

## Q3 2021 Earnings Call

### Company Participants

- Pedro Freitas, Vice President of Finance, Procurement & Corporate Affairs
- Rosana Avolio, Director of Investor Relations
- Unidentified Speaker

### Other Participants

- Bruno Montanari, Analyst
- Christian Audi
- Gabriel Barra
- Luis Carvalho
- Pedro Soares

### Presentation

#### Operator

Welcome to Braskem's Teleconference to discuss the results concerning the Third Quarter of 2021. We have here with us Mr. Roberto Simoes, CEO; Pedro Freitas, CFO; and Rosana Avolio, IR Director. We inform that this meeting is being recorded and all participants will be in listen-only mode during the Company's presentation. Then we will begin Q&A sessions when further instructions will be provided. (Operator Instructions)

This meeting is being transmitted simultaneously via webcast and you can access it at [www.braskem.com.br/ir](http://www.braskem.com.br/ir) where the presentation will be available. The slide selection will be controlled by yourselves. The audio will be available at the end of the meeting and the participants of the webcast may register their questions via the website and the questions will be answered at the end of the conference.

Before proceeding, I would like to clarify that any declarations that may be done during this teleconference relative to business perspective from the company, projections, operational goals, financial goals, our beliefs and premises of the company and based on current available informations, future considerations are not guarantee of performance and include risks, uncertainties and promises and they depend on circumstances that may or not occur. Investors and analysts should understand that general conditions and other operational factors may affect the future results of the company that may lead to results that are different from those expressed in such future considerations.

I would now like to give the floor to Mrs. Rosana Avolio, Director of Investments, that will begin the presentation. Please go on.

## Rosana Avolio {BIO 20386863 <GO>}

Good morning and thank you for participation on this conference call. We will present our results for the third quarter of 2021.

Let's go to slide 3 with an overview of the petrochemical industry in the quarter. In this slide, we show the spread with the biggest impacts on those case business since together they represent two-thirds of our global production capacity in thermoplastic resins. In the third quarter, petrochemical spreads remained at high levels and above the up cycle of the petrochemical industry compared to the 3Q '20. The spreads widening -- widened significantly with the three spreads shown on the slide increasing at 120% mainly due to global supply chain constraints related to impacts from natural events, closing of ports to contain the Delta variant in Asia and global container shortage and associated rise in freight prices.

Now on slide number 4, we will comment the consolidated results. In the third quarter 2021, consolidated recurring operating result was around \$1.5 billion, 17% lower quarter-over-quarter. This result is mainly explained by the lower international spreads for resins in Brazil, PP in Europe and for PE in Mexico but which still remain above the average of the last 10 years, which were partially offset by higher spreads for main base chemicals in Brazil and for PP in United States. When comparing the results with the same period last year, the company represented 261% increase considering the operational result in dollars. The higher profitability in 2021 can be shown in recurring operating margin, which reached 31% and in the first nine months of 2021, an increase of 15 percentage points as compared to the same period of 2020.

Now the next slide, we will comment the net income in the 3rd quarter '21. Braskem reported net income of around BRL3.5 million. In the -- by September 2021, Braskem reported net income of around BRL13.5 million and it's important to emphasize that in December 2020, the company had accumulated losses of around BRL4.5 million. By the end of September 2021, it reversed this accumulated loss to an accumulated profit of around BRL8.9 million.

Now slide number 6 highlights of the Brazilian operation. In the third quarter, the petrochemical complex in Brazil operator capacity utilization rate of 79% 3 PP above the second 2Q '21 which is mainly explained by the restarting of the petrochemical complex in ABC after it had been halted in the industrial contracts. Still, the green ethylene plant operated at a utilization rate of 106% to set a new quarterly historical record.

In Brazilian market, resin sales increased in relation to the second quarter and in line with the strategy to prioritize a local market, thus gains market share in domestic resins rose to 64% 12 PP higher quarter-over-quarter mainly due to the rest starting of operations after the scheduled general maintenance shutdown at the petrochemical complex in ABC Sao Paulo. In this scenario, Brazil delivered recurring operating result was up around \$828 million, which represented 55% of the consolidated recurring operating result.

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Now next slide, we will cover geological event in Alagoas. The graph to the left shows the balance of provisions related to the geological event in Alagoas in the third quarter of 2021, which ended the period at around BRL7.1 billion. The chart on the right shows the disbursement schedule of the total provisions of BRL7.1 billion, around 68% was recorded under current liabilities and 32% under non-current liabilities. It is important to mention that the company cannot predict with certainty future developments in respect of this matter or its related expenses and the cost to be incurred by the company may be different than currently estimated or provisioned.

Moving to the next slide. Still in the context of the geological event in Alagoas. We will focus on advances in the financial compensation and support for relocation program. Braskem continues to make progress on its relocation and financial compensation process of the families in high risk districts of Maceio. As of October 31st this year, the number of families reallocated was 13,986, which means 97% of families have been allocated from the risk areas reinforcing Braskem's non-negotiable commitment to the safety of the families located in high-risk areas. Furthermore, the number of proposals for financial compensation submitted increased by 26% with the acceptance rate of the proposals submitted remain at high levels. Regarding the payments made under this corporate program around BRL1.6 billion had been made by the end of October 31st, 2021. And this values considered -- the values is disbursed at the start with the program.

Now slide number 9. On the slide, we will present the main highlights of the US and Europe operations. In the US, there was a reduction of 4 PP resulting in 94% usage rate. In Europe, utilization rates also fell by 4 PPs on the prior quarter. Despite the declines in both regions, capacity utilization rate remained above the industry average.

