

# Y 2021 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
- Anne Milne
- Bruno Montanari
- Gabriel Barra
- Luiz Carvalho
- Pedro Soares

## Presentation

### Operator

Good morning. Thank you for waiting. Welcome to the conference call of Braskem to discuss the results related to the Fourth Quarter of 2021. Here with us are Mr. Roberto Simoes, CEO of Braskem; Pedro Freitas; and Rosana, Investor Relations Director. I would like to inform you that this event is being recorded, and that all participants will be in listen-only mode during the conference call. Later on, we'll start the Q&A session when further instructions will then be provided. (Operator Instructions) This event is also being broadcast simultaneously over the internet via webcast and can be accessed at <https://www.braskem.com/ri> where you can also find the presentation.

The selection of those slides will be controlled by you. The audio of this event will be available soon after it's over. We'd like to remind you that the participants of the webcast may record via website, questions to Braskem. They will be answered after the conference is over by the IR area of the company.

Before moving on, we'd like to clarify that any forward-looking statements that may be made during the conference call as regards the business perspectives of the company projections, operational and financial goals are beliefs and premises of the company's management, as well as information currently available to Braskem. Forward-looking statements are no guarantee of performance since they involve risks, uncertainties and premises since they refer to future events, and these depend on circumstances that may or may not occur.

Investors and analysts should understand that general conditions, sector conditions and other operating factories may affect the future performance of Braskem, and may lead to results that differ materially from those expressed in such forward-looking statements. I would now like to turn the call over to Miss. Rosana Avolio, Investor Relations Director who will begin the presentation. You may proceed ma'am.

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

Good afternoon, ladies and gentlemen. Thank you for participating in Braskem's conference call to present our results for the fourth quarter of 2021, and also for the full year of 2021.

Let's go to a slide 3 with Braskem's highlights in the year. In 2021, Braskem delivered important achievements in its financial situation and ESG agenda. Starting with the financial highlights, we reported record high recurring operating result of \$5.6 billion and cash generation of BRL10.7 billion. We also returned value for our shareholders, leveraged the third-highest total shareholder return of companies in FBovespa and S&P 500, and distributed anticipated dividends in the amount of BRL6 billion, another important development towards being upgraded to investment-grade by S&P and Fitch.

We continue to maintain a comfortable leverage ratio and the debt maturity profile concentrated in the long-term. Another finished highlight was the conclusion of Braskem Idesa's refinancing plan which was one of our priorities for the year.

On our ESG agenda are strategic priority for us, we made important advances on all three fronts, environment, social, and governance. On the environmental front, we advance the in our go of reaching 1 million tons of Green PE production capacity with the progress achieved on the capacity expansion project at the green ethylene plant in Triunfo, and with the signing of a memorandum of understanding with SCG Chemicals to perform feasibility studies to jointly invest in a new green ethylene plant in Thailand.

We also signed an MOU with Lummus Technology for the joint license of green ethylene technology and on our commitments to circular economy. We started the operation of the mechanical recycling line in partnership with Valoren.

On the social front, we implemented 146 social projects that benefited over 800,000 people globally and made further progress in our financial compensation and support for relocation program in Alagoas. On safety, which to us is a non-negotiable value, we achieved the best performance in people safety since 2017 and the best historical process safety result.

Lastly, I would also like to highlight our advances in governance such as, for example, request from shareholders to carry out studies on the company's migration to the Novo Mercado segment of B3, formation of a statutory compliance and audit committee and achievement of ISO37001 certification.

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Moving on to slide 4. We are going to comment on the consolidated result in the quarter and the full year. In the fourth quarter of 2021, consolidated recurring operating result was around \$1.1 billion, 23% lower than that in the third quarter of the year. This result explained mainly by the lower international spreads for main chemicals. The PE and PP in Brazil, PP in the U.S. and Europe, and PE in Mexico. But, which still remained above the historical average of the last 10 years, and also due to the lower PP sales volume in Brazil, the United States and Europe. In the year, our recurring operating result was \$5.6 billion, an all-time high mainly due to better international spreads for the main chemicals and residents in Brazil.

And for the PP in the U.S. and Europe and the next slide, we will make comments on the net profit of the company. In 2021, Braskem reported net profit of around BRL14 billion, an important reverse in relation to the accumulated losses of BRL4.5 billion in 2020. Thus, as I mentioned in the beginning of my presentation, in December, 2021, the company distributed anticipated dividend based on the results for the year of 2021, in the amount of BRL6 billion.

Let's move on to the next slide. We'll start about the highlights per segment. On slide 6, we present the main highlights of a Brazilian's operations. In the fourth quarter of 2021, the petrochemical crackers in Brazil operated at a neutralization rate of 85%, 6 percentage points higher than that in the third quarter, which is explained mainly by the higher feedstock supply in Rio de Janeiro, and the stronger demand of PE in the Brazilian market.

In the Brazilian market, resin sales in the fourth quarter were practically stable in relation to the third quarter 2021, while exports increased by 13%, reflecting the higher product availability. In this context, the recurring operating results of Brazil in the fourth quarter of 2021 was \$761 million in the year and the operating -- recovering operating result was \$3.6 billion.

Next slide. We will comment the geological event in Alagoas. The chart on the left shows the balances of the provisioning related to the geological event in Alagoas at the end of the fourth quarter of 2021 of around BRL7.7 billion. The chart on the right shows the disbursement schedule of the total amount provisioned, around 57% was recorded in the current liabilities and 43% of this amount was under non-current liabilities. It's important to remember that Braskem cannot predict with certainty future development in respect to this matter or related expenses, and the costs to be incurred by the company maybe different than the currently estimated or provisioned.

Moving on to the next slide, we will continue to talk about the Alagoas geological event. Braskem continues to make progress on its location and financial compensation of the families in high risk districts of Maceio, until the end of February 2020. The number of reallocated was 14 and 49, about 97% of the real estate reallocated in the risky areas.

