Mexico EBITDA margin that you mentioned an issue, because we are ramping up Fast Track, we still getting a 48% EBITDA margin, which is great actually.

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

Yeah, Rosana, just let me add another point here that I think is relevant, right. If you look at our net revenue or the revenue, it went up by about 10% third quarter versus second quarter and what happened is that a part of that is that, I mean, if you have, let's say, a margin per ton of \$500 per ton, okay. The price that you're selling at is \$1,000 that margin is 50%. But if you have the same \$500 per ton of margin and you're selling at \$1,500 per ton. The margin goes down 33%, it's still the same \$500 per ton.

So, there is also a dynamic there of increasing key prices, but the spread has not increased by so much, right. So, the evolution of the denominator of the math to get to the EBITDA margin leads you to that. So, a part of the explanation also comes from that beside the Fast Track as Rosana mentioned.

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

Sure. I can take the discussion, just I understand that gross margins did not change. But when you look at EBITDA margins, it did change a lot quarter-over-quarter, So, I was just trying to understand what is the -- what's the difference here, but we can discuss this afterwards.

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

Okay. On COVID just briefly then, briefly, I mean, what we have -- we have learned, I would say a lot in the first wave. And we don't know how, I mean, we see the second wave in certain regions. We don't see a second wave at least so far in other regions like in Brazil. So, it's still -- I mean, how the second wave or a potential second wave could hit our markets. But we have learned to turnaround our operations pretty quickly. So, I mean, change in production schedules to adjust to changes in demand also logistics. So, I think, we learned a lot around how to adjust and adapt our operations quickly.

And if anything happens in terms of a second wave, I think, that would be helpful to us going forward. But, again, it's really how we react once things start to hit the market and we have seen that the way that it happens is different in each region. It's different in each market. So, it's really having the agility of answering quickly is more important than having a very well established plan, because I mean it's really an uncertain unknown situation that may occur.

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

Okay, great. Thank you.

**Operator**

Now, I will turn over to the company for closing remarks.

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

We have Roberto Simoes here with us. So, I'll ask Roberto to close.

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

Thank you all again for joining us for this call. As we discussed in the presentation, we had a quarter of very good results. As you saw demand in all division is increasing and as we did see very healthy spread in the international market every month. Given that we present a positive cash flow generation, this quarter reached a leverage of 4.98% -- 4.98. And important reduction from this quarter leverage of 7.11. This reduction reinforces our commitment to be reassigned as an investment grade company.

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It's also important to highlight that from a liquidity point of view, we are in a good situation with longer debt profile without any relevant maturities in short and medium term and a very robust cash position. And finally, I want to reaffirm our commitment to sustainable development in the announcement that we did regarding our new goals related to mitigate climate change and eliminate plastic waste. We will continue with our strategy around the efficiency and competitiveness with the expectation of feedstocks and geographical diversification that has been leading to significant results for us. So, with that, thank you very much for your participation and looking forward to talking to you in some months' time when we release the 2020 annual results.

## Operator

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

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