

## Q3 2019 Earnings Call

### Company Participants

- Fernando Musa, Chief Executive Officer
- Rosana Avolio, Head of Investors Relations

### Other Participants

- Gabriel Barra, Analyst
- Gustavo Allevato, Investor
- Hassan Ahmed, Analyst
- Lilyanna Yang, Analyst
- Petr Grishchenko, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's Third Quarter of 2019 Earnings Conference Call. Today with us, we have Fernando Musa, CEO; and Rosana Avolio, Head of Investor Relations. We would like to inform that this event is being recorded and all participants will be in listen-only mode during the company's presentation.

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

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of the Braskem management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to the future events and, therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Braskem and could cause the results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Rosana Avolio, Head of Investors Relations. Ms. Avolio, you may begin your conference.

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

Hi. Good afternoon, everyone. And thank you for participating in Braskem's earnings conference call. Today, we will present the third quarter of 2019 results. So we'll start our presentation. Let's go to slide three, which we will present the highlights in the period. First one, in the third quarter, Braskem posted a consolidated recurring EBITDA of \$389 million, in line with the second quarter of 2019 due to lower spreads in the international market, which were partially offset by higher sales volume already from Brazil and higher PVCs in Europe.

Free cash flow generation of the company was \$101 million. And considering that the financial leverage measured by the ratio of net debt to EBITDA stood at 2.8 times in US dollars. Other highlights is the -- the Extraordinary Shareholders' Meeting held on October 3rd, it was approved a distribution of BRL667 million of the minimum mandatory dividends for the fiscal year of 2018 to be paid by the end of 2019.

Another highlights, which was very important for the company was with the filing of the 20-F forms for fiscal years of 2017 and 2018 also, we have had to see the trading of Braskem American Depositary Shares was resume on NYSE.

Also in October, Braskem placed \$2.25 billion in bonds in the international market, making the largest bond issued in Braskem's history. In November, including the liability management, strategy of the company, Braskem also issued BRL550 million in commercial papers due in up to five years. Those proceeds are being used primarily to repay other shorter term, medium term debt and higher cost debt as well.

In terms of value creation, the construction of the new PP plant in the United States reached 78% at the end of September, with investment to-date at \$523 million. To contract the pre-marketing activities for the new PP Plant in 2019, Braskem US imported already more than 110 kt of PP from Braskem in Brazil. This Fast Track is still estimated for the end of first half of 2020.

Other initiative of value creation, Braskem has invested \$2.4 million infrastructure for the Fast Track solution that we are calling which consist of importing Ethane from US in order to allow the crackers to run at higher utilization rates. The beginning of the importing is expected at the end of 2019 and this project will increase at a reliability of our supply.

Moving on slide four, we will comment on the operations in Brazil. In the quarter, the operations in Brazil continued to be affected by the downcycle of the petrochemical industry, with the petrochemical complex operating at 85% of average utilization rate.

On the other hand, raising demand in Brazil market grew by 7% over the second quarter due to seasonality. In the same period, Braskem sales increased 6%, with the market share of 65%. EBITDA was 38% higher than the second quarter to \$231 million as a

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consequence of higher spreads of these petrochemicals and also PVC, and lower prices of key feedstocks of the company.

Moving to slide five, we will comment on the situation in Alagoas. We have been dividing this project in front [ph], right? The first one is the operational front. The company is now temporarily operating into a non-integrated business model. The average PVC utilization rate is 2 -- in the quarter at 5% to 7%, an increase over the second quarter due to the normalization of EDC imports with the feedstock to produce PVC. And as a result of that, PVC sales also increased a multi-123 kt in the quarter.

On the technical side, we are conducting two fronts. The first one is to identify the causes of the geological phenomenon, and for that, the company is hiring several studies by specialized an independent experts and those studies are still ongoing. And the second front is, right now it's in discussion with the authorities is related to measures for the definitive shutdown of salt mining activities.