Additionally, the number of proposals for financial compensation that were submitted reached 30,000 and 133 with the maintenance of high acceptance index of the proposals that were submitted reaching 99.5%. In relation to the payments made under the

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program about BRL2.2 billion had been disbursed up to the end of February 2020. And this value considers the value that were disbursed since the beginning of the program.

Additionally, I would like to share some highlights made throughout 2021 regarding the other work front compliance with the well closure plan. 48% advance in filling the first two cavities with and conclusion of the environmental diagnosis of the area and significant progress in this social diagnosis. Start of demolition works on (inaudible) and urban mobility plan for the region completed, and start of the action scheduled for the next quarter.

Now, let's turn to slide 9. This slide presents the highlight of our operations in the United States and Europe. In the fourth quarter, the PP plants in the United States operated, and at utilization rate of 73%, decreasing 21 percentage points compared to the third quarter, which is explained by the scheduled maintenance shutdown at one of the region's plant in the period, and by the slowdown in production to accompany the weaker demand in the region.

In Europe, the utilization rate decreased 8 percentage points from the third quarter, reflecting the lower feedstock availability due to the scheduled maintenance shutdown at the propylene supplier in the period.

Moving on to sales performance, the United States registered sales volume in the quarter of 442,000 tons, down 2% on the prior quarter. In Europe, we sold 137,000 tons of PP in the quarter. The segment's recurring operating results in the fourth quarter was \$281 million. In the year, the recurring operating result was \$1.6 billion.

Moving on, the next slide shows the highlights in Mexico. Mexico operated at an utilization rate of 81%, increasing 13 percentage points on the third quarter. And this is explained mainly by the higher feedstock supply by both Pemex, and the Fast Track solution. Sales in the quarter increased by 20% year-over-year explained by the higher availability of product for sale given the higher capacity utilization rate for the quarter. The segment's recurring operating result in the fourth quarter was \$160 million, and in the year, the recurring operating result was \$620 million.

Moving on, the next slide details the feedstock supply dynamics of Braskem EDC. In the fourth quarter 2021, Braskem EDC imported 20,900 barrels of ethane per day, a quarterly record for the Fast Track solution which represents around 84% of the Solution's current capacity.

Pemex also supplied 36,000 barrels of ethane per day, which is in line with a new amendment signed in October 2021. Looking at the outlook for 2022, we believe that Braskem Idesa has the potential to continue delivering the good industrial performance observed in the fourth quarter of last year.

Since the company is working to further expand the Fast Track solution to reach maximum ethane import capacity of 35,000 barrels a day as well as the expectation that Pemex will continue to supply fits that volumes in line with the amendment.

The next slide covers the ethane import terminal. In December, Braskem Idesa had an approval of the final investment decision for the ethane import terminal with investment in the terminal construction estimated at around \$400 million.

The next steps are the expectation that the start of the construction are likely to begin in the second quarter 2022, and additionally, we are going to continue working on the process of selecting potential partners. So that the terminal starts operation in 2024.

Moving on, the next slide shows our consolidated cash flow. In the quarter, Braskem recorded positive operating cash generation of around BRL3.1 billion. The main positive impacts were the recurring operating result and the monetization of the PIS and COFINS tax credits in the quarter. In the year, Braskem set a new record for the operating cash generation of BRL10.7 billion.

Next slide shows our capital allocation strategy. In 2021, Braskem maintained its commitment to efficient capital allocation by focusing on creating value and return for shareholders with the majority of our capital allocated to gross data production, dividend distributions, and investments. In relation to indebtedness, for the year, Braskem reduced its gross debt by \$1.8 billion by carrying out various operations in debt markets.

On remuneration of shareholders, we distributed anticipated dividends for the fiscal year of 2021 in the total amount of BRL6 billion. On the investment front, we focused investments in the maintenance of existing assets such as schedule, general maintenance shutdown at the petrochemical complex in ABC in Sao Paulo and on growth projects in biopolymers and recycled resins, which included the capacity expansion project of RIN ethylene production and Triunfo plant, and the new mechanical recycling line in Indaiatuba Sao Paulo respectively.

Let's move on to the next slide, please. On this slide, you can see that in 2021, Braskem presented return metrics above those of its international peers and the average of FBovespa and S&P 500. On shareholders return, Braskem delivered TSR significantly above its international peers, with the third highest TSR of all companies in FBovespa Index, and the companies listed in the S&P 500. In terms of free cash flow yield, Braskem deliver a record high free cash flow of BRL10.7 billion, resulting in a free cash flow yield above that of its international peers. In returning capital to shareholders, Braskem distributed record high dividends in 2021 of BRL6 billion, resulting in the dividend yield above that of it international peers.

Moving on to the next slide, please. As of the end of 2021 Braskem continue to maintain a very long debt profile with strong liquidity position with maturities mostly concentrated in the long-term. It's important to mention that in December last year, the company hired with a syndicate of 11 global banks and international standby credit facility in the amount of \$1 billion with final maturity in December 2026 to replace the current facility. The average debt term remained around 15 years and the current liquidity position is sufficient to cover the payment of all the liabilities coming due over the next 72 months.

Let's turn to the slide 17, which shows the company credit metrics. Braskem continued presenting solid credit metrics and low corporate leverage ratio even after distributing anticipated dividends of BRL6 billion at the end of last year.

The leverage ratio in dollars ended the year at 0.94 times. We'd like to mention that Braskem has the objective of maintaining a robust cash position, very long debt majority profile and we are committed to efficient capital allocation.

Moving on to the next slide, please. At the end of last year Braskem recaptured an investment-grade after a rating upgrade by Fitch Ratings. In September 2021, S&P had already upgraded the risk level in global level of the company to BBB minus with a stable outlook. With these two upgrades by Fitch and by S&P, Braskem is now considered an investment-grade company.

Going on to slide 19, we will have a look at ESG highlight. Let's start with the ESG section with our renewable businesses. On the chart, on the left we can see that last year, we sold a 165,000 tons of Green PE and 220,000 tons of ETBE gasoline bio-additive that improves the performance and is partially made from ethanol. It's important to mention that we have assumed the importance of reaching 1 million tons of capacity of production of Green PE production by 2030 and we are working to accelerate the delivery of this goal through strategic and financial partnerships.

