

Q1 2022 Earnings Call

Company Participants

- Pedro van Langendonck Teixeira de Freitas, Chief Financial Officer and Head of Procurement & Institutional Relation
- Roberto Lopes Pontes Simoes, Chief Executive Officer & Director
- Rosana Avolio, Investor Relations, Director

Other Participants

- Analyst
- Gabriel Barra
- Guilherme Levy
- Luiz Carvalho
- Pedro Soares

Presentation

Operator

Good morning, and thank you for waiting. Welcome to Braskem's Q1 2022 Earnings Conference. With us today, we have Mr. Roberto Simoes, CEO; Pedro Freitas, CFO; and Rosana Avolio, IRO of Braskem. We'd like to inform you that this event is being recorded and that all participants will be connected in listen-only mode during Braskem's presentation. Following that, we'll open the floor for questions when further instructions will be provided. (Operator Instructions) This event is also being streamed online via webcast and will be available at www.braskem.com/ri where the respective presentation can also be downloaded.

The slide deck will be controlled by you. The audio of this event will be available right after its conclusion. Remember that webcast participants will be able to send its questions to Braskem via the website and those will be answered after the conclusion of this conference by the IR department.

Before we proceed, we'd like to clarify that any statement made during this conference about Braskem's business prospects, projections, operating and financial targets are based on beliefs and assumptions of the company's management as well as information currently available to the company. Forward-looking statements are no guarantee of performance and they involve risks, uncertainties and premises seeing as they refer to future events and therefore rely on circumstances that may or may not materialize.

Investors and analysts must understand that general economic conditions, the state of the industry and other operating factors may affect Braskem's future earnings and lead to results, which are materially different than those expressed in such forward-looking statements.

Now, I'd like to turn the conference over to Ms. Rosana Avolio, Investor Relations Director, who will begin the presentation. Please, Ms. Avolio, you may proceed.

Rosana Avolio {BIO 20386863 <GO>}

Good afternoon, ladies and gentlemen, and thank you for participating in Braskem's conference call to present our results for the first quarter of 2022. Let's start the presentation on Slide 3 with the distribution of dividends.

On this slide, you can see that Braskem remains committed to returning value to shareholders through the distribution of dividends, with a payment in May of BRL1.35 billion in dividends based on net income for 2021. Therefore combined with the BRL6 billion anticipated in December 2021, the total dividend distribution was BRL7.35 billion representing 77.5% of adjusted net income for 2021. Remember that Braskem has a transparent dividend policy with guidelines for determining the distribution of dividends in compliance with or exceeding the applicable laws or regulations.

Let's go now to the next slide, which shows our net income. In the first quarter, Braskem posted net income of around BRL3.9 billion, representing BRL4.88 for common and Class A preferred share and net margin of 15%. As I mentioned on the first slide of the presentation, Braskem has a transparent dividend policy and the proposal for distributing complimentary dividends based on fiscal year 2022, we'll take into consideration the leverage ratio which cannot surpass 2.5 times in dollars and without Braskem Idesa in the current year or in the subsequent two years, considering the best assumptions at the time of decision.

Now, let's go to the next slide. In the first quarter 2022, recurring EBITDA was \$920 million down 19% from the fourth quarter with the decline explains mainly by the expected normalization of international spreads for the main chemicals and resins in Brazil for PP in the U.S. and Europe and PE in Mexico. The lower sales volume of main chemicals and resins in Brazil and the Brazilian real appreciation against the dollar of 6.3%. In Brazilian real, recurring EBITDA was BRL4.8 billion, down 23% and 30% lower from the fourth quarter and first quarter of last year respectively due to the currency's appreciation in the period.

Let's go to the next slide, which covers or highlights by segment. Slide 6 shows the highlights of the Brazilian operations. In the first quarter, the petrochemical complexes in Brazil operated at a capacity utilization rate of 86% in line with the fourth quarter. In the Brazilian market, resin sales rose 2% on the prior quarter. This is due to the strong demand for PE and PP due to a restocking trend in the chain. Meanwhile, exports fell 16% explained by the priority on serving the local market and by the logistics constraints on

FINAL

Bloomberg Transcript

export shipments. In this context, recurring EBITDA from Brazil in the first quarter was \$477 million.