Moving on to sales performance. The US registered 442,000 tons that represents a drop of only 2% as compared to the previous quarter. The region registered recurring operating result ended 3Q '21 was \$519 million representing 34% of the consolidated result of the segments of the company.

Now, slide number 10, we will be talking about highlights Mexico. Mexico operated at utilization rate of 68%, 10 PP increase as compared to the second quarter '21 which mainly reflects the higher ethane imports from the US under the Fast Track solution, which offset the lower ethane supply from Pemex. In relation to sales, it increased 3% quarter-over-quarter explained by the higher supply of product for sale. Given the higher utilization rate, Mexico's recurring operating results in the quarter was \$182 million corresponding to 11% of the consolidated result.

Moving on to slide 11, we will talk about Fast Track, which has been important to increase the raw material supply in Mexico. In August, Braskem Idesa concluded a project to expand imported capacity of Fast Track, which currently stands at 25,000 barrels per day. As a result in September, import volume reached a record high of 22,400 barrels per day. In the third quarter of this year to complement the supply of the ethane by Pemex, Braskem Idesa imported 18,600 barrels that represents 74% of Fast Track's current capacity. The company also is working on further expanding capacity of the Fast Track solution that involves the incorporation of additional loading stations which could enable

Braskem Idesa to reach maximum ethane import capacity of 35,000 barrels a day, and expectation is that the conclusion of the second quarter.

In the next slide, we will talk about Pemex and other Mexican government entities.

## **Pedro Freitas** {BIO 21187627 <GO>}

In the past months, we achieved important progress in situation of Braskem Idesa as already mentioned. Braskem signed an amendment to the ethane supply agreement with Pemex that change the minimum volume commitment to 30,000 barrels a day until the start up of ethane import terminal, which is expected for the second half of 2024 or the deadline of February 2025 which may be extended if there are any delays in licensing and permits. The amendment also gives Braskem Idesa first refusal rights for acquiring all ethane that Pemex has available and does not consume it on productive process through 2045 at prices based on international references.

Braskem Idesa also signed an agreement with Pemex and other government agencies that establishes measures to support the construction of an ethane import terminal with the capacity to meet all the feedstock needs of Braskem Idesa. It is important to note that Braskem Idesa has already obtained the applicable corporate approvals including final approval by shareholders and creditors for both documents, i.e. the amendment and the terminal agreement.

Turning now to the next slide and still on the Braskem Idesa deal specifically about debt profile of our operation in Mexico. Braskem Idesa has concluded its debt refinancing plan by replacing the remaining balance of \$1.35 billion of the project finance platform with new debt under a corporate format with an extended maturity profile, which effectively extended its average debt maturity to nine years with the settlement of the finance project that guarantees pledged by Braskem to Braskem Idesa to the total amount of \$358 million.

The new capital structure includes the issue of securities with a commitment to an interest rates linked to targets for reducing CO2 emissions in line with the company's long-term sustainable development strategy. This means that Braskem has met its goals set for 2021 of negotiating a final amendment with Pemex and the expansion of its ethane import operations and also through BI, the company reaffirms its commitment to Mexico, their local petrochemical industry and to the plastics converter industry through its continuous efforts to increase the supply of raw material.

Turning to the next slide now where we will address cash flow generation. The company presented a positive operating cash flow to the tune of BRL3.9 billion, setting a new quarterly historical record for the company. The main positive drivers were the strong recurring operating results and the monetization of PIS/COFINS tax credits in the quarter. This positive factors were partially offset by the negative variation of working capital, interest payments on bonds, income tax and social contribution payouts and also the consumption of operating CapEx.

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Moving on to the next slide, we will talk about the company's debt profile. At the end of September, Braskem continue to maintain a very long debt maturity profile and strong liquidity position with maturities concentrated in the long term. The average that term was around 15 years. Note that the liquidity position now is enough to cover the payment of our liabilities coming due over the next 75 months.

Turning to slide 16, we will address the company's leverage ratio. In the quarter, Braskem continue to reduce its corporate leverage and has been presenting solid credit metrics. It's leverage ratio in US dollars ending the quarter at 0.8 times which is Braskem's lowest leverage ratio ever posted by the company. Braskem reiterates that it maintains a robust cash position, a very long debt profile and is committed to efficient capital allocation and cost discipline.

Over to the next slide, please. During the quarter, we had a very important acknowledgement by the credit risk agency S&P which upgraded the company to investment grade level. The agency also highlighted the considerable improvement of profitability indicators of the company and also those related to cash generation and also the company's commitment to reduce its corporate leverage. Braskem is also holding regular conversations with Fitch and Moody's to keep them updated and its corporate credit risks. I should also note that Braskem's credit rating is higher than that of Brazil's sovereign credit rating and that with the upgrade by S&P, we are nearing the risk levels of US petrochemical companies.

Going now to slide number 18, we will look at our ESG highlights. Let me start speaking about two important projects at Braskem. In September, we signed a MOU with SCG Chemicals for conducting feasibility studies for a joint investment in a new ethanol dehydration plant in Thailand in order to produce bioethylene and I'm green biobased polyethylene. If implemented, the unit will be located in Thailand at the petrochemical complex of SCG Chemicals and go as far as doubling the current production capacity of I'm green biobased PE. Braskem will contribute what its technology and know-how in ethanol the hydration process and its experience in marketing I'm green biobased PE while SCG Chemicals would use its PE units and production expertise to generate the green resin as well as with its knowledge of the Asian polyethylene market. Also worth mentioning the investment is subject to the conclusion of those feasibility studies. The Braskem and SCG chemicals reaching a modular limit and to obtain the required regulatory approvals.