On the chart to the right, we can see that the net revenue from Green PE and ETBE combined increased by 65% due to the higher availability of product for sale due to stabilization of the ETBE operation and also due to attractive prices international market.

Moving on to the next slide, please. This slide shows the project related to the circular economy in Brazil into which Braskem is contributing capital of BRL130 million. Braskem is investing BRL20 million in the construction of an Innovation Hub jointly with clients, brand owners, designers, start-ups, and universities, for the development of packaging better suited to recycling and circular processes.

In addition, we have two projects in partnership with the lowering technology development and waste management company specializing in transforming waste into recycled product. The first project is related to the construction of a mannequin recycling line to transform 250 million unit of PE and PP post-consumer packaging into 14,000 tons of high-quality recycled resin. And its operation started in December 2021.

In addition, we have a project for the technological development and construction of the first advanced recycling unit in Brazil, which will integrate and capture synergies with a mechanical recycling line on this insight, which will use high pyrolysis process to chemically transform plastic waste that is difficult to be recycled mechanically into a certified circular raw material. These investments are aligned with Braskem's micro goal of eliminating plastic waste, which includes projects to develop circular packaging, mechanical recycling and advanced recycling.

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Let's go to the next slide, please. In relation to renewable energy Braskem entered into a purchase agreement for a steam produced from biomass Veolia Brazil. The investment in the project is estimated at BRL400 million considering the construction of an industrial and agro forestry park by Veolia, and operational adjustments at Braskem's industrial units.

The agreement will ensure the supply of steam to Braskem for 20 years, and is expected to start in 2024. Braskem estimates that the supply agreement will reduce its greenhouse gas emission by around 150 tons a year, which is equivalent to 30% of its emissions in Alagoas with compared to 2020. I would like to mention that, this is another important project that will contribute for the company to reduce its CO2 emissions by 50% by 2030 and become carbon-neutral by 2050.

Moving on to the next slide, we will show our investments. Braskem closed last year with a CapEx of \$691 million which is 13% of less than the estimate of \$798 million for the year. Expenditures were affected mainly by the postponement of projects and the Brazilian Reais depreciation against the dollar in the period. For 2022, capex is estimated at \$1.2 billion which will be concentrated in the scheduled maintenance shutdowns at the Rio Grande do Sul plants. Preparation for the scheduled maintenance shutdown at Bahia plant in 2023 and catch-up of projects postponed due to COVID and its strategic projects such as expanding the biopolymers business, expanding recycled resin production capacity and the building of ethane import terminal with a potential partner in Mexico.

Know that part of the CapEx for this year is related to Braskem's sustainable development macro objectives in the amount of \$236 million, around 75% of which is going to the macro goals of combating climate change and operating efficiency.

Moving on, the next slide presents our short-term outlook. For Brazil operation, the expectation is for stability of ethylene production and sales volume. Regarding to spreads, the external consultancies expect lower PE and PE naphtha based spreads. PVC spread should remain at levels above the recent historical average. In the United States, sales volume should increase due to the higher product availability and as PP propylene spreads should remain above their recent historical average.

In relation to Mexico, we expect higher PE production and sales volumes, with Pemex supply feedstocks at volumes in line with the amendment signed in October and with increased ethane imports from the United States and the ethane spread should remain above the recent average.

On the next slide, we can see that Braskem remains an interesting investment opportunity in the global petrochemical industry. First, analyzing from the view of multiples of recurring recovering operating result, the multiples of the company continues to be discounted in comparison to its international peers. Last year, Braskem delivered profitability and credit indicators above the average of its U.S. peers as in the case of the recurring operating margin and leverage ratio.

Lastly, when we look at the screen price of the three, compared to the market consensus, it's also possible to see that there is a potential for price appreciation in Braskem's stock.

Moving on to slide 25. We're talking about the improvement in the tradability index of our company. The chart on the left shows how BRKM5 is improving its position in the B3 tradability index, which is calculated based on liquidity indicators, such as trading volume and number of trades. With its improvement in the index, BRKM5 once again was included in the IBrX 50, an index that tracks the performance of 50 stocks with a highest liquidity and weight on the B3. It's an interesting point because with increase of the shares outstanding, Braskem participated in the IBrX 50 and in other relevant indexes such as MFI FBovespa, in ISE corporate governance among others may increase.

Next slide, we'll talk about the strategy. On this slide, I would like to reinforce that we remain focused on implementing our strategy based on renewables, recycling, and productivity improvement. Starting with our growth strategy. Today, we have three main growth avenues. The first is, renewables with the commitment to expand Green PE production capacity to 1 million tons by 2030; recycling with ambition to reach 1 million tons of thermoplastic resins and chemicals with recycled content by 2030.

And lastly, existing productivity and competitiveness project, build new ethane import terminal in Mexico to meet all the feedstock needs of Braskem Idesa and continue making progress on our global efficiency program transformed for value. To support in the implementation of the growth initiatives, we have three main enablers, innovation, we have an extensive innovation pipeline with several projects contributing to the growth of our business people and culture.

We have an experienced management team with technical teams with a strong entrepreneurial mindset and we continue working on the migration to the Novo Mercado segment of B3 which included the consolidation of our share classes. In terms of financial solidity, Braskem remain firmly committed to its financial health and to efficient capital allocation.

Lastly, we would like to reinforce that safety will always be the key focus of Braskem's operation remaining a non-negotiable and permanent value of our strategy. That concludes the presentation of Braskem's results for the fourth quarter 2021 and for the fiscal year of 2021. I would like to thank everyone for their attention. We will now begin the Q&A session.

## Questions And Answers

### Operator

(Question And Answer)

Ladies and gentlemen, we are now going to start the Q&A session. (Operator Instructions) The first question comes from Pedro Soares with BTG Pactual.



**Q - Pedro Soares** {BIO 20879952 <GO>}

Good morning, Roberto. Good morning, Rosana. Everyone, can you guys hear me well?

