**Operator:**

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's 1Q20 earnings conference call. Today with us, we have Pedro Freitas. Vice-President of Finance, Procurement and Corporate Affairs; and Rosana Avolio, Head of Investor Relations.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After Braskem remarks are completed, there will be a question and answer session. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

We have simultaneous webcast that may be accessed through Braskem's IR website at www.braskem-ri.com.br, and the MZIQ platform, where the slide presentation is available for download. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call on the website.

We remind you that the questions, which will be answered during the Q&A session, may be posted in advance on the website.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of Securities Litigations Reform Act of COVID-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 the circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Braskem and could cause results to differ materially from those expressed in such forward-looking statements.

Now I would like to turn the conference over to Ms. Rosana Avolio, Head of Investor Relations. Please, Ms. Avolio, you may begin your conference.

**Rosana Avolio:**

Good afternoon. We would like to thank you for joining Braskem's earnings results conference call. Today we will present our 1Q20 results.

So please, let us move to slide number three, in which we will talk about the current global scenario in view of progression of COVID-19 outbreak. Since the end of 2019 and the beginning of 2020, all policy makers and private sector are putting efforts to fight COVID-19 pandemic. Sanitary, health and economic strategies have been designed and implemented among all countries to preserve people's life.

As a consequence, the current scenario demands global cooperation. Braskem, as one of the largest producer of thermoplastics, resins and chemicals around the globe, plays an essential role in the global supply chain, responsible for supplying raw material of important items used in the combat against the pandemic.

Our resins are used to produce hospital materials such as surgical masks, doctor gowns and plastic gloves, beside disposable and non-disposable items used in patient treatment. The resins are also used to produce packages for liquids and gels alcohol content, as well as for hygiene products and for food packaging. Also, our chemical products are used to produce hygiene materials such as sanitary water.

In defense, given the important role played by plastic and chemicals, Braskem is an essential part of plant in the global cooperation for the fight against the COVID-19. Committed with that, we are already putting efforts in initiatives that provide solutions to this tough moment.

In the next slide, we will present the main initiatives that we have been taking regarding that. Working together with our clients, we have donated thermoplastics, resins and chemical for the production of more than 60 million surgical masks and for more than 1 million doctor gowns; for production of liquid and gel alcohol packages, representing more than 750,000 liters.

also, we have donated raw material for 3D printing of rods for protection masks. We also donated sanitary water for sanitation of hospitals and cities from the regions in Brazil where we operate.

Regarding the community support, more than 1,200 involved in recycling business will receive basic food baskets during three months; more than 50,000 families who lives around our plants and facilities will receive donation of hygiene kits; and we are also supporting the implementation of a temporary hospital in the Alagoas state.

Our clients are also being supported with an additional credit line of R$1 billion, offered with special financial conditions. The purpose of this credit line is to support mainly small and medium businesses.

In line with our core value of safety, the Company started to operate its industrial assets with minimal teams. In some regions, we have adopted a locking regime, in which some team members accepted the challenge to stay for 20 days working in the plants without external contact, getting back to their families only after this period. Besides that, we are also providing medical assistance to team members confirmed and suspicious COVID-19 cases.

In this next slide, we will talk about the pandemic impacts in our business. Regarding your operations in Brazil, we have reduced ethylene production to around 65% of its total capacity, which is 3.6 million tons per year. In the United States, the polypropylene production was reduced to around 85% of its total capacity, which is 1.6 million tons per year. The utilization rates will be adjusted considering the market demand and the potential opportunities for exports to other regions that may arise, especially with the resumption of activities in Asia.

We have been reducing by 50% the number of industrial team members and also contractors, allowing us to keep teams safe, while maintaining reliability of our operations. Our sales diversification by sectors contributed to mitigate the effects of the downturn given the COVID-19. Scenario. around 70% of our sales comes from segments that have shown resiliency, Even in this period.

In the next slide, we will talk about the Company's financial profile. Last year, we did our liability management exercise to bond issuance with longer tenure that ensures a more comfortable amortization schedule for the next years. In this sense, we ended the 1Q20 with a liquidity position sufficient to cover the next 55 months of debt payments without any cash generation.

As a precautionary measure to face COVID-19 challenges, we disbursed our revolving credit facility amount to US$1 billion in April. In this context, we established a goal to reduce 10% of our fixed costs relative to last year, and we are also reducing CAPEX for 2020 from US$721 million to US$600 million. In this sense, the Company has strongly created two face this global economy downturn with no financial stress.