In addition, at the beginning of this week, we announced the MOU segment signing with Lummus Technology for the joint licensing of Braskem's green ethanol technology conversion of ethanol to ethylene to two projects in different regions in the world displaying a global interest in said technology, and they are one project under development in North America and the project under evaluation in Thailand, which I have just mentioned. At the same time, both companies are discussing a long-term agreement for Lummus to license Braskem's green ethylene technology as a way to accelerate the use of renewable feedstocks by the clinical industry worldwide thus contributing to mitigate climate change through the conversion of carbon from the atmosphere into plastics.

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Moving now to the next slide, please. Braskem has recently formed a partnership with Ecovale to reinforce its supply and management program based on analysis of ESG criteria. The Ecovale is one of the largest (inaudible) classification companies in the world for global supply chains and this new partnership will engage suppliers in ESG topics and make Braskem's supplier evaluation program even more robust.

Moving to slide number 20 now, please. A few weeks ago, we were honored for the achievements in our circular economy efforts. Braskem was acknowledged by Bloomberg as the best company in the circular economy amongst plastic producers. That recognition further increases our responsibility and drives us even more to keep seeking out new initiatives to drive the circular economy. Bloomberg circular economy ranking monitors the sustainability strategy of the world's largest Fast brand owners and manufacturers in the world and assesses their achievements, ambitions and quality of information provided to the market.

Next slide, please. Another important acknowledgement of Braskem's efforts came from the High Commissioner for Human Rights and the UN and from the UN Global Compact, which recently recognized the company where the company's practice is to uphold human rights in its business activities. In the case of Braskem, two case studies were selected. One, related to social responsibility and human rights and the other relative to public report on human rights.

Moving to the next slide, please. We will talk about yet another important acknowledgement that the company received. Braskem was elected one of the best companies in the world to work for according to Forbes Magazine. The rank is made up of the best employers in the world and over 150,000 people were interviewed. Among the criteria assessed, we can mention the positioning and the company's concerned with impact on environment, efforts to develop new talent, social responsibility and lastly, diversity. Braskem which is only one of three Brazilian companies that participated in the ranking from among 750 participating companies improved its position by 6 places when compared to 2020.

Now turning to the next slide, we'll be talking about the scenario in the petrochemical industry. Based on the latest forecast by consulting firms, spreads for the base chemicals are expected to remain above the recent historical average in 2022. Among the main chemicals, one of the highlights is due to (inaudible) who spread in the third quarter exceeded \$1,200 per ton driven by strong domestic demand and that was not followed by higher supply.

Slide 24 now, we will talk about the scenario for polyethylene and PVC. Similarly to what was observed among the base chemicals in the previous slide, external consulting companies are forecasting PE and PVC spreads at levels above the recent historical average for 2022. I should mention that if the scenario actually materializes for naphtha and gas base PE spreads, this would represent an extremely favorable scenario for petrochemical producers even if to a lesser extent than what was witnessed in 2021.

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Now turning to slide 25, we will comment on the scenario for polypropylene. As for polypropylene spreads, according to external consultants the US should remain the most profitable region which spreads remaining above the recent historical average.

Moving on, we'll talk about the outlook for the short term. In the case of Brazil for the fourth quarter, Braskem expect an increase in ethylene production with a ramp up in feedstock supply in Rio as to sales volume despite the lower seasonality an increase in total sales volumes is expected and maintenance of the prioritization strategy to serve the Brazilian and the South American market. Polyethylene naphtha-based spreads should remain above the recent average while polypropylene and PVC spreads should expand. In United States, the expectation for sales volumes should remain in line despite the lower production in the period for polypropylene and the spreads for polypropylene they were should remain in levels above the recent historical average.

Lastly in Mexico, despite the expected decline in the production due to the scheduled maintenance shutdown the expectation is for sales of polyethylene to remain in line with the prior quarter given the supply of the product in inventory, which is put together over the recent months polyethylene, ethane gas base in the US should remain also above the recent average.

Moving on to the next slide. In this slide, we can see that the Braskem remains as an interesting investment opportunity in the global petrochemical industry. Despite Braskem's many important achievements over the recent period, it's multiple remains discounted when compared to other peers.

It's important to mention that Braskem is a global company with characteristics, which are similar to those of its peers in the US such as well-diversified feedstock profile, leadership position in the markets where it operates among others. In addition, in 2021 Braskem delivered profitability and credit metrics above those hosted by the average peers in the US as can be seen on the slide.

In the year-to-date up to September, Braskem's recurring operating margin and net margin of the company were both higher than the average of its US peers. And with respect to corporate leverage, we have an indicator of net debt over EBITDA above below -- rather below that of the peers in the same region.

Moving onto slide 28 to conclude the presentation. On this slide, I'd like to recap the company's main priorities for 2021. The two main priorities are concluding well two of them have to do with conclusion of the processes related to the geological phenomenon. I mean, Alagoas and reaching a permanent solution for reliable supply of ethane to Braskem Idesa. Both France continue to advance an important steps towards a conclusion. Braskem remains firmly committed to its financial health and to the efficient capital allocation with the objective of the reassigned as an investment-grade company. Another priority is strengthening Braskem's public image and reputation.

On the innovation and digital transformation front, Braskem's priorities are improving the effectiveness of its innovation actions and accelerate its digital transformation.

And last but not least, Braskem continues to make progress in implementing its ESG commitments with the goal of becoming a main industry reference of benchmark in the sector. Lastly, we would like to reinforce that safety is and will continue to be a key focus of Braskem's operations. It is a perpetual and non-negotiable value of our strategy.