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

Yes, we can hear you.

**Q - Pedro Soares** {BIO 20879952 <GO>}

Well, guys, I have two quick questions. The first and most obvious about the spreads after all the volatility that we've seen, especially in the oil industry, naphtha spot prices have responded very aggressively to that, which really widened the spreads of the company in Brazil. I understand that much of that can be explained by the resin prices, which you're still not reflecting the potential passing on of that onto consumers. So I wonder if this -- I believe this is new compared to the next last year. So if you could explain to us how that will work, especially on the consumer front? And when will that really affect the company's bottom line, seeing as the company's current inventories are still below the spot ones?

Now the second question is about the CapEx guidance. If you could give us a longer-term view after 2022. A while ago, we talked to about a maintenance CapEx, more than an operating CapEx of about \$600 million, correct me if I'm wrong on that, but it was also underscored that there's not an extraordinary pipeline, especially for the next two years. So my question is, of course, this increase in the operating CapEx in 2022 largely reflects some of the delays in investments, but does it make sense for us to imagine this operating CapEx moving back to levels closer to \$600 million? Or do you guys understand now that it should be something more structural for the moment? That's it for now. Thank you.

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

Well, Pedro, thank you for your questions. I'd like to say it's a pleasure to be here speaking to all of you. Thank you for being here. We've had extraordinary results in 2021 and we're happy about that. Now on the issue of if spreads, there are maybe two or three points that I'd like to clarify, on a more macro perspective, considering last year, this year and moving forward onto next year. Considering a structural supply-demand structure within the industry, at this point we see no changes from what we already had seen since the beginning of last year, which was we expected spreads to come back to normal, still staying above the historical average, but yes, moving back from what we had in 2021 because of a series of nonrecurring events we had in 2021, which led to a decrease in the supply in the international market.

We had climate events. We had new bouts of COVID, which affected freight prices, which also helped lead to that increase in spreads above what we would call a regular level. And this return to normal, this decrease we started seeing at the end of last year was widely expected, not only by us, but by the industry at large in 2022. And now, as of 2023, we expect to see some recovery already because the investments that we expected for 2024-2025, which have not been announced yet, either because of COVID or a number of commitments that companies have taken on in terms of carbon reduction or carbon

neutrality. And all of that sort of raised the barrier for new investments because you have to invest more in order to fulfill those pledges.

So about spreads in this longer-term curve, we do not see a return, but in the near-term both because of the war and how much it has impacted fuel oil prices, spreads are likely to widen. Last week, we saw the spike and spreads are not adjusting it. This week we saw naphtha coming down and oil prices coming up. So we still expect to see some increased volatility in the near term. But in the longer run, this is something about Russia and Ukraine, both countries that have a small share of the international market. It doesn't seem sufficient to sort of change the entire landscape we had been expecting. Now about the passing along of prices. The logic is still the same. We want to pass along international prices. We have a structure for that in terms of resins and the most basic terms, we want to follow the same international logic. Our policy -- our pricing policy is still the same and we continue to pass those changes along according to international -- as international prices change.

Now one early sign, it's still early, but everyone knows the China is now experiencing a new round of lockdowns. So we are seeing a rise in freight prices of products coming from China, so that could make things a bit more complicated for them as was the case last year. But it's still difficult to say to what extent and for how long that will persist. That's hard to say now. And ultimately, you raised the point of how Braskem's results are structured. Braskem's CPV is calculated using a moving average. So the cost we're capturing now in March is the average of naphtha prices and feedstock prices from the last few months. So as prices go up, our inventory price levels go down. So part of our operating management policy is to understand that logic. And based on that, we adjust our production levels to provide for this carryover of our inventory -- carryover effect on our inventory. This is something we do really well with a positive impact on our bottom line. Lowering the cost of our inventories on our sales.

I may have spoken more than I should, but annually we don't see a significant change because of the current landscape, but considering the uncertainty and volatility, especially in the near term, also considering our inventory and production management and procurement management is being revised at very short intervals to allow for that -- for those market shifts. Now going back to CapEx, I'd only like to mention something because you mentioned a \$600 million operating CapEx. And we would like to shed more light on that.

Our operating CapEx includes the maintenance CapEx, but it also includes innovation and technology CapEx. It includes our competitiveness in productivity CapEx. And in previous calls, whenever I say that our maintenance CapEx is between \$500 million and \$600 million, I'm thinking only of maintenance. So to reconcile those figures, you'd need to think, oh, I have \$600 million in recurring operating CapEx, plus an innovation technology CapEx, plus competitiveness and innovation CapEx. So that requires thinking of those projects, which need a positive EPL. So the innovation plus continuity in competitiveness, that's around \$100 million, \$150 million this year, which is why our operating CapEx looks higher. And it is also higher because in the last two years, 2020 and 2021, we invested less in maintenance because of the pandemic.

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We carried forward with everything that was mandatory or that implied higher risks, but there's a lot of things that you could postpone. So if you have a car, you can leave maintenance in your car for later if you want unless there's a problem. But over time, those are things you have to do. So these are things we've postponed and when we look at the program -- the CapEx we've programmed for 2022, we see that within the operating CapEx logic, we are running higher numbers, but you must understand that within those \$193 million, you have \$600 million, which are about maintenance plus \$150 million, which is for this year with competitiveness, innovation and continuity and there's another \$20 million to 2040, which is about catching up with what we failed to do in maintenance over the last two years and maybe even an additional or an extra in competitiveness. That's where the figures come from, but our baseline \$600 million in maintenance remain unchanged.

Now I just wanted to add something that Peter -- to Peter's point, there's some volatility in the baseline, naphtha-based CapEx, but I only wanted to stress all the work that we've done in diversifying our raw material base, we have an important base in Mexico and even the business has a dynamic nature in the United States. We remain with the same baseline, so I only wanted to stress that. And the second point I wanted to make is that as oil prices go up, we see that basic petrochemicals are also going up, which also help us here in Brazil. So raw material sales plus everything else that Pedro commented play into your point.