Let's go to the next slide on the geological events in Alagoas. The chart on the left shows the balance of the provisioning related to the geological event in Alagoas at the end of the first quarter of around BRL7.2 billion. The chart on the right shows the disbursements schedule with 56% of the total amount provision registered in the short-term and 44% in the long-term. It is important to remember that Braskem cannot eliminate the possibility of future developments related to the topic or related to expenses and costs to be incurred could differ from their estimate or amount provisioned.

Moving on, that still on the geological event, the next slide shows the progress made on the work front. First, regarding relocation and compensation, Braskem continue to make progress on its relocation and financial compensation of families in high-risk districts of Maceio. The number of proposals for financial compensation submitted reached 14,495 with acceptance of index for proposal submitted at 99.6%. On the front of closing and monitoring wells, until the end of April 2022 of the 35 wells, 9 belong to the sand Backfilling Group and the closing of three of them is in progress with the progress of 51.3% of cavities 7 and 19 and 35.2% of cavity 17.

And last on social and urban development measures, the activities on this work front focus on urban mobility, social compensation and actions in relocated areas. In urban mobility, we are working on defining and detailing 11 mobility actions, which were approved by the municipality of Maceio. In social compensation, we held meetings with the municipal government of Maceio to discuss priority topics. And on actions in relocated areas, we are making progress on activities related to demolition of the Mutange Slope.

Let's turn to the next slide, please. This slide presents the highlights of our operations in the United States and Europe. In the first quarter, the 50 plants in the United States operated at a utilization rate of 88% increasing 15 percentage points from the fourth quarter driven by the normalization of operations after the scheduled maintenance shutdown. In Europe, the utilization rate increased 5 percentage points due to the normalization of the production after the restarting of operations of a local supplier, following a scheduled maintenance shutdown in the previous quarter. In terms of sales performance, the U.S. registered sales volume in the quarter was 480,000 tons up 9% on the prior quarter. In Europe, we sold a 139,000 tons of PP in the first quarter. The segment's recurring EBITDA in the first quarter was \$295 million.

Moving on, the next slide shows the highlights in Mexico. In Mexico, the utilization rate in the first quarter was 8% in line with the fourth quarter. In relation to sales, there was an increase of 15% on the fourth quarter, driven by the production remaining stable at healthy levels and the consumption of inventory. The segment's recurring EBITDA in the first quarter was \$136 million.

Moving on, the next slide shows our consolidated cash generation. In the first quarter, Braskem generated recurring cash of around BRL467 million with the main impacts coming from the recurring EBITDA in the quarter and the continued monetization of PIS and

COFINS tax credits, including the payments related to the geological event in Alagoas, the company presented the cash consumption of BRL176 million.

Let's move on to the next slide, please. Braskem ended the first quarter maintaining a very long debt maturity profile and strong liquidity position with most of it that's maturing in 2030 onwards. The average debt term was around 14 years and the current liquidity position covers all liabilities coming due in the next 69 months. This without considering the international rotating credit facility in the amount of \$1 billion maturing in 2026.

Let's go to the next slide, where we will talk about the company's credit metrics. In line with the dynamics observed in prior quarters, Braskem continue to present solid credit metrics with corporate leverage remaining low in the first quarter, with the ratio in U.S. dollar ending the period at 1.0 times. We are committed to maintaining a very efficient capital allocation.

On the next slide, we will discuss our ESG agenda. Recently, we have updated our investment policy with one of the main changes, the adoption of project classification based on ESG criteria as a result, our assessment and selection of investments involving ESG criteria will be conducted globally and seek to support the long-term goals and sustainable development and the respective commitments undertaken by the company. Additionally, when applicable, the relation will consider the potential impact benefit or costs associated with relative CO2 emissions with any additional income or expense obtained from carbon pricing will be updated periodically by the sustainable development team.

On the following slide, aligned with commitment to combat climate change, Braskem signed another wind power purchase agreement with EDF Renewables do Brasil, a leader in renewable energy. The agreement enables the construction of a new wind power complex in the Southeastern by state and guarantees the supply of energy to Braskem for a period of 20 years as of 2024. This is the fifth long-term contract for renewable wind or solar energy that Braskem has signed in the last four years, which together surpass content safety, average megawatts and position Braskem close to reaching 2.2 million tons of CO2 emissions avoided over the duration of those contracts.

Moving on to the next slide, in March 2022, Braskem signed a corporation agreement together with Sojitz Corporation to form the joint venture for producing bio-MEG, subject to development of the technology, the JV business plan provides for. In the first phase of investment, the implementation of three industrial plants. MEG is a raw material for making PET and is essential in the sectors such as textiles and packaging. The partnership between Braskem and Sojitz is in line with the goals of net zero carbon emissions, geographic and industrial diversification, reinforcing global leadership in biopolymers and in development of sustainable solutions in the circular economy.