Moving to the next slide, we will talk about the highlights for the 1Q20. In Brazil, the utilization rate was 81%, 2 p.p. above 4Q19, and explained by an increase in Bahia's cracker production, which was impacted by maintenance turnaround in the last quarter.

In the United States, the utilization rate was 95%, 11 p.p. above last quarter, and explained by the normalization of operations, which were also impacted by maintenance turnaround in the last quarter.

In Europe, the utilization rate was 88%, 1 p.p. above the 4Q19, and explained by the higher supply of propylene in the region.

In Mexico, the utilization rate was 86%, 4 p.p. above the 4Q19, as a result of the beginning of the ethane imports from United States.

We also would like to highlight our good performance in the recordable and lost-time injury frequency rate that stood at 0.81 events per 1 million hours.

Regarding our results highlights, we had a 54% fixed cost reduction relative to the last quarter. Our EBITDA presented a 22% increase, and our sales volume increased by 4% when compared to 4Q19.

Cash flow highlights are related to the PIS/COFINS monetization, in which we monetized R$344 million this quarter. The Company still has an outstanding balance of R$2 billion has to be monetized, from which R$1 billion will be monetized in the short term. It is important to highlight that our new U.S. PP facility reached 98.4% of completion by the end of 1Q.

Moving to this line number eight, we will talk about the main highlight by region. In Brazil in the 1Q20, the recurring EBITDA was US$233 million, which represented an increase of 214% relative to the 4Q19, mainly due to sales volume increase and reduction in commercial expenses.

EBITDA presented a reduction of 21% when compared to 1Q19 due to an increase in the cost of goods sold, which reflected higher feedstock prices from previous months.

Sales presented an increase of 4% when comparing 1Q20 to 4Q19 due to seasonality of the period. Regarding 1Q19, sales dropped by 5% because of the lower availability of resins and Brazilian markets supply prioritization.

Fixed costs represented a drop of 76% related to 4Q19, explained by the reduction of third party services under the geological event of Alagoas. In regard to the 1Q19, the reduction of 55% is due to the drop in commercial expenses.

Moving to next slide, we will talk about United States and Europe results. The EBITDA for U.S. and Europe present an increase of 33% when compared to the last year, mainly due to an increase in production, and also in sales. Comparing to the 1Q19, EBITDA fell 21% due to lower spreads for European polypropylene business. Resin sales in the U.S. and

Europe increased when compared to the last quarter, and also to 1Q19, given the higher availability of products.

In the next slide, we will talk about Mexico's results. Mexico's EBITDA presented an increase of 2% relative to prior quarter, explained by higher sales volume and utilization rate. Regarding 1Q19, EBITDA presented a drop of 22% given lower polyethylene prices, then international market. Sales volume increased by 3% and 5%, compared to 4Q19 and the 1Q19 due to high availability of products.

Moving to is like number 11, we will talk about consolidated results. The consolidate EBITDA present an increase of 22% when compared to last quarter due to an increase in sales and lower fixed costs. Comparing to the 1Q19, EBITDA dropped by 34% due to global economy downturn. Sales presented an increase of 4% when compared to 4Q19 and dropped by 2% when compared to 1Q19. Fixed costs presented a drop of 53% compared to 4Q19, explained by the reduction of third party services expenses.

In the next slide, we will talk about the petrochemical scenario. The petrochemical scenario has been suffering important variation on the projections made by the external consultancies in the beginning of the year. Regarding their resins and chemical spreads reference that we follow in Brazil, the polyethylene spread increased by 59% over the figures projected in the beginning of the year, mainly because of the drop of oil price. In this context, the chemicals spreads decreased by 16% in relation to the same comparative period.

About the spread in the United States in Europe, the highlight is the polypropylene spread in Europe that increased by 22% in relation to the projections of the beginning of the year.

Moving to next slide, in May of 2020, we received the Certificate of Monitorship Conclusion by MPF, DOJ and SEC. The Monitorship began in 2016, and it was evaluated in phases. All of our governance, compliance, internal controls and risk and management structures and procedures. After that, the monitors recommended improvements to be implemented by the Company.

These works conclusion means that the Company implemented 100% of the recommendations proposed by the monitors, which resulted in an effective and robust compliance and governance structure.