**Q - Pedro Soares** {BIO 20879952 <GO>}

Yes. That was very clear guys. Thank you for your answers.

**Operator**

Our next question comes from Gabriel Barra from Citibank.

**Q - Gabriel Barra** {BIO 22244309 <GO>}

Hello, Pedro, Rosana. Thank you for taking my question. I wanted to go over two points. First of all the dividend issue. You announced an additional sharing of the dividends. Looking at the company's cash generation, I expected a higher number of extra dividend sharing this year. So I wanted to hear from you, first, what was the rationale behind this figure, and considering the war scenario and how it affects petrochemicals and maybe uncertainty may have weighed on this figure. And from your perspective, what would be a higher leverage ratio for the next year? What would be the potential in that sense?

And the second point looking to the Alagoas issue. There was an increase in your prospect as you mentioned and I wanted to go over three points, if we could quickly go over them. First of all, your cash spread from what has already been provisioned in your opinion, what should we expect for 2022 and 2023 in that sense? And the second, how many of those points are still open and is there any question about what you still have to provision for or how much cash you need for the next few years? And then I wanted to hear from the cavities you mentioned, 35 cavities, 23 or 35 wells and 23 are still being analyzed. If you could give us a figure by well just so that we have a sense of the potential risk in this -- on the Alagoas front? That's it. Thank you.

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

Good morning, Gabriel. Thank you for your questions. About our dividends, Braskem was a part of Petrobras Sales Round roadshow last year. And one of the feedbacks we had was that -- some of the feedback we had was that, it would be interesting to at some point have a repurchase program for the company. And because that program also requires some cash set aside for that program, the route we chose would be to -- was to provide a slightly lower figure, below the highest number, which is about BRL2 million. But we decided to suggest a slightly lower figure just so that we had that option to in the future look into a repurchase program, considering what we believe is the potential share sales potential for the company, so that's the rationale.

And even looking at the ideal leverage ratio, we continue to consider a baseline of about 2.5x. The current proposition will not take us to that level of 2.5x in 2022. So there'd be room for something extra, but as the year goes by, we will see how it will be if we could go along with the same plan. But we don't dismiss the idea of maybe along the year have another moment where we will share additional dividends. So I'd say that from the more conceptual standpoint, we have that leverage ratio of 2.5x at best at the highest point. And then in the roadshow with investors, we had this feedback that we should keep dividend payments regular considering that the company's cash generation is very healthy. So it allows for a large CapEx and to provide a return for investors via dividends and then allowing some room for a repurchase program, depending on how our next months within the company unfold.

Now with regard to our program in Alagoas. The overall provision, if we calculate everything that was done in the past, it would be about BRL12 million. We are already spending BRL4.6 billion. So the BRL7.7 billion, if you add that to the BRL4.6 billion, that comes -- that takes you to the BRL12 billion that we've invested over all. Now about the BRL7.7 billion, how that will be spent, well, BRL4 billion is in -- are circulating is from last year and the rest is from 2022 and onwards. And I'd say that most of that would be spent this year, perhaps then 1/3 and 1/3 and then another third. And about the uncertainty, even considering how we've looked at our provisioning, our allocation is doing really well. We've stayed within the parameters of what's been provisioned so far.

So at this point, we see not -- no significant risk of that changed. Now with monitoring and closing the wells, there was a change in the last quarter, but that was because of a progress in the geomechanical modeling that shows future scenarios where the area is stabilizing. So we already had a robust program to close those wells and we made that even more robust for potential future scenarios for the area's geology. So I'd say it's a very safe program right now.

As for the social and urban programs we've had, the figure remains the same. And now we had a positive sign, a green light from the city to continue. We have not signed any deal yet, but we will now start to put our measures in place or to take the steps that we need. And with that, we also make progress in remediating the situation. But also considering the discussions that we're having, there may be some change, but not a very significant one. And lastly, considering the other steps that we have taken, our environmental assessment has moved forward and that includes environmental measures that were included in our provisions as well.

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So I'd say that today, the main points of uncertainty have been widely mitigated. We can't say this is a done deal and the figures won't change. But we see risks is a lot lower and it was based on the agreement we've had in August 2020. And now especially since the end of last year, I think we have a very solid figure that we've provisioned within what we can see at this point. Yes.

I just wanted to add something about the disbursement that Peter mentioned, as we've included in the presentation, \$4.4 million. We have an exclusive plan below \$1 million and I think that should be considered. And lastly, I think the takeaway message is, if you look at last year's trend, our focus was a lot more in delivering and taking concrete steps. We didn't have any material change in the provisions we had, which only goes to stress the point that Peter just made, which is as we signed those deals, uncertainty has really diminished.

**Q - Gabriel Barra** {BIO 22244309 <GO>}

Extremely clear guys, thank you. There's just one more thing, how much would it cost for each well to be closed. Would you guys have an estimate about that.

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

Well, Gabriel, that would depend on each well because you have different dimensions. So we do not have an average per well. What we have, as you said was wells that are being monitored, and we have sonar devices that measure the internal cavity. So four wells and we have nine within the program to be filled with sand. We have the volume metrics and we have those figures that we have here in the presentation. Now for those that are not being monitored yet, we do not have those figures. We could maybe look into that and maybe bring you something, but we don't really have that figure here with us right now because within what we must do, there are wells that we do not need to close. And some of them are being closed with a different technique where you're not filling them with sand and it's actually the more common. I think that's better to close them with a lid only.

**Q - Gabriel Barra** {BIO 22244309 <GO>}

That was great. Thank you.

**Operator**

Our next question comes from Luiz Carvalho with UBS.

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

Thank you, Pedro, Rosana for taking my questions. If you could guys go back a little bit and talk about the spread discussion and the CapEx and dividends even within the disbursement with the Alagoas program. If we look at 2022, I don't know if all the amount spent in Alagoas was would be made this year? Your CapEx has increased considerably over the last year, and on the other hand, I'm looking here at Slide 23, seeing the level of spreads above the levels of 2016, 2020, so I believe that will have an impact in cash generation. So I just wanted to try to reconcile all of these factors and how -- to understand how exactly that could impact your dividend payments this year. So if we could

maybe round out all of those numbers and tell us how you see your cash generation right now and consequently your dividend payments in 2022?