Let's go to the next slide, please. In this slide, we will talk about the petrochemical scenario. The beginning of 2022 was marked by geopolitical tensions which brought a lot of volatility to the petrochemical scenario. As you can see, the external consultants have changed the expectations of the PE, naphtha base spreads for 2022, on the recurrent

form, since the beginning of the war between Russian and Ukraine, at the end of February. Despite the volatility, I would like to highlight that the expectation of external consultants for the PE naphtha spreads for 2022 is already at level above the pre-war Russia and Ukraine.

In addition, it's important to mention that due to the feedstock and geographic value creation strategy that Braskem has implemented in the last decade. The company has become more resilient company to this market variations. Today, we have a global operation in addition to a feedstock profile balanced between sources of oil and natural gas.

Going to the next slide, let's talk about to the expectations for the spreads that most impact Braskem's profitability. As I mentioned on the previous slide, for the remaining quarters of this year, pre-naphtha spreads are expected to remain at healthy levels and above the recent historical average during the other quarters of 2022. External consultants also forecast gas-based spreads to suffer only slightly impacts from the current geopolitical context and such forecasts continued pointing to spread that levels above the recent historical average remaining above \$1,100 per ton in all quarters of this year.

Regarding PP spreads in the United States, as we can see in the graph on the right of the slide, according to the external consultants, this spread should remain not just above the recent historical average, but also relatively close to that observed in 2021, despite less than last year.

Moving on, the next slide presents our short-term outlook. For Brazil, the expectation is for ethylene production to decline due to the scheduled maintenance shutdown at the petrochemical complex in Rio Grande do Sul in the second quarter of this year. However, resin sales volume is expected to grow mainly due to better demand in Brazil. For spreads, external consultants are calling for better PE spreads and lower PP and PVC spreads. However, PE and PVC spreads should remain at levels above the recent historical average.

In the United States, sales volume should be in line with the previous quarter despite the expectation of lower production and U.S. PP propylene spreads should remain at levels in line with the last quarter and above the recent historical average. For Mexico, the expectation is for higher production volume supported by higher feedstock imports from the U.S. but sales volume should remain stable. PE, ethane spread should widen from the first quarter of this year. Then remaining above the recent historical average.

Let's go to the next slide, please. This slide shows how Braskem remains an interesting investment opportunity in the global petrochemical industry. First looking at recent stock quotes on the B3 compared to the market consensus, we also see the potential for price appreciation in Braskem's share. Based on this EV EBITDA multiple, Braskem remains discounted in relation not only to its peers in the United States, but also its peers in Latin America. We would like to reinforce that Braskem is a global company serving clients of all

continent is a leader in its markets makes concrete contributions to sustainable development and is the world leader in biopolymers.

Braskem has a robust financial strategy with consistent operating cash generation, a healthy financial position and disciplined capital allocation. And risk management is part of Braskem strategy by diversifying its feedstock and geographic profiles, which increases profitability and mitigate risks. Braskem also is highly dollarized with its revenues in a large part of its cost denominated or pegged to the dollar.

On Slide 21, I'll go over our main goals for 2022. On this slide, I would like to remind you of the main goals for 2022 divided in accordance with each of our strategic pillars. Starting with productivity and competitiveness, we will focus on capturing value through the initiatives of the transform for value program to reach recurring annual gains of \$302 million in a year. In sustainability, our focus will be on intensifying actions in recycling, expanding renewables and reducing our carbon footprint. And the pillar of diversification, we have two important projects from the standpoint not only of diversification but also growth, starting construction of the ethane import terminal in Mexico and defining the partner and advancing in the feasibility studies for investing jointly with SCG chemicals, in a new green ethylene plant in Thailand.

In people, governance and reputation, we will remain focused on advancing on all work fronts, related to geological event in Alagoas. We also will advance in studies for our potential migration to Novo Mercado listing segment of the B3. Lastly, in the pillar of capital allocation, we will be focused on returning value to shareholders by distributing dividends and maintaining our investment grade credit rating.

I would like to close today's presentation with an invitation to all investors to visit our new Investor Relations website, which was created to share clearly, reliably and conveniently important information, such as financial indicators, ESG actions and presentations as well as other highlights of Braskem's performance. I also invite everyone to listen to the first episode of our recently created podcast, Braskem Invest, where we will talk about our actions in strategic pillars and present analysis and perspectives about the company and financial markets.