Moving to the legal front, we have right now BRL100 million frozen and BRL6.4 billion in insurance bonds. We have already as well BRL2.7 billion frozen, but for that, we are waiting for the release, because we have already replaced that for insurance bonds. In terms of the Labor Court injection, on October, the judge filed actually denial a decrease of BRL2.5 billion. And right now we still have a pending Federal action in the company which is still be analyzed by the judge. And it's important to mention that the company has been also collaborating with the authorities in the region, implementing several actions such as soil monitoring using GPS, installation of meteorological station to forecast weather variations, including rainfall, and other actions that the company has been recently begun at this year.

So moving on to slide eight [ph], we will talk about US and Europe business units results. In the US, PP demand was 1% weaker than in the second quarter, reflecting the economy slow down in the country and our sales decreased because of that, almost decreases were 1% decreased by unscheduled shutdown at a PP plant. In Europe, the demand is trailing 4% over the second quarter, due to seasonality with European summer.

On the other hand, Braskem sales grew by 20%, due to higher availability of product influenced by the resumption of propylene supply, which could impact in last quarter. And in this quarter, US and Europe EBITDA declined almost 15% over the second quarter, impacted by the decline in PP spreads in US, it was a propylene decline, we saw propylene decline explained by the higher propylene prices in the region, due to scheduled and unscheduled shutdowns in US.

Moving to slide seven, we will present results of Mexico, our JV. The PE demand in Mexico was 3% higher than second quarter due to seasonality as well. The average utilization rate of the plant was 72%, same level of the past quarter. Total volumes was 1% lower than second quarter due to the strategy of the company to prioritize sales to more profitable regions such as the US and Europe, combined with the reduction in exports to Asia, and as a result of that strategy, EBITDA in third quarter in Mexico was 9% higher than the past quarters.

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Moving to slide eight, where we show the accumulated cash flow, free cash flow of the company. In the nine months of 2019, Braskem posted unconsolidated EBITDA of BRL6.5 billion, from this EBITDA, BRL2.2 billion were related to non-recurring events, as the vast majority of such non-recurring events happened in first quarter, and that related to PIS/COFINS taxes revenue as explained before. Therefore deducting such non-recurring event, the nine months EBITDA of the company was BRL4.3 billion. Braskem had a positive impact of working capital of BRL2.2 billion, mainly in the second quarter of 2019.

Maintenance CapEx of Braskem was BRL1.1 billion and then interest paid accumulated to BRL1.6 billion, since the beginning of the year. And we paid as well BRL1.4 billion of income tax. Strategic investment, here the vast portion is related to the new PP plant in the US amounted to BRL0.7 billion. Adding all these numbers, Braskem had a positive free cash flow before debt of BRL2.8 billion, a very strong free cash flow that would represent a 14% return for all the investors.

Moving to slide nine, corporate debt of the company. Braskem ended the quarter with a cash position of \$2.3 billion. Summing up the revolving credit facility of \$1 billion that the company have, the cash position of Braskem reached \$3.3 billion. So this is the liquidity available for the company, such amount of \$3.3 billion is sufficient to cover the debt service of the company during the next 43 months EBITDA considering any cash generation of the company.

And then moving to the next slide, there we showed the picture of our debt profile considering our issue of our bond of \$2.25 billion plus the BRL550 million in commercial papers. We show the picture considering those two regions of the company. The proceedings for that will be used mainly to repay shorter term and higher cost liabilities, including the '20 and '21 bonds -- '21 bonds, as you can see the reduction on the bonds here and to partially tender the '22 and '23 bonds. As a result of that, the average debt maturity term was around 18 years, and the company cash balance increased by \$680 million. With that picture, the new liquid position is sufficient to cover the payment of all liability price coming due in almost 100 months.

Moving on, we are going to talk about petrochemical scenario. Here we bring the resins utilization rate, which is a good proxy for the petrochemical scenario and its spreads, usually when the utilization rate is higher than 87%, we face a tight petrochemical market. And in the other hand, when it's lower than 84%, we face a low market -- lower spreads.