Now my second question, which is perhaps a more important issue today has to do with the strategic/structural strategy of the company, is going to the market, including the potential for investment on the market, especially in Slide 24 that you have in the presentation where you in a way compare a few of the company's metrics with your North American peers and peers from other emerging markets? And you support your point even by forecasts from us here at sell side. How do you guys see this process? I don't know if this is seen as a setback in your minds. The rejection by shareholders that had a share of your preferred shares, what can we expect in terms of timing and what have you heard from shareholders about a potential investment? Is there any sort of strategy in that sense or do you guys see a shift in strategy for essentially not going to the stock market again, how did you guys see that move?

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

Thank you for your question. It's good to speak to you. Well, about your first question relating to our cash generation and so on and so forth. We have a consensual view for our EBITDA this year of about \$3 billion. A few -- some see it as a bit higher, some as a bit lower, but I just wanted to remind you that we have Braskem Idesa in Mexico, which follows a different step, so to speak, so we need to set them aside. So if we consider our \$15 billion for Brazil a year, the CapEx that we showed you that is \$1.6 billion, includes Braskem, which is about \$1 billion.

So we consider here \$1.34 billion excluding that. So even considering that we have interest and taxes. Historically we have \$0.5 billion to \$2.5 billion a year. So historically speaking, perhaps about \$1.5 billion. But running all those numbers, Braskem is a company that is already really bearing all of its costs on its own even without those investments. So it's a company that generates cash even paying all its strategic investments in its portfolio. And with that, we do see some room even from the cash standpoint and another figure that's important it's our accounting figure. In the accounting space, we see that we do have a positive net profit and a significant one at that.

I have something to say about our net profit in Braskem, which is whenever the domestic currency lose its value, our net debt is ultimately affected negatively, but whenever the currency gains value, we have a positive effect. So if the Brazilian real continues to gain value, we may even see higher net profit for this year. And from the leverage ratio standpoint, we should mention our prospect for the end of the year, which is still below to even considering a reduced EBITDA with dividend payments and all of that.

So again, we see room to pay dividends. Obviously, we have some short-term volatility. We have to see how the year will develop. But as I said in the previous question, we may even have a repurchase program in the near future. So I think we do we do have some room and also the ambition to continue to give back and return capital to our investors.

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

I just have one more question about this figure \$3 billion for this year. I -- with all respect to your consensus, we fear something closer to \$2.8 billion or \$2.9 billion, maybe more closer to the reality. As your visibility improves, do you believe it's closer to \$3 billion or \$3.5 billion?

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

Well, we're not allowed to give guidance, so I can't give you as precise an answer as what you're asking. But even what you're offering \$2.8 billion, \$2.9 billion, you will see a positive a positive result. So the important point here is that Braskem is generating positive cash. Regardless of everything that's happening, we still are creating positive cash. We have a good cash position. We have good debt situation. So in the accounting space that cash will turn into dividends over time. I think that's the main takeaway message here.

Now moving on to your other question with our relationship to Novo Mercado, we're still working on what we have to work. I think the main aspect in discussion now with shareholders are changes to our bylaws. They also need to close the shareholders' agreement amongst them. That's something else they are in discussion now. So we are still working with that guidance following the strategy that two shareholders Novonor and Petrobras communicated to us that they would sell their preferential shares and then other shares as well. So the strategy we're working with is still the same.

There's obviously the market window. The operation in January was cancelled because of the state of the market. And even though there was demand, the level of prices was not in line with expected, so the offering was slashed. But we are still working on going back to the market. But naturally, that would depend on the state of the market. According to the specific issues that you mentioned. That's true there was no approval from shareholders and the company is looking at alternatives, but we do not believe this will become a roadblock, that's impossible to circumvent. We already have alternatives to overcome that snag, and obviously, there's the timing with regard to the shareholders' agreement and the bylaws, but we're still working with those numbers in the first half and with the idea of migrating to Novo Mercado.

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

That's perfect. Okay. Thank you.

**Operator**

Our next question comes from Bruno Montanari with Morgan Stanley.

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

Good afternoon, guys. Thank you for taking my questions. I wanted to follow up on two questions. I know this is a this is a small issue, but I wanted to talk about the PNBs. It's more of a curiosity. These are very negligible shares, so to speak. So what I'm curious about is what would you believe led to them being rejected in Novo Mercado, and considering those alternatives you mentioned, is there any sort of forced conversion and your immigration to Novo Mercado? And how are you looking into improving governance

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for that? And my second question is about your prospects for profitability in Europe versus the United States, considering the spike in fuel prices in the area. And I also wanted to know whether you need to reduce your cash generation because of the high costs -- the high energy costs in Europe? And another question about working capital, in 2020 and 2021, we saw just over \$10 million being and accumulated in working capital. So should we expect a large some of that coming back to the company in a more evident way this year, maybe even contributing to your firepower to fund slightly more robust dividend sharing? Thank you.

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

Thank you for your question. Well about the PNBs, our reading here or our understanding, well, let me be more straightforward. The exchange deal was to have to change the two PNB shares to one PNA type share. And we believe that the PNB shareholders saw that as something that didn't make sense for them. That's how we see that. And we followed what's in our bylaws, but ultimately, they didn't approve that. The rationale was not made clear, during the general assembly. There was only the vote on the ballots in the sense of not approving that -- not approving the plan. Now a forceful conversion I don't think is a possibility. I don't think the law would allow that, but we see alternatives that would actually allow us to migrate to Novo Mercado of our shares. So once again, this is something we can already see and we have a few devices that we could turn to make that possible.