This concludes our presentation for Braskem's Q3 results. Thank you everyone for your attention. And now, we'll move to the Q&A session.

## Questions And Answers

### Operator

(Operator Instructions) Our first question comes from Bruno Montanari, Morgan Stanley.

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

Hello, thank you for the question. I have one question, actually two topics about capital allocation. In view of the sharp deleveraging of the company and positive numbers, I'd like to understand across dividend payouts and investment opportunities. As for dividends, the expectation that you have in terms of timing, announcement, what goes in the mind of the company's controllers around the payout of dividends. And also in terms of investments, if you have already concluded much of what you had to do some of the projects you've listed are quite interesting, but I'd like to understand if you could perhaps list, aside green PE what other sizable investments are you thinking about in the US, in Mexico, in Brazil, what can we expect in terms of that pipeline going forward? Thank you.

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

Hi, Bruno, good morning. Thank you for the question. It is a pleasure to be able to talk to you all investors and analysts during today's earnings call. That question does make sense. We have been talking about capital allocation as an important topic coming from that and of course the strong cash generation brings about the question. And as you said, we have been working extensively to reduce debt and then we have two other levers to allocate capital as you mentioned.

I'll start with the dividend question today as is. We do not have a pipeline to invest in sight. So our investment perspectives, talking about investments, right? We do not have a new polymer plant in the pipeline just as we have in Mexico and the US. We do not have a sizable investment like that in the pipeline today. A project like that would take two years to be completed. It's something what that worth to be part of our pipeline and again there is nothing in sight. This would be happening in two years, three years' time.

Where we do have investments under development. They include two areas, renewables. We have announced an MOU. It's an MOU based on a steady for a new plant of green ethane in Thailand as it was mentioned but this study will lead to an investment decision going forward down the road. But it's a lower investment level. For this case, it would be a lower level of investment and again low visibility so far. But when we look at renewables, which is the company's investment focus, there is nothing in the short run, just to be sure.



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And what we call circular economy which includes recycling initiatives, mechanical and chemical recycling, we do have short-term projects in the pipeline, still being matured. But as for those investments again, we're talking about investments to the tune of 10s or 1000s of dollars, and if you combine the whole portfolio for renewables, maybe a couple of \$100,000 dollars in the coming year. So nothing really material in that sense.

Another investment which become public is the ethane import terminal in Mexico, but that's an investment made by Braskem Idesa which is not directly linked with capital allocation of Braskem. So again, when we look at investments just to reinforce, so investments which are not that material for the coming two years and then after that, we couldn't have something more material in the renewables lines. We will maintain a life portfolio for recycling, but at a lower level of investments and the investment in Mexico is local.

So when we look at the available cash volume on the financial position and a lower leverage level, it is only natural that we will have room to allocate that capital and also talk about dividends. The company has been actively surveying possibilities of dividend payout in the short run. We do have a dividend payout policy that requires a prospective analysis of the situation. We are now fine tuning the numbers. We intend to use the same numbers that were in our budget. And then we have also an alignments of taking back to the Board of Directors very soon.

So our proposal we will follow on the dividend policy in terms of the leverage level and so on. It is a dividend proposal, which has not been consolidated yet. It's a still a work in progress, but I hope to very soon be able to take that proposal to the Board level, maybe weeks or days.

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

Perfect, thank you.

**Operator**

Our next question comes from Pedro Soares, BTG Pactual

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

Good morning. Good morning all. I have a follow-up on the previous question. If you could talk about the dynamics that you've had and also about what we talked on the last quarter that was sort of an informal data on leveraging, is there a perspective as you mentioned in terms of business in the medium run? Do you see any risk for this spread dynamics to become normal in a quicker way so that you may postpone or reduce what you expect to pay in dividends?

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

Pedro, this is Rosana. Good morning. Could you repeat the question because the sound is really not good enough.

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

Of course. Can you hear me now?

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

Yeah, it's better.

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

The question was a follow-up on the previous question on dividends trying to link that not only to the leverage position that you mentioned in the previous call. In the market, the current situation of the company would enable you to pay a lot with all this cash generation that we saw. But if somehow the spread dynamic normalizing and you have mentioned that somehow you expect in relation to business plan in the medium run, is there any risk that the spread dynamics -- that there is a postponing of this dividends that you thought off in the previous quarter, maybe we could talk about next year.

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

We -- the scenario that we see ahead has been sustained that next year we will have results that will be very good historically speaking but, of course, less than this year because of the scenario, petrochemical scenario and the spread perspectives that we see from the specialist in 2023 lower position than compared to 2022, according to the specialists.

I would say that our view of future has not changed. We have maintained a favorable perspective. Of course, the result not as good as this year, but a favorable result for the coming years. This dividend analysis is aligned with the policy and when we assess different scenarios, it's not one single scenario. You have to remember that Braskem has, if you look at the net profit, it's BRL14 billion, but we have to absorb the losses of last year. We have to have legal reserves that came to zero because of last year, and we have an analysis that is being done of how much we can pay because we have to absorb the issues of the previous year.

We also have to remember that the company has a precedent of distributing the anticipated dividends. This was done in 2017, and even in that moment, we did not distribute all the net profit beforehand. What we have here is an analysis that we will follow the policy plans, but the scenario has not changed considering that we have a few years back, materially speaking. And most likely it will follow the precedent of 2017 of having a reasonable distribution anticipated in a second moment after the General Assembly will complement. This is also subject to the conclusion of this analysis and to the approval by the Board.