We're going to start talking about the PP global utilization rate, that is the utilization rate affects our operations in US and also in Europe and partially in Brazil. This scenario is too positive, although, new CapEx are expecting to come online, operations will remain strong, and as a consequence of that, the spreads flow will staying at very stable and healthy spreads.

For PVC, which affects operations in Brazil, we produced 0.7 millions tons of PVC in Brazil. The scenario -- the trend is positive since PVC capacity rationalization continue -- continues to be positively impacted by the resins utilization rates and spreads. We are not

seeing new capacity coming. Actually, since I would say, the past five years, we haven't seen utilization rates grow, that means very good spreads.

The concern for the company and also for the scenario -- for the global scenario of the polyethylene business, we haven't seen new capacity coming in the US in the past years. We do expect new capacity coming in China in the coming years, combined with lower global demand, it is a concern to us. We have been seeing very weak spreads. We do think that 2020 probably the spread would be at the same level and a recovery -- gradual recovery starting in 2021.

So to finalize our presentation, moving on to slide 13, we show some of Braskem actions showing how the company is well-prepared to face the challenging petrochemical scenario, ensuring a comfortable liquidity position without financial constraints. So given that what the company already announced in terms of cost discipline, we already announced a reduction by \$100 million maintenance CapEx cost in 2019, natural -- next year because we're going to start the PP facility in the mid of next year where we will have a natural reduction on the strategic investment for 2020, we have -- top [ph] of this new facility.

In terms of liability management, we just did our homework, we issued the \$2.25 billion as a (inaudible) explaining plus BRL550 million in commercial papers for that, considering that we have a very strong liquidity position that the company can cover the payment of all liabilities coming due in almost 100 months, without any cash generation.

And the third is, regarding the events, the company has dividend policies, that have several restrictions for the company to pay additional dividends on top of the minimum mandatory distribution, which is 25% of -- last year -- previous year net income, for that considering the moment of the cycle, the company just approved the distribution of 2018 dividends, which is the 25% minimum. So the company, it is prepared for the downturn -- downcycle authorizing.

That concludes our today's presentation. Now we'll move to the question-and-answer session. Thank you so much.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question is from Gabriel Barra from UBS. Gabriel, you may proceed.

### Q - Gabriel Barra

Hi. Thank you for the presentation. Questions, the first one is regarding PVC operation at Alagoas. How do you see the operation at Alagoas going forward? And are you maintaining imports of EDC or is there any other possibility for itself to import salt just like our [ph] EDC? Again, at Alagoas, regarding the measure proposal to AAN [ph] by the co-

orporating 400 constructs. Is there any forecast on how much is cost for Braskem? If I may, I have another one on Braskem business? How has been the progress of the importing terminal, Mexico and what are the next steps on the project after the fast-track start? Thank you.

### **A - Fernando Musa** {BIO 17592170 <GO>}

Hello, Gabriel. This is Fernando Musa. Thank you very much for joining us, all of you. So, I'll start with the Alagoas situation of the current operational plan for us to find a way sometime in the first half of next year to restart the chlor-alkali plant with a salt that we are going to bring some regulations to the market in other states in the Northeast of the Brazilian country.

With that, we will recover part of our integration. Today, we are importing EDC with salt from (inaudible) that -- as I said, we expect to finalize the small investment needs to be done at the plant and figuring out the logistics sometime in the first half of next year. We expect to have the chlor-alkali plant back and therefore the EDC production back in Alagoas to serve both the PVC plant in Alagoas and the PVC plant in Bahia.

We are also working in parallel to identify an area in a rural setting outside of the Maceio City to go back to extracting the salt from the current reserve that exist in Alagoas state. This is going to take a little bit longer as we need to identify the right location and develop the projects to start the new mine and build the pipeline to remove the brine from this new location to the plant.

As far as the costs for the process of shutting down the current mine, we're still working on that. This decision was made late last week based on some reports that we got earlier last week. We are still discussing with the authorities the detailed work plan and activities for the shutdown of the mine. And if whenever we have the -- an estimate for timeline and cost to share that with the market in the future.