We conclude today's presentation of Braskem's results for the first quarter of '22. Thanks everyone for your attention. Now, let's move on to the Q&A session.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Mr.Guilherme Levy from Morgan Stanley.

Q - Guilherme Levy {BIO 20821639 <GO>}

Hello, everyone. Thank you for taking my questions. My first question is about the potential migration to Novo Mercado. I wanted to understand at what stage the process is? And what's the timeline the company is working with at this point? And also how has this timeline changed versus your expectations at the beginning of the year? My second question has to do with your raw materials. The relative spread between your naphtha and your ethane basis, would that be very different today than it was a few months ago. I understand that it is. So I wanted to understand what your incentive is at this point or if there's any study that you're working with to increase your flexibility of your spreads in Brazil. I wanted to understand whether that's a possibility, if you're looking into that, and what would be the potential cost of that investment? Thank you.

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

Hi, Guilherme. Good morning. Well, with regard to moving to Novo Mercado, well, first of all, Braskem has introduced to its shareholders the feasibility studies and a new set of bylaws that would be adjusted to Novo Mercado. We understand that they are talking amongst themselves about our proposal and also about a potential new shareholders' agreement, because what we have currently is not appropriate or in accordance with Novo Mercado's rules.

These are meetings that we do not take part in, but we believe that's something they are currently discussing. Now, we can't say much about our timeline. The plan that they've communicated and which we replicated to the market late last year was to sell our PN and shares and then migrate to Novo Mercado to sell those shares. So within that plan considering the state of the market, the offering of those PN shares has not been concluded. So we do not have an offering under way at this point. So my understanding of this situation is sort of blurry. We do not have a very clear timeline, and the only thing I can say is that studies have moved forward, and we already have draft of what those by-laws would look like. But we still need the final say from our shareholders.

With regard to our raw materials, one of the stepping stones of our strategy for over a decade is diversifying our set of raw materials. In the current scenario where naphtha prices are higher and we come to be more competitive, our operations in Bahia now operate with ethane to capture that competitiveness within the realm we operate.

Also within that strategy of diversification, it's also important to remember Mexico where the share of ethane is also increasing. We had 80% in the first quarter and the strategy of fast tracking that has picked up and we expect to increase by the end of June the availability and the export capacity for ethane as well. Because of that, our prospect for the second half of the year is to have Mexico running on ethane at about 100% of its operation.

So at the end of the day, our very different today than it was a few months ago. I understand that it is. So I wanted to understand what your incentive is at this point. Or if there's any study that you're working with to increase your flux, the flexibility of your spreads and Brazil. I wanted to understand whether that's a possibility if you're looking into that and what will be the potential cost of that investment. Aunt, thank you. Hug your

FINAL

Omega. Good morning. Well, with regard to moving to Novo Mercado. Well, First of all, Braskem has introduced to its shareholders. The. of our strategy for over a decade is diversifying our set of raw material. In the current scenario where naphtha prices are higher. And we come to be more competitive, our operations in Bahia now, operate with ethane to capture that competitiveness within the realm we operate.

Also, within that strategy of diversification it's also important to remember Mexico, where the share of ethane is also increasing. We had 80% in the first quarter and the strategy of fast tracking that has picked up and we expect to increase by the end of June the availability and the export capacity for Ethane as well. Because of that our prospect for the second half of the year is to have Mexico running on Ethane at about 100% of its operation. So at the end of the day, our flexibility and diversity of raw material diversification strategy ultimately puts us on a very interesting level where regardless of where oil prices go, we ultimately have a portfolio that's adjustable to different market situations with interesting profitabilities for our operations.

Now on the topic of spreads, I'll turn over to Rosana, who will be giving a more details.

A - Rosana Avolio {BIO 20386863 <GO>}

Yes, thank you, Pedro. Thank you, Guilherme for the question. To address the point of diversification, this strategic pillar is in broader is not only feed stock, but it also involves geography and suppliers. So when we look at our feedstock profile, we can see naphtha gas and there's a propane portion which is quite important. When we look at the dynamics of propane in the American market, the producer who's -- may having a higher profitability of PP is in the United States. So when we look at diversification, we are looking not only at feedstock, but also something broader thinking about expanding the plant of green polyethylene. So it's also important to look at in a broader way.