During this process, more than 11,000 Braskem documents were requested, more than 400 interviews were done, and more than 11,000 transactions were passed. By the end, more than 80 policies and normative documents of the Company were revised, beside the revision of the ethics code of Braskem. And also, more than 40 procedures were revised, which includes the enhancement of our compliance program and financial controls.

Moving to the next slide, now we will talk about the priorities for the 2Q20. In relation to productivity and competitiveness, the priority is to maintain the reliability of our industrial units in the context of COVID-19 and to focus on the negotiation of feedstock supply contracts with Petrobras.

As for the diversification of ra materials and suppliers, we will continue to ramp up the complementary ethane import solutions in Braskem Idesa. With regard to geographical diversification, we will seek to maximize synergy among regions where Braskem has operations in order to mitigate the impacts of the global economy downturn.

About people, governance and reputation, our main priority is to ensure health and safety of our industrial team members. Furthermore, we will prioritize expansion of our recycling resin sales also. And the last priority of the Company is discipline in capital allocation in order to maintain liquidity of Braskem.

Finally, in the next slide, we would like to thank our team members who live in two of our industrial units to guarantee the essential materials production that we need to get through this critical moment. Thank you for your efforts.

That concludes today's presentation. Thank you for your attention. So let us move to the question and answer session. Thank you.

**Gabriel Barra, UBS:**

Good morning. Thanks for the questions. I have two here. Regarding the first question, we saw a sharp depreciation of the Real in the 2Q, and, at the same time, a drop in oil price to very low levels, which, in our view, has increased the competitiveness of naphtha-based products. However, the price of Brent has now return to around US$40 per barrel, and the FX has appreciated again. My question is, how are you seeing this competition in Brazil for imported products in the premium in the 2Q and for the rest of the year?

And my second question, the Company's controller is under Chapter 11 process in Brazil, and there is some discussion about a possible migration of Braskem to the Novo Mercado. My question is, how long will it take to include the Company in the Novo Mercado segment? And is there any restriction today to make this kind of movement?

And, if I may, I have a third one here, regarding the leverage of the Company. The Company's liquidity, in our point of view, does not seems to be in a very (19:50) situation, as mentioned in the presentation, but the Company's leverage has jumped to something close to 5.9 this quarter. What is the Company's view regarding the level of the indebtedness? And what is the ideal level at this point? And is there any negative covenant in relation to the leverage cap? Thank you.

**Pedro Freitas:**

Gabriel, thank you for the questions, and good morning to everyone. It is a pleasure to talk to you again. I will take a shot at your questions, and I will ask Rosana to step in if there is any additional point to clarify the questions.

Starting from the top, on oil prices and a the reappreciation of the Real, what we see is that what really impacts our results is the spread. And the spreads have been holding up on a pretty good level, much better than we expected for the year. So I would say, short term, our expectation is still to have a good run in terms of the spreads.

However, Gabriel, as we have been talking to everybody that follows Braskem, we do see that the supply-demand dynamics of the industry have changed. We went into a downturn in this cycle, especially in polyethylene, because of the large amount of new bills that came out, especially in the U.S. and the Gold Coast over the past two or three years.

So, I would say that the underlying structural dynamics are still out there. We do have some short term adjustment. The way that the industry reacted to COVID led to better spreads, and the falling of oil prices also helped on that. But structurally, I would still say that we still face an oversupply industry for at least one or two years going forward.

Overall, competitiveness is still going to be on the agenda going forward. And it depends a lot on the oil prices. The oil price is still manageable from a competitiveness perspective. We do not see a huge increase of imports into Brazil, for example, what could happen if the oil price went back to what it was seven, eight years ago. 2013, for example, there were prices close to one US$100. Then we did have a more challenging situation in terms of competitiveness, but at US$40 dollars per barrel, I think we can manage that.

On the on the controlling shareholders and the situation there, we have not had any communication from them regarding what they will do. We know that there is a very public wish from Petrobras for Braskem to go to the Novo Mercado, but, as far as I understand, it is still a discussion, it is an ongoing conversation between Odebrecht, who is our controlling shareholder, and Petrobras in terms of what they will ultimately do with the Company.

A few years back we did look at how is the process to move to Novo Mercado, so we know the steps that we would need to take. It is less than six months to execute a move like that, so it is not a long process. It is reasonably easy.