And the last question on the Braskem Idesa, we are starting to fast-track project until the end of the year. With that, we expect to have enough feedstock to run the cracker closer to its full capacity, which would lead to -- therefore running the PE plants also close to full capacity. It's important to highlight that this feedstock will be imported from Texas, therefore priced at Mont Belvieu reference, and as I said, we expect to have it up and running by the end of the year here.

### **Q - Gabriel Barra**

Okay. Great. Thanks Musa.

### **Operator**

Our next question is from Petr from Barclays. Petr, you may proceed.

### **Q - Petr Grishchenko** {BIO 19084897 <GO>}

Hi. Good morning and thanks for taking my questions. Petr Grishchenko from Barclays. I just wanted to follow up on what you're just discussing on Braskem Idesa. In terms of this temporary solution, I didn't fully understand, when do you expect to come out with a permanent solution and basically you're saying that starting late this year, you'll run the cracker and PE plant in its full capacity, is that right? And then, I guess, the follow up, obviously, there is a -- Braskem Idesa entity is, in the market trying to deal that, I think, is -- the point, I guess, is to release dividends from the entity. Would -- why, I guess, do you need to deal any few operator full capacity would be able to take the dividends?

**A - Fernando Musa {BIO 17592170 <GO>}**

Hello, Petr. On the fast-track, we do expect it to start by the end of the year. We are working on the engineering alternatives for a long-term solution. We still don't have a timeline for that. It is a priority for the Braskem Idesa team. As soon as we have the fast-track operational, the team will dedicate their time to the long-term solution. As far as the current offering, because there is a -- current offering going on. I'm not at liberty to discuss any of those details with US, unfortunately given the process that is going on. I have restrictions on answering your question.

**Q - Petr Grishchenko {BIO 19084897 <GO>}**

Got it. And I guess maybe just generally then, you mentioned, I think, in the interview that came out this morning about certain sector in Brazil that you're seeing stronger demand. I'm just trying to understand if you can discuss specifically where do you see kind of stronger versus softer demand next year? I think one of the things you mentioned was automotive. But we saw about a month ago where depreciation came out very bearish on auto production, I think, the weakest increase like since 2016. So I'm just curious like what successfully will be the drivers of demand next year in your opinion?

**A - Fernando Musa {BIO 17592170 <GO>}**

I think the relevant aspect for the Brazilian demand next year is the expected improvement in GDP growth, even though the reforms that's happened. My comment on automotive was probably should be taken, probably, more in comparison to other regions, where we are seeing declining production for automotives in US, Europe, even China and Brazil still has positive growth. Yes, it's a little bit less than it was running at the beginning of the year, but still, let's call it, a bright spot, given the reduction in industrial production in general in Brazil.

Agriculture and Agro business continues to be quite strong and it's a competitive and comparative advantage of the Brazilian economy and there is more and more plastic is being used to support multiple aspects of the agricultural business in the country, and we start to see some positive signals coming from consumer based businesses, where -- when we start to see some of the retail sales improving and there is good expectation, when we talk to our clients about the impact that, I mean, a higher growth next year should have for several of the value chains.

The one challenging aspect continues to be civil construction. There is good expectation for infrastructure and also for residential, but so -- those tend to have a big lag between

any big decision/announcement and concrete increase and pickup in plastics demand. So if we continue to see positive announcements in the residential sector, there has been a lot of activity recently. But this usually take several months until you start construction and then in fact demand. So for that sector and more conservative, it's probably back-end of '20, beginning of '21, where we start to see a stronger demand coming.

**Q - Petr Grishchenko** {BIO 19084897 <GO>}

Great. That's very helpful. And then maybe can I touch quickly on dividends. I'm just trying to understand a little bit better, what's your take, let's say, for next year, I mean, you approve the minimum dividends of call it, BRL670 million. And for next year -- what numbers you anticipate? And also just wanted to clarify the complementary dividend policy, I think, in reference to net leverage not exceeding 2.5, and I was just wondering is that like net leverage that you report or that is based on like total EBITDA or recurring EBITDA?