**Operator**

Our next question comes from Luis Carvalho, UBS.

**Q - Luis Carvalho** {BIO 15116702 <GO>}

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Thank you. Thank you, Pedro; and Rosana, thank you. Basically I have a few questions. Pedro, if you could go back to this dividends issue following the first question also, you don't have large projects or large increment to the near future that's what I understood, and obviously even in this scenario of the spreads slowing down a little bit, could you maintain a cash generation that's quite robust? So the idea is that this cash up sum that would be -- that would come back via buyback or dividend, something in that sense.

And second, if you could provide an idea of the increase of the US to Braskem, they have recently announced an agreement with you -- I mean, Braskem Idesa incrementing that offer. Could you give more details on that? And if I may one last. I don't know how much you would be able to add to that. But anything new, any additional demand from the controller for the company's management that may indicate a type of movement from the standpoint of marketability, liquidity of the company. Thank you.

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

Good morning. Thank you for your questions. Yeah. This cash summing up is probably to pay dividends. This is that we have mentioning -- been mentioning. There is one other point that we have on the weather which is Braskem because of COVID in 2020 did small investment. And from this year, it was postponed for next year. So you have a backlog of maintenance investment. But this is not so important materially speaking to be done. There is a difference I think the portfolio of investment that we announced for next year. Maybe we will be bolder in this part of investment and plant maintenance to have a catch-up of what was not done last year and what was postponed from this year too, but nothing material for discussion as far as capital allocation is concerned. So that's a natural revenue.

In regards to in 14 ethane from the US, the imports increased and at the end of second Q and third Q, we extended the capacity of importing ethane from Mexico. It's around 26,000 barrels a day. And the expectation we have throughout this next half is to expand even more this capacity to 35 million barrels a year. Since we used 66,000 a day, we are talking about half of our feedstock that will come from Fast Track and the rest from Pemex. We have reached -- we have operated at 100% in October, but the average was 75%. If we compare to the third quarter, this one was 68%. From 68% to 75% quarter to quarter, we have a perspective in the next six months adding the change that was done with Apex. So with the agreement was there is no capacity. Expanding the Fast Track capacity, we think that we could reach 100% of use in a recurrent way after the second half of next year. And obviously this projects have to be finished but we have a track record that's important on expansion and showing that this expansion is feasible and it's safe, we've been doing that with safety that is key for us.

So, I would say that we have had success in that strategy and the definitive project of import will take about three years to stand and we hope to have a final decision of investment soon in a few weeks to be able to close this design, but we expect to soon have an investment decision in the definitive terminal. But that would take about three years to be ready and the advantage of it is first, cost, reduces costs; and the second advantage is risk reduction because of course to transport raw material by truck, although we do this in some places, you put a pipeline. If we use a pipeline, it's much safer. So, this is still ongoing but the imports have should be very interesting.

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On management and the controller, we did not have any demand. No action from the company was demanded. For now, we are waiting. The company knows through the papers and the announcements that were drawn by Petrobras and Novonor that they are interested in assessing the sales of their participation. There are many ways that this can be done, be it in auction or transaction. So as far -- as much as possible and reasonable, the company would not have unproportionated cost. We are getting prepared, understanding how the process will go in M&A or in share prices, what's in the scope of the company can be done. We have tried to anticipate in a reasonable way with nothing very extensive being done and expecting the decision on what's the avenue to go through because we don't have that is yet.

**Q - Luis Carvalho** {BIO 15116702 <GO>}

And just going back to the second, when do you intend to make public your five-year plan. And in this plan, are we going to have more details for this definitive process of imports, CapEx? Are we going to have this whole scenario?

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

Usually what we make public is the CapEx number a year -- in the beginning of the year. Within the budget, maybe March next year, something like that, but again the parameters are the ones we know. In 2020, we invested \$200 million less in maintenance. We always say that we invest around \$500,000 million, \$600,000 million a year and that was not recovered in 2021. Hence, we can expect for 2022, as I said, strategic investments should not be much -- very much material.

So you can think 500, 600 plus 210 (inaudible) plus some strategic investment. So far next year, it will be around that. And in the other years, that catch-up will have been done so with drops. This is what we see.

We will have our

And there, we should talk more about the business strategy, more information. I invite you all to participate. But there, who have more information on that?

**Operator**

Our next question comes from Gabriel Barra from Citibank.

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

Hi, Pedro, Rosana. Thank you for taking my question. I have a few questions. I will start by Novonor. One of the thing is that got my attention was the material fact about the compliance and auditing committee. As far as I can see and understand, that is a mandatory issue right. Looking from that point of view, how would that migration process be to the Novo Mercado? As it was said in the media, there were other options of migration to the Novo Mercado. So in addition to that Audit and Compliance Committee, what else would need to be done for that migration to happen and how long would that take?

Also, I'd like to understand in what concerns Mexico things that we're going to be decided concerning the ethane contract. Those are already passed waters but looking forward, I'd like to have some more color on the operational front. I'd like to understand about the margins taking into account the higher capacity that you have now, vis-a-vis what you had in the past and we explore that in the presentation, that capacity expansion and also having in mind a slightly higher raw material price. How do you address that equation?

Those are my two questions. Thank you.