We already adopted that at Braskem. Even though we are not Novo Mercado, we adopt most of the provisions of Novo Mercado in our governance. There are a few that we do not have, but most of them we already have. And we know the ones that we do not have, we know what we need to do to implement those if that is the decision of our shareholders.

But so far, we did not have any communication from them telling us to move in that direction or anything like that. We would be able to do that if they decide that it is what they want for the Company.

Finally, going to the third point, on leverage, we do have a strong liquidity situation and a lengthened debt profile, with good maturity, lengthy average maturity. More than 40% of our structural debt is at ten years and above maturity. So we are really comfortable with the leverage situation, and I think that is part of what the rating agencies also take into consideration when they are looking at the Company.

So it is a point of concern. We do have some actions that we are moving on. Rosana mentioned the reduction in CAPEX. It is a more than US$100 million, but if you look in percentage terms, it is a 20% reduction in CAPEX that the Company decided on. We are also working on cost reductions, aiming at a 10% cost reduction for the year.

We are managing working capital tightly. We are looking at how we can improve the working capital position as well. And finally, we are also looking at other alternatives, be it in the capital markets, be it in the M&A, or divesting some noncore assets.

So we are looking at all the alternatives, and whenever we have something that is more concrete, we will come back to the market and tell you what we ultimately are going to do. But we are looking at several different narratives there to keep the leverage number in check.

I think an important point is that our net debt number, although it has increased a little bit, it is still very much under control. The point of the metric is really around EBITDA coming down because of the downturn in the cycle, and also because of COVID, but we do see that as a temporary situation.

One thing that I like to point out is that if we went back, if we have the same EBITDA that we had in 2017, we would be at a leverage below 2x, roughly 1.5x. So, again, it is really because of the cyclical nature of the business that we are facing this kind of high metric in the leverage number.

And then you asked specifically about covenants. In Braskem, we do not have corporate debt, we do not have any financial covenants per se. We do have one instrument in the U.S., which was part of the financing for the new plan, that requires Braskem America, the entity in the U.S. to have certain metrics, but they are not challenging for us to keep.

And even if those metrics were reached, we would just need to constitute a cash reserve for the debt service for six months. So, again, it is not a huge part of our Company. But that is the only financial covenant that we have in our in our financial instruments overall.

**Guilherme Barra:**

Great. Thanks. Very clear.

**Christian Audi, Santander:**

I was wondering if you could talk to us a little bit about the demand side, Pedro. What have you been seeing in April and May vis-à-vis what you experienced in the 1Q. Obviously, Marc was the month where everything was hit by the pandemic, but I was wondering if you could provide us with a bit of color as to what has happened to demand in April and May by region, and what your expectations are for June, please. Thank you.

**Pedro Freitas:**

As you said, we started to see some movement in demand at the end of March, but it was not significant for the 1Q. So you can see that, overall, demand in the 1Q grew by roughly 4% compared to the last quarter of last year. We did have a small drop compared to the 1Q19, but still a healthy demand in the 1Q in Brazil. And looking at the U.S., Europe and Mexico, it is still a good demand performance in the 1Q.

We saw most of the hits coming on April. So we did see a reduction of around 20% overall in demand. And then in May, the commercial teams were very bearish. they were really concerned. They put out a trend or a view that volumes would be worse in May compared to April. And ultimately, what we saw was already some recovery in May; not huge, but the performance in May was better than expected. And for June, the expectation is to see a recovery moving forward.

I would say that, overall, a drop of 20% in demand for the quarter, for April. But looking at the year, at least for Brazil, our view now is that overall demand for the year will be about 5ix% to 6% lower than last year.

So there is a reduction in demand, for sure. If we went back to the beginning of the year, we were expecting some demand growth from 2% to 3%. So with that drop now of 5% to 6%, it is a large difference. That is the scenario.

One thing that I think it is interesting to see is that a lot of the sectors that we serve, about 70% of our sales go to sectors that are more resilient. So we did see more of a drop in construction, in the automotive industry, in some industrial clients, and also in infrastructure. But if you look at consumer goods, packaging, cosmetics, health care sector, we did see some reduction in demand in some of those sectors, but much less than the first ones that I mentioned.

Going to the other regions outside Brazil, just for a moment, Europe is now already improving with the opening in the economy there. So May was so much better than expected in Europe. We are still about 10% below normal sales in Europe, but that is much better than we were in April.