It's also important to look feedstock combined with the prices of a project. As we mentioned in the presentation, the expectation of the company aligned with expectation of external consulting firms of the sector is that we should see spreads above the recent historical averages. So we saw an increase of feed stock prices, but in the last four weeks, we saw that the price is recovered at the international level. So in fact, we are very confident to reach the result of the dynamics of the spread, but we are always confident for '22 in terms of results for the company.

Q - Guilherme Levy {BIO 20821639 <GO>}

That was perfect, thank you.

Operator

Our next question comes from Pedro Soares with BTG Pactual.

Q - Pedro Soares {BIO 20879952 <GO>}

Thank you, everyone, and good morning. I have only one very quick question about your working capital. We saw your consumption really go up very sharply during this quarter. So

Bloomberg Transcript

especially looking at the chart that you brought that shows the development of naphtha prices over the second quarter, we've seen prices behaving a little bit better and ultimately stabilizing. So I would like you guys to talk a little bit about whether it makes sense for us to imagine a decreased consumptions starting on Q3 and a healthier level. And if you could add any color as to what you guys expect in that sense for the rest of the year as well. Thank you.

FINAL

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

Hi Pedro. Well, our working capital performance can be explained by at least three different trends. The first of them would be our sales volume trend which went up in Q1. So you see a higher profitability level with a higher price level, which suggests a hike in consumption. The second trend is in our inventories which went up, especially in preparation for the maintenance shutdown and Triunfo, which is already under way. We always raise our inventory levels before those shutdowns to maintain our operational levels despite the decrease in production.

And the third would be the feedstock price trend in the international market, which ultimately led to a higher working capital level with the increase in our investments in that sense. Now with what's going on currently, we have two effects in opposite directions. First of all compared with March, prices are a bit lower now. In March, oil prices came to \$130 a barrel and there -- it's now at \$100 barrel. So at least right now, if prices remain at their current levels, our perspective is for both our accounts receivable and our inventories are expected to be adjusted.

Foreign exchange is currently a bit higher, it's above \$5 to BRL1 at this point. So it's difficult for us to have a very precise forecast as to whether our working capital levels will be reversed. With the current levels, we do not believe there is any need for us to inject more capital over the course of the year in a more -- any substantial way, but that reversal could come with the decrease in our inventories, because after the maintenance shutdown, inventories go back to their regular levels. But considering the international reference, prices in Brazilian reals and foreign exchange rates, which are more difficult to predict, if they remain at their current level, I believe that we should probably stay with the same level of working capital. I don't know if Rosana has anything to add.

A - Rosana Avolio {BIO 20386863 <GO>}

I think this is it, Pedro.

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

That was very clear, guys. Thank you, Pedro.

Operator

Our next question comes from Vicente Kalanga [ph] from Bradesco BBl.

Q - Analyst

Thank you, Pedro; thank you, Rosana. Good morning, everyone. Well, I also had two questions. You announced this change in the mechanical recycling, how much of that do you believe would allow you guys to reach what I believe is \$1 billion tons by 2030? And how much of that target would depend on chemical recycling? And do you guys have anything to share on that front? And my second question was, I believe that at one point, you guys were considering maybe make your dividend sharing policy clearer, and as a connection to the your cash flow, if you guys have anything to add in that sense, that would be great. Thank you.

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

Good morning, Vicente, great to hear from you. Well in recycling, we have three targets. We have the target of reducing recyclable product sales by 320 tons by 2025, and then by 2030 by 1 billion tons, and we have the target of -- by 2030, not considering necessarily Braskem's recycling or recycling of Braskem's plastic products, reducing all that plastic from the environment by 1.5 million. Currently, without the anti-AV, our recycling capacity is about 23 million tons and AV brings another \$23 million. So we'd be sort of halfway toward the 2025 target.

Now when we look at what this announcement -- where this company, we are joining is, we -- they bring technology that we believe to be scalable and which can be used in different countries or different areas of the planet. It's a proprietary technology, which we believe may speed up how fast our capacity to grow in this market. So if that growth comes to pass over the next few years, we expect to have new recycling plants adopting or deploying this technology, which has something very interesting about it, and that it does not produce a resin, but actually a ready-to-use product in both civil construction and also in pellets for transportation.

So these are our products that can be used globally, they are not that specific. So we believe we can adopt this technology in several different places and use that as a platform to grow among others, obviously, this is not the only growth platform we have, but it will become another platform for Braskem to grow in recycling. So it's a completely different business model with a specific -- it's scalable technology. So all of these elements which are very interesting will come into play.