## A - Unidentified Speaker

Hi, Gabriel thank you. Two good questions because they allow me to elaborate a little more. Those changes can happen at the governance level and which are very relevant changes. And also allows me to talk about the future of our operations in Mexico. About -- Braskem created a Compliance Committee back in 2016. It's part of the Board and it's a statutory committee made up of three independent members, and we had been discussing changes and also incorporate an audit committee. Braskem to meet US law, the Audit Committee was called the Fiscal Council before for the purposes of the SEC requirements. We are now at the level one. There is no requirement for an Audit Committee at the level one, but as you said, the best governance practices and the Novo Mercado require that we have an audit committee. So we have converted the compliance committee into a compliance and audit committee, and this committee will meet both US legislation. so it will of course meet SEC requirements and it also meets the Brazilian legislation.

So we are following all the requirements of the -- for the Novo Mercado and we now have an additional two members. They are external independent members, and we are external specialists that now have joined the compliance and audit committee. So it is a very relevant change in our governance structure. It takes to the Board level a whole different view in that it strengthens our governance structure and of course has a consequence on the way we announce our results. This was already in place, but now it has been formalized.

So this was a change which was instrumental, I'd say, and we are very, very satisfied with the results and we are very happy that this was approved by the shareholders meeting a few months ago. We of course selected external members. We resorted to a head hunter or head hunting company to help us there on that, and we are quite happy to announce that and we are now able to implement the audit committee.

Another important change that we carried out at the same time but as it does not affect our bylaws or General Meeting law rules that's why we didn't highlight it, but it has to do with our communication strategy. Now we have communication strategy plus ESG matters. So that committee already had oversight powers over all ESG topics that touch upon the company but we had conducted a GAAP assessment and we thought it was important to formalize the creation of that ESG committee at the Board level to make it more formal, more systemic.

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So we are now actually assessing a GAAP which was assessed. There is part of ESG rating agencies which are external to us, of course. We expect that those two changes will improve our governance assessment on the part of those third-party agencies. And that, of course, all falls under our macro objective which encompasses improving our internal governance.

So as for that change, as I said, it's part of a larger scope to improve governance something we started years ago. It is a very important step that we are taking and we expect to reap the benefits in the short run. As to the migration to the new market or the Novo Mercado, in the past we had already addressed that. There were a couple of changes in the regulation. It might be slightly outdated but we know it is a process that will take about two months or three months. We need to submit protocols to the Brazilian SEC or CVM as we call it. And right now, as is we are not actively considering migrating to Novo Mercado but based on what you've seen in the news, we are of course updating our understanding of the process. So the forecast is what I said from two months to three months.

Before changing gears, there is something important to address, Gabriel, in the way you put your question. You combine the shareholders move with this decision on the part of the company, but one thing doesn't have anything to do with the other. As I said, Braskem has been assessing that for some time, adopting a -- an audit committee. That's something done by the company which was course approved by the shareholders during a General Meeting in July, but this was something that started at the company level to improve our governance.

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As for Mexico, your other question, I think when we talk about Mexico we are changing. We are going to a new level. It is a large transformation in the way we operate. So your question is how does the operation remain going forward. So we have not only amended the contract with Pemex, we now have a commitment to have an import terminal to import raw material. And with that, we'll have an alternative for a supplier alternative as it were. And that also entails a change in the capital structure at Braskem Idesa. When we operate with project finance, it's always something very complex. There is a series of reserve accounts, guarantee accounts and we have to use our cash in a cascading manner. We have a fiduciary agents working on the custody of the company's resources. Very low flexibility in terms of financial management. So the refinancing that through project finance is also fundamental in simplifying internal management for Braskem Idesa. It extends our debt profile, which was before at nine years, which is much more in line with the petrochemical cycle. So that also helps improve our financial health. We are going to a different level as I said. So it turns the company into into a company which is much more connected, much more in line with what is expected of a petrochemical company. It also changes the cash flow. We now can see now -- we now foresee the possibility of paying out dividends, something we didn't have before. We always counted with long-term dividend payouts but we do not have amortizations in the short run. So now, we have an opportunity for that. So the possibility now is real whereas before it was not. So it is a real transformation. I could say it's a new company that we have in Mexico under this new capital structure.

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And now to your point about the operation going forward, import freights or import costs are \$170 per ton, \$170. So that falls within all the spreads between polyethylene and ethane. And as fixed cost and CapEx have already been paid for by the previous operation, each new percentage points coming from production, each additional ton of production, we only be (inaudible) the bill for variable cost. We'll be paying the freight. But on the other hand, fixed costs have been amortized, CapEx has been amortized. So that's pure cash flow.

As I increase the operational rate at Braskem Idesa, we are able to extract all of those benefits. And with that, Braskem Idesa which is already one of the most profitable assets we have will become even more profitable. That number, \$170 per ton, that's what we have in our radar until the terminal is ramped up. After the the terminal becomes operational, that number tends to drop. So there is a downtrend for that figure as well.

So I think Braskem Idesa just to address another point that you mentioned not only does it have to reach a 100% usage rate, but in the past you saw that rate plants can work at higher levels. We are now designing it to operate at 125% of capacity. If we have to, we could invest at the plant level to increase the cracker production level because the polyethylene plants have already shown production capacity way above 100%. So that would have -- that would be an investment of very, very high returns as the terminal becomes operational. That's something else to be kept in your radar. Thank you.

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

Thank you for your answer.

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

Now I'm going to read a question that we got from -- through the webcast. I will translate a question that came from (inaudible). Thank you for your question. He asks about the IT in relation to the last conversations with Fitch and Moody's in relation to ROI. And he asks whether this expectation in the short run, in the context of commodities and the expectations of the future spreads, if that changes anything in our expectation on ROI.