**A - Fernando Musa** {BIO 17592170 <GO>}

So by Brazilian law, we have to pay 25% of net profit every year as dividend and after that, the company has discretionary powers that's what you mentioned complementary dividends. For that portion we published a dividend policy over a year ago. The logic of the dividend policy is to look at the current year plus two years forward and based on the expected results of the company, maintain a leverage -- maximum leverage of 2.5 net debt over EBITDA.

The policy also says that if there is an interesting projects and/or acquisition that is forecast for the period, that it would be okay to go about the 2.5, as long as the expectation is to come back to the 2.5. The decision on dividend will be done sometime earlier next year after the close of the year. And with the business plan for the future years, taken into consideration and this decision will be made by the March, April timeframe.

As of today, at the end of the third quarter, we have a net profit of BRL124 million, after the large loss in the third quarter, that was directly -- a direct consequence of the exchange rate variation impact on our liabilities that are dollar denominated.

**Q - Petr Grishchenko** {BIO 19084897 <GO>}

Great. And maybe can ask one more question. On -- in the item that you reported on the kind of adjusted leverage for judicial deposits that was already like technically like released or some report announced that is supposed to be released, but as of third quarter was still frozen, is that how we should think about it? This BRL906 million that you showed?

**A - Fernando Musa** {BIO 17592170 <GO>}

Yes.

**Q - Petr Grishchenko** {BIO 19084897 <GO>}



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The BRL908 million?

Because, I have frozen BRL3.7 billion, the BRL900 million plus that you mentioned. This amount -- there is a decision by the STJ, IPA which is the Superior Court of Justice of Brazil, saying that, we should get the money back. We are dealing with the quote-unquote bureaucracy of the legal system to get the money back. So, we have a severe reports order to have this -- the funds released. So, as of today, we still don't have the money back into our accounts. But we are constantly discussing this with the court, given the EDS, the (inaudible) decision that the insurance bond would provide the protection that the courts require and there is no need for assets growth.

Excellent. Thank you so much and best of luck to you guys.

## Operator

Our next question is from Hassan Ahmed from Alembic Global. Hassan, you may proceed.

### Q - Hassan Ahmed {BIO 7430123 <GO>}

Hi. Good morning, Fernando and Pedro. First question on the ethylene, polyethylene side of things and a two-part question if I may. As I took a look at Q3 earnings, across a variety of sort of producers within the Americas, I think, one thing that became quite clear was there was a fair degree of divergence in terms of the profitability reported by earnings based on flexibility of feedstock.

### A - Fernando Musa {BIO 17592170 <GO>}

Yeah.

### Q - Hassan Ahmed {BIO 7430123 <GO>}

And it seems to be a recurring theme nowadays, that you see extreme feedstock movements, a lot of volatility within even NGLs themselves, and obviously, that continues to have an impact on the overall profitability within the ethylene-polyethylene chain within the Americas. So, how are you guys thinking about adjusting to that maybe importing more flexibility into the system, maybe more rapid sort of switching between feedstocks and the like.

So that's part one of the question. And part two of the question. And part two of the question is, it seems that 80% of the ethylene -- polyethylene capacity that was supposed to come on line in the Americas has already come online. And I know you flagged incremental capacity in China as a potential threat 2020 and beyond. But China has a long history of -- sort of underwhelming in terms of bringing online capacity on dates on which consultants say that they bring that capacity online. So could it be that maybe we are a bit too paranoid about the near-term?

### A - Fernando Musa {BIO 17592170 <GO>}

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Hello, Hassan. Nice talking to you. On the first question around flexibility, this is certainly a key point in our industry as volatility increases and different sources of feedstock appear around the world. If a company has the flexibility, it will navigate this challenging and volatile moments with better results. As all of you are aware, we made an investment in our Bahia cracker to create flexibility, so that we can track ethane up to 15% of the ethylene production.