You also asked about chemical recycling. In that sense, Braskem is still looking at different technologies, we have a few projects underway, but nothing at this point that's mature enough for us to disclose. Some of them are at a technological development stage, and others, we are still looking for a business plan that's feasible and that works. So we're running a number of tests, but at this point, nothing that's enough, at a stage that's advanced enough for us to announce.

Q - Analyst

Okay, perfect, Pedro. Thank you. Now another, my other question about your dividends. Is there anything you guys could comment on?

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

Yes, of course. Rosana?

A - Rosana Avolio {BIO 20386863 <GO>}

Yes. In relation to our dividends policy, we have one established defines a minimum amount according to the applicable legislation, 25% of the net income. And we also established a cap -- our company cyclic, it's very important to keep a level of investment that creates a lot of value to our company. So we established a cap that considers the impact in the corporate leverage of the company and also considering a minimum distribution in the medium-term. We have been discussing important to your question, considering that we are dollarized company and we understand it's difficult to model the net income of the company and to come to a consensus in terms of market. Maybe we should have a metric close to cash generation or link to cash generation, but we're still studying it. This -- the discussions are incipient. And we are going to have a dividend policy that will establish a cap considering that we are cyclic.

And reinforcing we will -- we also tried to have an efficient capital location, we are going to have a well-equated debt level make investments in the avenues for growth that we have already announced based on the competitive advantage that we have in the sector, especially renewables and recycling and return value to the shareholders. And last year was a good example where we are going to balance the three front and we are -- yes, we are going to return more value to the shareholders.

Q - Analyst

Thank you, Pedro. Thank you, Rosanna.

Operator

Our next question comes from Luiz Carvalho with Bank BBR.

Q - Luiz Carvalho {BIO 19232240 <GO>}

Good morning, Pedro. Good morning, Rosanna. I have three questions, and if you could maybe go back to the partnership and production that you mentioned answering the first question. I just wanted to understand how does the price trend of your shares -- what does it represent in terms of that partnership? We believe that the tag-along will no longer exist if that were the case. If you could add more color in that sense?

And the second, we have been discussing a lot since the beginning of the year about the spread issue. As you mentioned, feedstock prices have gone up significantly, because of the rising oil prices, and is obviously there might be adjustments in ticket prices for transportation. And looking at China, I'd also like to understand what you guys are or how you guys are seeing the challenges and passing along those increased prices to your end consumers?

And the third question, if you could guys could comment on the potential regulatory changes both in Brazil and Mexico? We see a lot of talk going on this week. We heard that petrochemical products could enter a list of products with lower tax rates. We also heard

that the import issue could be affected in several ways. I wanted to hear from you what you guys are sensing on that front. Thank you.

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

Good morning, Luiz. Thank you for your question. Look, with Novo Mercado, I think that a question you asked us should be asked to our shareholders. We don't really know how their decision making process works and whether share prices affect that decision in terms of moving to Novo Mercado. What we saw was something with regard to our supply, but I think that with regard to Novo Mercado, that's something you should be asking of them, because we do not have that information. Now as to how oil prices have performed and the passing along of costs, we continue to base our policies on the trend - the international price trend. So basic chemical products and the resins we sell are still following the international price trends.

And considering the trend of the industry seeing as we deal with commodities and prices ultimately follow the marginal producer prices. And we're today with the margins that we have, the benchmark would be Asian producers. So if feedstock prices increase, that will affect marginally the producer prices so that will transfer to our prices as a consequence. And looking at the historical trend for several years, that transfer could be or could take place very quickly in a span of two or three weeks, or it could take a few months to come about, but we always see that looking at historical records that it ultimately occurs.

We do not have any example looking at the record from the past that -- the prices were not passed along to the final prices. So we expect those prices to be transferred. We've seen some of that transfer take place already across most of our products, maybe one or another product, we still expect still expect some adjustment to occur, but mostly, we believe that the structural, the way the industry is structured, show -- tells us that those prices will be passed along.

Now with regard to (inaudible) and the import grades that you mentioned are still being discussed. I think it's important to remember that last year, Brazilian Congress had already made a decision about (inaudible). So -- what we've heard from people in contact with senators and congress people is that a change in the very short term, would make sense. But ultimately that's a decision that Congress will make in a general assembly, and that's something we expect to hear maybe over the course of the next few weeks. There has been adjustment on some -- to some products in recent days, but those adjustments did not affect Braskem's products those new import tariffs.