Thank you (inaudible). So talking about the discussions with the agencies. First, I would like to reinforce some points. We had a downgrade from the agencies in the second Q 2020 in July last year. From then on, we did a huge exercise. If we go back to the gross debt, it was \$8.7 billion. We are closing with a gross debt \$6.3 million in this third Q. So only from that standpoint, we reduced almost \$2.5 billion. Net debt also in the second Q 2020 it was \$6.3 million and now we are closing with \$4 million. So it was an excess as the company is reducing the net debt in \$2.3 billion and leveraging reducing importantly, reaching the lowest position. So we're bringing this variations because in the end of the day the figures fixed by itself -- by themselves. And when we look at the expectation forward, we are in a moment that's very simple, very strong spreads, but the expectation is positive and again the company is doing an exercise of reducing to be prepared for any cycle turn. So we have been talking with the same agencies in a recurrent way with Fitch as well as with Moody's, and we do respect all the work they do, but yes we do believe that our investment level will come back.

And in relation to leveraging and comparing to the average of the most important players of the industry in the US, making this comparison, the company has our credit profile that's quite positive. You would have an insurer leveraging as compared to the average of partners. This is one more argument that leads us to have this confidence in recovering this investment level in the short run. In September, we had this change. We have been talking with the agencies and of course we respect everything that the agencies do and we are sure that we will recover this investment level.

## Operator

Our next question comes from Christian Audi, Santander.

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

Thank you. Pedro and Rosana. I had a few questions. First one, have you had deleveraging that was so strong? I wanted to understand to what extent do you believe that it's healthy. What level do you want? Could you give us a figure? And I have other questions, operational questions if you could detail a little bit. I know Rosana mentioned something, but could you talk first about the demand per region, not only for the next quarter but for next year.

And the last question is if you could make it clear that 3Q 2021 was a record for the spreads but historically, what's going to happen? So if you could just give an idea of what level you expect those spreads in 2022 as against 2021?

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

Hi, Christian, how are you? Thank you for your questions. In relation to the indebted level, we today are at a low level of leveraging. We have two assessments that we do regarding that. One of them is the assessment of the number of leverages. We have as reference internally for a cycle mean around 2, twice the net debt per EBITDA and we can reach 2.53 as happened last year. So we know that in the cycle lowest, it lowers also. And in the mean level, around 2 is what we have as a reference. There may be variations, but it's one we have. So today it's quite low. We know that we have to change this. Another number that we have as reference is a historical mark of net debt that we have. There is a slide in the presentation number 16 that shows the historical net debt since 2020. It's not long history but our net debt is around \$5 million more or less in a very stable way. So we believe now with the operations, the number may be even higher but if we look at \$5 billion in net debt, we closed this quarter at 4. So we would have a buffer to improve the net debt.

And now we talk about capital allocation again. We have quite a few million, at least \$1 million to adjust and we believe that that's something that connects well with that discussion for capital allocation. In relation to demand, we have a GMP view. We use analysts and other experts. What we see is the market talking about 1.2% for next year. The demand will assist in Brazil is 1.5, the GDP is around 2% a year. That's what we expect for the demand in Brazil. The global demand, we believe, will go on around 3% to 4% growth in the world. What affects us the most is the global growth not really Brazilian.



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In Brazil, it re-allocates the expectations for the domestic market, but the global affects spread. So around 3% to 4% growth in the world. Our view for the US, our PV market in the US around 3% and we have offered (inaudible) in that takes to this spreads drop this year, but for a good level next year.

There is another slide in the presentation that has some figures, 23, 24, 25, shows the perspective for 2022. And there, you can see that the perspective that the spread drops but the drops in the most important chemicals at a good level above level looking towards the year '22. When we look to the spread of PE, all the spreads are above the average between 16 in 20 for 2022, PVC likewise. In PP polypropylene only from Asia is below that average of 16 to 20. All the others, Europe, US are above. The Asia spread applies to Brazil but today our largest capacity is not in Brazil.

So I'd say that generally speaking, all the spreads are quite favorable. The logistic disruption has brought additional benefit for those who produce outside Asia. So that also has to be followed. I have seen consultants saying that it's going to take 18 months to solve that. So our perspective for next year is of solving margin above normal of the industry considering the logistics aspects. Some are saying that's going to be solved by the mid of next year and others speak about 18 year -- 18 months, I'm sorry. We are thinking about next year, but for 2023, in our budget premise we're not including that fact. This is why 2023 also the expectation of results drops maybe for medium level.

Looking at '22, '23, next year the position is good. One of the best -- three best results of Braskem. In 2023, I would say, a drop more towards the cycle average. But with merchants uncertainty within this scenario considering all these topics of supply chain that have to be solved. For 2025, extending a little bit more towards the future, we have not identified new capacities under construction right now or investment decisions that will take to the production of new plants in '24, '25. What means that '24, '25, the occupation rates will increase, and we will face a new cycle of increase in this two years.

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

One quick follow up about Brazil, if I may. You talked about normalization of demand. How do you see that going forward? When you talk about demand normalization what exactly do you mean?

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

When we talk about normalization of demand, we had demand, which was higher than expected especially late last year and early this year. When we see the demand in Brazil for the fourth quarter of last year and first two quarters of this year until April, May, you had inventories being rebuilt and a change in consumption patterns that led to a higher demand across those three quarters. Now as we reach Q3 of this year, we see lower demand. Then in Q2, our sales increased. As Rosana mentioned, we had a production shutdown but our sales went up, but the demand in the Brazilian market resumed what I'd call normal levels. It continues to grow, but at a lower pace, more fitting to what the market is used to.