The challenge we have been facing in the recent past is the problem in Alagoas, it's forcing us to run the cracker at the slightly lower rate because there is no ethylene being consumed for the EDC plant. And under that logic, it makes it very hard to import the ethane to benefit from that flexibility, given our needs for the other streams especially propylene, that if we flip to ethane, this is our availability in the cluster there in Bahia and for the system here in Brazil. So, unfortunately, this investment in profitability will have not been able to use it in the short-term.

Having said that, we continue to look at the possibility since we -- a good plan to have the chlor-alkali plant and EDC plant back online pretty soon. We do have -- we do continue to look at the opportunity to increasing the flexibility in Bahia. This is a project that we've been looking at from an engineering point of view for a while. As it would be the second tranche, it is compared to the first one, a more expensive, that's why they got a little bit longer to find the right engineering solution, so that, it is competitive and therefore implemented

We are looking at other alternatives for the other crackers. Those probably take a little bit longer to implement. What we have been doing is improving and diversifying our portfolio of contracts for NAFTA, so that we can use some flexibility around the contracts. We have different price points, price formulas for NAFTA, in the propylene, we do the same thing. We have multiple suppliers in the US with different pricing formulas. So we can optimize based on those difference in feedstock. As you are aware, we have a large contract with enterprise that is propane based, which provides us with, I mean, a very strong indirect exposure to propane.

So the challenge with flexibility is that, the investment to justify itself, it's very tricky, if you are adapting a current plant, if the plant is built to start -- would be embedded flexibility, things are easier. And the other challenge we have, especially in Brazil is the distance to the sources of different feedstock, which creates the logistics challenge. So we've been working on -- at the plants, we've been working at the contract portfolio and we've been working at the logistics alternatives to increase flexibility for our system.

As far as the China capacity, I agree with you, that China has a history of underwhelming, as far as capacity increase. Our observation is that in the recent past, they've been pretty much on track with most of the investments they have said. So I agree that a lot of the capacity that is published by some of the consultants will probably not see the light of the day. But even if you discount that -- there is quite a lot of investments happening there, especially integrated projects with refineries, that are under construction.

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And in the recent past as I said, and if you look at everything that is going on in the Aromatics and PX exchange [ph], I mean, they think pretty much on time with their announcements. So, I hope I'm wrong and therefore, they're all are late or never built, it would be great news for the supply balance of the industry. But in the recent past, they've been a little bit better delivering on what they say on average. There is always, given the size and the long list of investments announcements that are done there, there is some that will not be built, but still relevant chunks of capacity coming online.

At a moment where -- and there's still a lack of clarity on the global economic growth, especially because of the trade war between US and China that every other week we are either very happy or very sad that they are going to sort it out. So this uncertainty adds to the challenge of potentially quite a lot of capacity coming online in China.

### **Q - Hassan Ahmed** {BIO 7430123 <GO>}

Understood. Very, very helpful. And as a follow-up, just moving to the Chloro Vinyl side of things, you mentioned that in the near-term, you will be able to start your chlor-alkali facility, EDC facility and the like. On the chlor-alkali side, we -- a GST industry was getting a bit more positive about the prospects of caustic pricing for the back half of the year, but it seems that never really materialized. And I think potentially the culprit may be industrial production or more specifically the production of aluminum. So, first question on that is, how do you see 2020 shaping up from a caustic perspective? And part in parcel with that, how do you see 2020 shaping up for the PVC side of things as well, because it just seems to me that PVC profitability, obviously, depends to a high degree on the ebbs and flows of ethylene margins, because particularly for the integrated guys, it seems the bulk of the PVC profitability lies in the sort of margins you attain within ethylene. So, in a nutshell what I'm asking for is, prospects for caustic pricing for 2020 and prospects for PVC margins in 2020?

### **A - Fernando Musa** {BIO 17592170 <GO>}

Hassan, I think, the vinyls chain is one where we see compared to two PE or three PP, way less investment in general. I agree with you that in the caustic pricing uptick that everybody was expecting, it's frustrating that it didn't come. It's probably driven by some of the challenges, as you mentioned, in industrial production, where a lot of the caustic soda ends up and a direct consequence of the global economic slowdown.