There were adjustments in staple, the prices of staple products and a few capital goods and IT goods had some changes in those tariffs, but none for the products we work with at least as far as we could map out. Of course regulatory changes take place all the time and every country around the globe, but -- and in this case, those changes did not affect our business in any major way. Now, as to Mexico, this is a deficit market. So any change in tariffs or import rates will affect us in a -- in some way. So if there were any change in Mexico's regulations, they might even be positive for us, but what we saw in that case were changes in gas prices which did not really affect us in any direct way.

Q - Luiz Carvalho {BIO 19232240 <GO>}

Okay, that was very clear. Thank you, Pedro.

Operator

Our next question comes from Gabriel Barra with Citibank.

Q - Gabriel Barra {BIO 22244309 <GO>}

Roberto, Pedro, Rosana. Good morning. Thank you for taking my question. I just wanted to touch on the investment issue. I think it changed a lot in terms of your strategy to add value considering the value structures. With that in mind, I wanted to understand a little bit the return side. If you could talk a little bit about recycling and even the Mexico terminal. Give us some idea as to how much do you expect in terms of returns on those investments. And moving -- going back to Mexico, I think it's been a while since you've looked for a partner to invest in your import terminal.

And my question is, let's say that partner doesn't exist, what would your decision look like and what would be your investment within JV? Would that be made by Braskem itself? How would that work if there were no strategic partner for you guys there? That's sort of the answer we're looking for. Thank you.

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

Hi, Gabriel. Well, we have a very robust analysis process in terms of when and where to make our investments using a range of different tools and scenario analyses. Yet ultimately what we have at least historically is that most of Braskem's investment especially the larger investments record a return rate of over 20%, the larger ones sometimes with rates that are even are even higher than that. So our decision-making process ultimately lead to that level of return and that's about the level we see with these projects for green ethane and growth in renewables and also domestic investment. It's still a little bit lower than that in recycling. I think not only us, but all players in the business are still looking for business models that will generate higher returns.

We expect the investment and this partnership we have in the Netherlands will bring interesting returns on our capital investment. But at first, even to develop the business, I mean, not all renewables and recycling projects reach that level I mentioned. So this is a feature we enjoy the characteristic of ours, investments that are not necessarily paying out in the beginning, but that ultimately generate high returns. So the regular process for the company ultimately lead to very interesting return rates.

Bear in mind that our investments are always made and U.S. dollars. So we are talking about at least 20% denominated in U.S. dollars. Now about our partner in Mexico, we are at a very advanced stage in our decision-making and even our Board of Directors was informed yesterday of who our partner will be. So our selection process is essentially concluded. It still needs the Mexican side of Braskem to approve that, but I think I can say that the partnership is essentially determined and should be announced to the market over the coming weeks once we have the ultimate approval stamp in Mexico.

A - Rosana Avolio {BIO 20386863 <GO>}

Pedro, we received some messages on the webcast. I'm going to read the questions in Portuguese. There's a question here from Eduardo with Bradesco Security. He asked us if we could provide some additional no color on the net debt in the new cycle -- cyclic faces and in the long-term, and what are the options available to keep the leverage within our targets if there's any important changes in the global scenario?

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

Thank you. Thank you, Eduardo. I just wanted to remind everyone that keeping its investment grade is a priority to Braskem. We are even working to seek -- receiving investment-grade with Moody's as well, that's a major focus for us. And so with that in mind, we want to maintain our leverage levels within what's determined in our guideline. So an average leverage of 2.5x. And we understand that we may even have in the declining cycles, a leverage ratio that's a little bit higher. As long as we have a clear deleveraging plan, we have found ourselves in that situation before. And we agreed we entered an agreement with those credit rating agencies not to be downgraded. But yes, that's a main focus for us.

Our leverage is under control at this point. Our leverage is 1x our net debt to EBITDA ratio, it is likely to go up a little bit because of our EBITDA and how it's performed compared to last year. We had extraordinary results and we did not expect to maintain the same level as we had last year, but within our view and our prospects in, even if you look at market consensus, in terms of what would be Braskem's potential result this year, despite that decrease, we'll still remain comfortably below that 2.5x that we have as a cap. So that's an adjustment that we expect to have and we are prepared for it, and there's no concern about that in any shape or form when we think about that cycle adjustment.