Now about our profitability in the U.S. and Europe and our capacity use in terms of cost. First of all, yes, granted as you said, our cost in Europe is now being impacted and we have a slightly longer term prospect of more uncertainty, but our position in Europe is not as material. We have just over 500 tonnes of polypropylene in Germany. And our European sales amount to about 1.3 million, maybe slightly more in metric tonnes. So what comes from South America or from North America is even larger than the local production. And the rise in fuel costs to enable our production in Europe would naturally lead to a rise in prices to offset those costs, otherwise local producers will not produce. So what we see is, if while on the one hand prices really affect the domestic production, then we have to look at ours. We are operating in very specific markets, we're not as exposed to that. But looking at Braskem at large, so it's not a very material impact.

But there's more room for imports perhaps even adjusting prices because of the reduced supply. Now if prices go up and other conditions remain the same, our imports in other areas still remain with the same costs. So this has to do with local costs in Europe and because our local production with Braskem is very small, we may see even better results than we expected because of that. Now in the United States, what we saw early this year is our spreads have remained unchanged even better than we expected and sales are also doing well. So we have positive prospects in that sense and we have competitive prices and also competitive energy prices. So obviously, the turmoil is always distressing, but considering we work with import parity, our profits are ultimately encouraging in the United States.

Now about working capital, first of all, it's important to understand why it has increased, and the main factor was the higher costs of oil prices. If we look like five years ago, we had the barrel of crude oil at \$50 and now for every tonne of naphtha, it's an increase of

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over \$500. And if you think that our average inventory is two, three, four, five months, you see that there was a large investment in our working capital. Another thing that we did was adjust our policy for raw material purchases, especially for Brazil, and with that we ultimately increase the share of imported naphtha. Now that includes two factors. First of all, the inventory in traffic is higher. So our inventory in ships that are moving to one place or another that has increased. And another thing that has to be considered is in the past we used to buy that naphtha with longer terms for delivery. We still have that possibility, but we've reduced our long-term naphtha inventories. And that has a commercial impact, which because of our cash position, we decided to go for more spot purchases of naphtha, and with that, we ultimately spent more of our resources on that.

Now moving forward, that will -- how that policy is adjusted will depend on prices, but we do not see movements either considering the commercial terms that we have right now. We've already changed, so our stock or inventory in transit won't change. So it's more about oil prices. If it goes up, our working capital may be impacted. If it doesn't, our working capital may even increase because our spending will decrease. But we're not seeing such a material impact that will prevent any of our other investments. We would need a really extreme scenario to say, well, yes, our cash position has been consumed in such a way that we can't make those investments anymore. But that's something we have to recalculate every year.

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

That was very clear.

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

In relation to 2021, Bruno, and stock. If you go back to 2020, we have the second half of the year, demand was much higher than expected. So we closed 2021 with the stock at the lower level. So there was a record position of would be the average stock level of the company because of the high demand at the end of the 2020. So we had an effect on the price, but also as a result of the re-composition of the stock.

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

Thank you, Pedro. Thank you, Rosanna.

**Operator**

Our next question comes from Barbara (inaudible) JPMorgan.

**Q - Analyst**

Good morning, Pedro, Rosana. Thank you very much for taking our questions. We have -- I have two questions, one in relation to the capital structure. It's clear that the purpose of the company is to maintain the leverage within the levels in order to maintain the proper rating. I would like to -- you to clarify how you how you see the minimum cash, what would be the minimum level that would be comfortable for the company in the medium and long terms so that you can maintain this level in cash, and some expectation in relation to liability management to this year and next year as well?

My second question is in relation to the terminal of imports in Mexico. Is that there's an expectation to build in the second half, according to the release. I would like to know how is the progress? How are the licenses going and the partners and how are you looking at the funding considering everybody is going to be onboard with you? Thank you.

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

Well, thank you Barbara for your question. Now about our cash position and our debt position. We have a very clear goal. We want to sustain our investment grade, actually we cover with Moody's, that's one of our targets for this year. And as you can see on Slide 16 of our presentation, our cash position is \$1.5 billion plus the revolving credit facility, which we renewed last year. That gives us a very wide liquidity cushion. Now our operating cash is -- and what we need to operate is less than \$800 million in cash position, that's essentially what we need to operate efficiently. If we consider some fiscal inefficiency, we can even improve that, and we do not have any of any maturity for the next few months. The closest one is 2024.

So we've been monitoring the market and we have a very conservative cash policy, which is to keep it at \$1.5 billion and we are -- in keeping with that our cash position is actually larger than that in the first few months of the year. But our stance, our attitude is to always monitor the market to manage our liability. But if we were to do that, we will go for that 2024 figure. There's no short-term prospectus, there's more of the idea to access the market whenever there's liquidity or when Braskem has the ability to go into a transaction that will be positive for the company. But again, we are in no rush. We do not have that pressure currently and our idea is to always keep our debt profile considering a longer debt maturity and that's what we plan to continue to do.

Now about the Mexico issue. First of all, at the end of last year, the Board approved the investment itself, which would be \$400 million in total. And Braskem Idesa with all its financial capacity to have that investment fully independently, has been looking for a partner, which is why we now have the subsidiary petroquímica de Mexico, which will be the company that will own the terminal and we created the subsidiary precisely so that we had a space for a partner. We are now in the final stages to select the partner themselves. We have a few choices, a few partners to choose from that we're discussing with Braskem Idesa right now. But I'd say that, that selection and our final decision is likely to take place within the next few months. And the ambition is to start construction in the second half of the year. We already have -- we're very advanced in our plans and it's natural to start construction with pieces of that on a plan for construction for later construction.

But the peer has to be started earlier, and meanwhile, you going to more details with other parts of construction. And we're seeing the Mexican government adopt a very positive stance in terms of supporting that investment. And this may well be the largest investment underway in Mexico right now, private investment. And we see the interest in Mexico's government to support that investment within a program by the Mexican government to support their logistics between what they call the Interoceanic Corridor, the structure that they have between Pacific and Atlantic Ocean, and this project falls within the realm of that program.