If we have a demand disruption in Brazil driven by some macroeconomic effect, we will have a foreign exchange devaluation, which could be beneficial for the company. Braskem is a company that improves significantly when there is foreign exchange deval. So we have a natural hedge vis-a-vis the political/economic conditions or situation in Brazil.

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

Okay. Thank you, Pedro.

**Operator**

Our next question comes from Gabriel Barra, Citibank.

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

I have another question. As for the green PE, I would like to understand the size of that market. I remember when you release the relevant or material fact some time ago and you talked about 200,000 tons through 2025, that target doesn't seem to be so aggressive. So I'd like to understand the size of that market both -- both for ethane and polypropylene. And what would be the return for that investment in SCG and if you could perhaps invest in the plants and participate more actively in the production. That's what I wanted to know. Thank you.

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

Okay, Gabriel. I think those two announcements we made, material fact we released, they are part of a biopolymers strategy that we have been developing. So they didn't happen at the same time by chance. On the one hand, we are assessing several growth opportunities under renewables especially biopolymers, what we call the green PE that joint venture with SCG or for now it's only a MOU falls under that scope of speeding up the capture of that market by having new production volumes in place. Of course, the global market for polyethylene is 100 million tons a year.

Our forecast internally which is more conservative is of a market of around 1.3 million tons in 2030. If we had green polyethylene a million tons today, we would sell the whole amount today. I think the market is there today for 1 million tons. The issue is how can we accelerate the implementation of those new plants. We have, for this business, we are able to have some kind of hedging or hedge for raw material. The cost of ethanol we can pass on in our sales contract. So any potential oscillation in commodity prices, we can recover commercially. We do have clients who are willing to enter into long-term contract for that product. So when we look at the clients alone, we are already getting close to that 1.3 million for 2030. So the market is much larger than that. So we are now trying to develop or to expand what we really have. We are branded or so and we see SCG as a partner for the second plant -- sorry, fourth or fifth plant. So, we are assessing all those avenues of growth, be it through partnerships or be it through new plants, which we will own Braskem's plants. So that's part of the strategy to seize market opportunities that has accelerated throughout the pandemic because there was a higher demand for renewable projects or products.

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For that to happen, you need to have the deployment of that technology across different areas of the world. So for Braskem, it would be interesting to have a partner that would have that competence to license new technology. So it's important that it could provide us with support as we expand those projects globally and simultaneously. So there is a rationale around royalties underlying the material fact. But the main value of the partnership is not financial per se. Of course, there is financial gain, but much more important is the fact that the project will be an enabler of our capacity to quickly deploy that strategy in a market with high demand and very attractive returns. So Lummus provides us with that possibility to deliver several projects.

Another benefit, which is not as tangible is that once Lummus started licensing technology for third parties, Braskem as a partner of Lummus will now be able to partner with those new projects. So it also becomes an arm to explore new growth partnerships. So there are several possibilities at the table being brought by Lummus and we on our end, we have 10 years of experience and the market will demand new developments across the world. So it's a complement -- complementary move and that's the start of something much larger going forward. Thank you.

## Operator

This concludes the Q&A session. I'd like to turn the floor back over to the company for their final remarks. Please, you may carry on.

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

I'd like to thank you all for participating in our earnings call for Q3 and just to close a couple of final observations to reinforce some of the points that myself and Rosana presented. I will start by the results. Yet another quarter of very strong results. I was talking with Rosana earlier today, we've had years which were similar to this one single quarter so exceptional results for one single quarter. We continue to generate cash at historical levels.

If we look at the return on cash flow on the share price, it's sitting above 20%, above any other company in the industry. So our performance was quite exceptional. We have always -- have also maintained our commitment to the company's financial health. Our leverage level also at a low record 0.8 times, 0.83 times, net debt over EBITDA. Our target is to recover investment grade. As it was mentioned, we have already done it with one agency, but we are now trying to get the same grade with other agencies and by working with them to also to be able to recover them and we are confident that we will be able to make it with the other rating agencies.

Also important, our operations in Mexico, a final solution to supply ethane, which was one of the main objectives for 2021 and we are once again reinforcing the company's delivery capacity. We had clear objectives for this year. Important progress in Alagoas also. That's also ongoing. The other objective which was important was Mexico. So this is done and over with as we have signed the new in contract amendment with Pemex, a 15-year contract for the supply of natural gas. The replacement of the debt with the project finance, the issuance of that bond, which are sustainability linked, the largest sustainability

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linked bond issuance in Latin America 1.2 billion done by Braskem Idesa's team, for a company which is not investment grade. So based on the rating that we have, it is an even larger accomplishment and all of that in line with our commitment to reduce our carbon footprint announced earlier in the year.

Also ESG, I would like to remind you and reinforce the implementation of our Audit and Compliance Committee the expansion of our strategy and communication committee at the Board level also to include an ESG committee and we remain very confident in terms of cash generation for the coming quarters.

The outlook for international petrochemical industry is very positive, healthy levels of results, of spreads. So we remain confident and committed to increase competitiveness, productivity. Also working always with safety in mind, cash generation and creating value to our shareholders.

So I would like to close by thanking you all, thanking my team for their results we have achieved, and a big thank you to Braskem's shareholders for their trust in the company. We hope to live up to their thrust and I would like to remind you we are getting close to Black Friday so Braskem shares are going through a good moment and positive moment. So we have another opportunity coming up, opportunity that is emerging right now.

So once again thank you. I'd like to invite you to join us at (inaudible) on December 10th.

## Operator

Braskem's audio conference is now over. We would like to thank you all for participating and have a nice day, everyone, and thank you for using Chorus Call.

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