So even so -- even if the scenario deteriorates more than we expect, I'd like to remind you that Braskem has in place a policy to be very -- to have left very little exposure in the near-term. So our debt maturing in the next two or three years is of about \$700 million to \$800 million. So we have really deleveraged the company reducing its net debt since 2020. And most of that is long-term debt. We have an average maturity of 20 years for our debt or gross debt. So we do not see any major risk in terms of deterioration in the international market. And what we've done in the past and some situations when we were facing crises were plans to preserve our cash flow and preserve our liquidity. So examples of initiatives we had in that sense in the past were for example to revise or review our investment portfolio. But that's something we do not want to do not want to do because you ultimately cancel investments that would add value to the company.

Now an alternative to that we would be--we have some operations in the market such as selling receivables. So these are things we've done in the past. So we would have to change our working capital management in a way.

We could potentially sell some assets or take some more extreme measures. So there's a number of initiatives we could take in such a scenario, even if we look at an unexpected

deterioration. I believe the company is at a very comfortable -- in a very comfortable place to face any type of situation of that nature.

A - Rosana Avolio {BIO 20386863 <GO>}

There's another question here, I'm going to read it. Thomas with Bearing [ph]. Thank you, Thomas, for the question. He says that he has some questions in relation to Mexico's operation. The first is given our corporate strategy of diversifying feedstock and he mentions reducing the naphtha share. Are we considering an expansion in the Mexico plant especially considering the context that the terminal will be finished in 2024 since this is going to have a additional capacity for importation of ethane? And Thomas has also asked us to provide the guidance in relation to the dividends to be received by Braskem Idesa and when those dividends will be received?

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

Good morning, Thomas, and thank you for your questions. Well, yes, I think the possibility of expanding in Mexico is something that really plays into our strategy to diversify our feedstock and grow internationally. The Mexican plant is one which is already ready for expansion. It was built with expansion in mind. So once the terminal is open, we have that feedstock availability. So we will try to enable that expansion. At this point, we do not have an approval to invest in expansion there, but it would make perfect sense to do so. After the terminal performances this is proved, we would probably seek to expand there in a very competitive way seeing as the asset is already prepared for such expansion.

Now about paying dividends in Mexico, Braskem Idesa, within its capital structure and the financial commitments it has, and especially considering the bonds that were issued by Braskem Idesa, there's already some--there's already room of about BRL40 million to pay dividends Braskem plus Idesa, to pay BRL40 million a year to -- in dividends to its shareholders. That's already allowed within its bonus paying structure. Last year those BRL40 million were paid at the end of the year in December.

So when we look at this year, we do expect Braskem Idesa to pay those dividends. And it's difficult for us to set a specific month that will depend on Braskem Idesa's cash situation. I think that after we announced the partner with the terminal and conclude the engineering plan and also to outline the financing terms for the terminal, we can probably expect those dividends to be announced, but I think the focus primarily is to bring that value to Braskem Idesa. And once the financing terms have been outlined, we can expect those dividends -- the dividend payments to be announced.

Operator

(Operator Instructions) At this time, we are concluding our Q&A session. I'd like to turn the conference over to Roberto for his final remarks.

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

Good morning, everyone. I'd like to thank everyone for joining our earnings conference and also share some remarks with you. This was another quarter with healthy results. And

FINAL

I'd also like to stress that our feedstock diversification strategy was only possible because of the company's strategy that was implemented over 20 years ago. And the results that show us very clearly, we could mitigate the challenges we may have and South America, Brazil, Mexico or Germany, can be offset by other areas.

And also, we see the diversification in feedstock, a reduced reliance on naphtha, and being able to make good use of the spreads with ethane, and also our operations in the United States. We can have distinguished operations in those two markets. It's also important to stress that we're still very much committed to a healthy capital allocation keeping a cash flow that's very healthy, we've talked about that before always prioritizing our higher returns to our shareholders.

In May of 2022, we paid dividends of -- by BRL1.35 billion with -- added to those BRL100 million that were paid early in December 2021, add up to BRL7.35 billion, which is 77.5% of the company's adjusted net profit in the year 2021. And I think that considering everything that was shared with you this year, we remain very much confident about this year's results expecting spreads that are even higher than the recent historical average, despite the scenario of political tensions with a scenario that's very much in line with what external consultants in the industry expecting. So once again, thank you for joining us and we should be together again in August when we will announce our Q2 earnings results. Thank you very much and see you then.

Operator

Braskem's earnings conference has now concluded. Thank you, everyone, for joining us and have a great day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.