And so, having said that, we do believe that different than PE and even PP, which I mean, PE is clearly in the down cycle. PP is still very healthy, but quite a lot of capacity coming online in the Americas. We're going to see the new wave of construction starting with our plant next year. So we should expect a small reduction in margins in the PP.

The vinyls chain should have healthier margins going forward, even though there is no growth in caustic, there is limited to zero capacity addition. So any growth will increase utilization rates. The same applies to PVC, and PVC -- there is a lot of need for infrastructure around the world and this should drive the PVC demand pretty positively.

And in Brazil, we should see an uptick with the improvement in the economics for the overall country. We should see a healthier PVC demand that would contribute to improving our margins. We do expect better margins for the vinyls chains going forward.

**Q - Hassan Ahmed** {BIO 7430123 <GO>}

Very helpful. Thank you so much.

## Operator

Our next question is from Gustavo Allevato, he is an investor. Gustavo, you may proceed.

**Q - Gustavo Allevato** {BIO 18933135 <GO>}

Hi, guys. Good afternoon. I have a few questions. First, one is regarding the Alagoas issue. Can you help us to analyze the utilization rates going forward. So, whether it has increased between third quarter and second quarter. So, for first quarter for 2020 what's the utilization rate targets the company could -- is pursuing?

Second question is regarding formats for the [ph] fast-track projects. So who is paying for the investments and who will pay for the logistics report a turn from taxes to Mexico going forward. And it's -- that what's the utilization rates can we expect for 2020 for Mexico project?

And third and the last question for also the environmental of lower [ph] spreads, how would be the exact look for 2020 considering the company already decreased investments for 2019? Thank you.

**A - Fernando Musa** {BIO 17592170 <GO>}

Hello, Gustavo. On the vinyls utilization rate here in Brazil, as I said, we do expect to have the chlor-alkali plant back up and running sometime in the first half of next year. This will help us have a local EDC production that we'll combine with imported EDC, as we ramp up the chlor-alkali plants. So we do expect to have increased utilization rates by mid-late next year as we ramp up this process. In the short-term, we don't expect any relevant change until we start bringing south from Hibernia north to -- restart the plant.

On the Braskem, a fast-track project and the investment is being done by Braskem Idesa. The molecule, the ethane will be bought by Braskem Idesa and imported from Texas to Mexico, with all the cost paid for by Braskem Idesa. This will provide us with an additional flexibility to bring a relevant amount of ethane, that should help us run the cracker and therefore the PE plants, very close or at full capacity next year after we ramp up this fast-track facility. The expectation is that the fast-track could bring in anywhere between 20% and 40% roughly of complex needs. So as today PEMEX has been delivering -- in the third quarter, they delivered 72, if we max out the fast-track, we could be at full capacity in the complex.

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As far as the investments in general for the company given the down cycle, we've been revisiting the portfolio and many of these small projects that we're adding on a recovery of the cycle, sometime late '19 and during '20, now that we have a scenario where we still don't see that recovery. Many of those projects have been either postponed or cancelled.

We do expect 2020 to have lower CapEx than this year, simply by the termination of construction of the new plant -- the new polypropylene plant in US. In 2019, this plant took around \$240 million of CapEx and the expectation is that for 2020, it will take only \$100 million for its completion. So, in that movement alone, we should see a reduction of around \$140 million in the CapEx. We've been managing the portfolio of investments very carefully, recognizing the challenges of the cycle, but also very much attuned to the safety needs and reliability needs of all plants around the world. Safety is our first priority and we will continue to invest in the proper maintenance for all the plants as we should be doing.

**Q - Gustavo Allevato** {BIO 18933135 <GO>}

Very clear, Fernando. So, if I may have another question. So regarding the operational issue in the US, can you -- I am not sure you already explained what happened in the third quarter, but is it totally solved or should continue in the fourth quarter also in 2020?

**A - Fernando Musa** {BIO 17592170 <GO>}

Gustavo, could you repeat the question? It was hard to understand what you said?