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So everything is working well and our idea is to have a debt structure that's very strong within a project like this, you probably have 40%, 50% in debt, so an equity of 30% to 40%. So if you start running the numbers, \$400 million CapEx, the equity itself perhaps around \$850 with a partner Braskem Idesa will take on half or maybe even less than that with the debt with a three-year CapEx with an outlay by Braskem Idesa of \$100 million. So if Braskem can support those \$400 million, they can have those \$80 million with no problem at all.

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

This is because as this terminal allows for an importation capacity higher than what we have in the plant, there is a strategic plan to expand Braskem Idesa to capture all the margins and everything. So it's a very competitive project that we have in addition to the terminal and all the context that was just mentioned by Pedro, we have in the agenda to have an expansion that we will have destination for the cash generated.

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

I just wanted to reinforce another point, in December Braskem Idesa paid it's nearly \$400 million dividend and we expect Braskem Idesa to continue to pay Braskem to continue to return those investments over the next few years.

#### **Q - Analyst**

Okay. It's very clear. Thank you.

#### **Operator**

Our next question will be in English and comes from Anne Milne, Bank of America.

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

Good morning or good afternoon. Thank you very much for the call. Congratulations on the results in '21 and the return to investment grade. Several of my questions have been answered, but one I just -- I have two, one is very small and it's just going back to your Alagoas figures for 2021. I see that you have just one item, which is this provision component for BRL1.34 billion. Is this a new addition to your provisions? Or is it one that was previously expected? I know you explained earlier that the total amount is estimated at about BRL12 billion. I just wanted to see if this was something new, and if you have additional items you will add in 2022 or in the in the future that you currently know about, not ones that you don't know about at the moment? That's the first question.

And the second question is just really, it's an ESG related question. It's regarding your greenhouse gas emission targets for 2030, which is a reduction of Scope 1 and 2 and I know you have that in the same box you have your expansion of your green PE production. And so I guess I'm wondering, on the green PE production, will you use that to substitute for traditional PE production? And that's how you -- that will be one of the mechanisms or the main mechanism for reducing your emissions or will it be a series of other measures that I know you're looking at many projects right now that will lead to that 15% reduction? Thank you.

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

Hello and thank you for your questions. It's great to hear from you. About Alagoas, the BRL1.34 million that you mentioned, that is already been provisioned for. So it is within the BRL7.7 billion that we have from December 2021. And in several lines of our provision, this was the largest, which came from the well closing program that was the highest sum, the highest amount. But there were adjustments in a number of lines of our provision and that happens every six months. And those more material changes that occurred late last year were because of how we advanced and modeling geomechanically the Earth. And also we had adjustments and other amounts within the agreement, so there was an inflation-related adjustment. And as we invest those sums, those adjustments will be smaller and smaller.

So there's nothing new really. It's just about more clarity, about the values in our provision. And as I mentioned in another answer, we are a lot more confident about those figures because of the progress we've had in our disbursements and how the case has evolved and also the solidity of the supplementary studies that we've received over the past few months. So obviously, as I said, this is not a done deal a 100%, but we see no item here that could lead to a material adjustment in our provision. And just to stress what you mentioned, yes, that is within those BRL7.7 billion. We have no other figure that has remained undisclosed that we expect to fall within our provision for Alagoas.

Now about your ESG question. First of all, our 15% decrease forecast to 1.2 of greenhouse gases for 2030 that does not include this advance in green polyethylene, that's the Scope number 3. So our target for 2030, it does not include green PE as an alternative or an action toward reducing the emissions. The actions or the steps we're taking is -- are precisely in reducing our current emissions and the energy sources that we purchased from. We're seeking renewable sources as we've done now over the past three or four years. We've been signing different energy purchase agreements with wind power contracts and sun power tracks such as what we had at the end of last year. So what we have as part of our 2030 goals falls mostly within energy purchases and also reducing our internal emissions as well.

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

Okay. Very helpful. Thank you very much.

## **Operator**

(Operator Instructions) We conclude now the Q&A session. We would like to turn the call over to final considerations. You may proceed.

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

Hello. This is Roberto Simoes. It's a pleasure to be here with all of you. I'd like to thank everyone for joining our earnings call. This was a fantastic year for the company and we're happy to share all of our accomplishments with you. We've had opportunities and challenges, but there was also -- there were also very important figures or recurrent issues or recurrent results were very important and we took very important steps to

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consolidate our leadership position within this, which is now a very challenging scenario in our low carbon economy efforts.

With that, I'd like to say that we're still committed to our capital allocation, focusing value generation for all our shareholders. And the allocation of our capital will be mostly first in reducing our gross capital and then in boosting our dividend sharing. We had the opportunity to talk a lot today not only about why we have the level of dividends we have right now, but also talking about our very positive prospects to continue to share dividends in 2022. And then the investments we had the opportunity to discuss more in depth, our strategic investments and also those that are necessary to maintain Braskem's operations on the healthiest levels.

Further about the goals that were set for this year and which have been widely addressed and discussed. It's important to punctuate some of the very important steps or the headway that we've made. As Pedro just said, we essentially reached 97% of the real estate or the properties that have to be relocated. About Mexico, we always say that this is a huge case study. The situation in Mexico used to be really complex and I think we were able to reverse 360 degrees. It is now a solid company with a completely redesigned debt payment profile, the ability to provide to Pemex with a very significant prospects for the new terminal that's underway.

And the third point, our ESG commitments, which have been disclosed widely as well. And the new green PE plant and also mechanical recycling plant in Sao Paulo, and also the commitments we've made, which -- many of which will materialize in 2022 in Brazil, but not only in Brazil, and despite the volatility we currently see in the international scenario. By virtue of the conflict in Ukraine, the focus is still the same in the company especially to provide dividends to the company and to focus on our ESG plans and recycling, most importantly. We also took the \$1.35 million rise investment that we've already taken to the general assembly.

So once again, I'd like to thank you for joining us and I hope to see you in a few weeks when we will be disclosing the earnings results for Q1 2022. Thank you.

## Operator

Conference call of Braskem has come to an end. We would like to thank everybody for taking part in it and thank you very much for using Chorus Call.

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