**Q - Gustavo Allevato** {BIO 18933135 <GO>}

Sure. Regarding the operational issues that the company had in the third quarter in the US operation, are they totally solved or should persist in fourth quarter also in 2020? And also what happened I'm not sure (inaudible). So thank you.

**A - Fernando Musa** {BIO 17592170 <GO>}

So, we had several smaller issues in some of the plants in the US. All of them have been solved. We should be back at our full availability. We are facing a market in the US, especially, because of the reduction in the production of cars that has been more challenging. Inventories in the industry have increased significantly in the last few months. Having said that, we continue to have very strong sales and continue with the pre-marketing activities for a new plant. So, there was no major events at the plants. It was smaller than at some of the five plants we have in the US.

**Q - Gustavo Allevato** {BIO 18933135 <GO>}

Very clear. Thank you.

**Operator**

Our next question is from Lilyanna Yang from HSBC. Lilyanna, you may proceed.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

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Hi. Thank you for the opportunity. I also have two questions. One is on the PEMEX ethane contract. So, they have not been fully fulfilling the contract. So, I wonder if the receivables from PEMEX have been stable or have been mounting? We know about the non-fulfillment of the contract, but we wonder if they have made -- PEMEX has made any kind of cash payments in terms of penalties for the non-fulfillment of the contract?

The second question if I may is, I wonder what would be -- how can we think about the Alagoas dispute, is the end game of the strategy of the company, would you be considering at this point an out of court settlement or you think it's too early for now? Thank you.

**A - Fernando Musa** {BIO 17592170 <GO>}

Hello, Lilyanna. On the PEMEX contracts, they delivered 72% of the contract in the third quarter. They have been paying all the deliver-or-pay penalties pursuant to the contract. So I would say, they have been fulfilling the contractual obligations, whenever they don't deliver, they are paying for the delivery-or-pay.

As far as the Alagoas situation, I mean, we made a relevant step in announcing the formal shutdown of the mine last week. We are working with the authorities on the detailed plan for that shutdown. There is still a lot of work being done to better understand what's happening in the different neighborhood, it's a different topic. And I mean, we are conducting a series of additional studies and concluding by the end of the year, the sonars in all 35 wells. This sonars plus the additional studies are crucial to have a better understanding of what's happening from a geological point of view and from a geomechanical point of view in the region.

So I would say, we need to see how those two activities progress. The understanding of what's happening at the different [ph] neighborhoods, and the progress of the discussion with the authorities on the shutdown of the mine to have any discussions from a legal system point of view. So this is something for the future.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

That's nice. Thank you so much.

**A - Fernando Musa** {BIO 17592170 <GO>}

Thank you.

**Operator**

(Operator Instructions) As there are no questions, I will turn the floor over to the speakers. You may proceed.

**A - Fernando Musa** {BIO 17592170 <GO>}

Thank you very much for participating in our third quarter 2019 results call. As we discussed in the presentation by Rosana and some of the questions, it has been a

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challenging time for the industry in general, but the company have a very disciplined approach to capital allocation and cost management with adjustments of its CapEx plans for 2019.

The bond issuance has -- had a very relevant impact on our short-term debt payments, which -- with the new bonds and the commercial papers we should hear in Brazil, basically have reduced significantly our debt repayments for the next four years -- period for which we do expect to be out of the down cycle in the next four years.

And I think the relevant aspect I would like to let all of you with is that, despite the challenges that we face both from a cycle, from a Brazil economy, from a Mexico economy challenges, we have been generating positive cash flow even in the third quarter, we generated BRL400 million, adding up to BRL2.8 billion up to now.

And I think this is a direct consequence of the discipline of the company to pursue its strategy around improving its productivity and competitiveness, continue to look for opportunities to create flexibility and diversification, and its feedstock matrix. And pursue a better diversification from a geographic point of view to assess different markets, where the new PP plant is a key driver for increasing our presence in North America, for example.

So thank you very much for your participation and looking forward to talking to you all of you early next year, when we will be announcing the fourth quarter results. Thank you. Bye-bye.

## Operator

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

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