In the U.S., the expectation is for an improvement in June. We are running today at around 85% in the U.S. So we are not so bad in the U.S. And then in Mexico, actually, we had a very good sales month in April, and then in May, again, a good sales month. So overall, we do see an improvement.

**Lillyanna Yang, HSBC:**

Thank you. I have one question on Mexico. Can you give us guidance on where you see the capacity utilization in April or May? You already kind of indicated that April was a good month, but I wonder about your ability to place your volumes in the export market, because I see that sales for the Mexico market. It remains a bit less than what I had anticipated. So I wonder if you are going to be able to have higher utilization rates than seen in the 1Q because you are able to place above than exports, or at least replace more of the imported products with your own.

And what is the current balance that Pemex currently owes you as of March? And another thing on Mexico, can you give us a color of the cost of the imported gas in the site until the plant?

And if I can follow up with what you just mentioned about demand, when you talk about, for instance, in Brazil, the 20% demand reduction, is it year over year, pre pandemic, pre lockdown's, or is it versus your budget:? Thank you.

**Pedro Freitas:**

Thank you for the questions. I am not sure I really caught the point on supply, but then I will Rosana to step in if I am missing anything, and then you can follow up.

But in terms of capacity utilization in Mexico, we are at about 80%, a little bit more than 80% in April and May, some of it being supplied by the imports of gas. We have been able to ramp up the imports for ethane in Mexico, and in the best months so far, we have reached 15% of the supply to the site for the gas imports, which is close to the target, to the maximum. We think we can go up to 20%. So already pretty close to that.

But when you start to run the operation, you see that there are still operational improvements. Operational improvements can be made. Right. So one thing that we are seeing is the flow of ships in the harbor, getting one ship lined up to discharge while the other is leaving the harbor. So getting that operation to be efficient is still something that our team is learning. So you do have kind of a drop in supply whenever you have a new ship coming. That adjustment is still going on. So the best month was close to 15%, but then we saw a drop. We are still adjusting how to do that operation.

But it is flowing. It is ramping up well. And other than this issue of how to optimize the flow in the harbor, everything else is running according to expectations.

On the on the ability to export, the markets from Mexico, compared to the 1Q19, we did see a drop in the internal market of a bit less than 10%, which was more than overcome by an increase in exports. Overall, the sales increased by 2%, 1Q against 1Q.

That shows that we are being able to export. You can see in the presentation the main markets Mexico was exporting to; a lot to Europe, some into the U.S., and also selling to the Americas outside of the U.S. and Mexico.

We are not facing any issues in exporting. We already have commercial teams operating in Europe, in Latin America and the US. So we are leveraging this commercial presence that Braskem has in the other regions to place the Mexican product as well. It is working well, and we believe that the feasibility to export is there, and we it will stay there.

One thing that I mentioned already in calls like this is that, at times, exporting is even more profitable than selling in the domestic market, because the price reference in Mexico is linked to the export price from the U.S., which can be the depressed, given the supply dynamics. And sometimes, when you are selling to Europe, because Mexico has a trade agreement with Europe, the Mexican product does not pay import tariffs into Europe. That offsets the cost of the freight, the shipping from Mexico to Europe. So sometimes it is even more profitable to sell Europe than sell in Mexico, for example.

That sort of thing is also part of the optimization of the sales and the results that we are trying to do in Mexico.

And then, on the Brazilian 20% drop, the expected production, you could see a kind of a 20% drop on the regular sales quarter.

**Lillyanna Yang:**

Perfect. Thank you. Can you also talk about the Pemex? What is the balance today that they arguably owe you?

**Pedro Freitas:**

On the liquidated damages, right?

**Lillyanna Yang:**

Yeah.

**Pedro Freitas:**

We have US$40 million in liquidated damages that they have not sent us. Credit notes for US$40 million.

**Lillyanna Yang:**

Thanks.

**Fernanda Cunha, Citibank:**

Good morning, everyone. I have three questions. The first one is in relation to your market share in Brazil. It seems that this quarter you have seen sales (42:42) in Brazil grow 3%. I just want to know if there have been any changes in commercial strategy there.

The second one is regarding the FX devaluation pass through. When we look at your historic markup over the products sold in Brazil, it seems that you have reduced your markup this quarter, not only in nominal terms, but also in percentage terms. I am just wondering if there have been any lags in the pass through of the FX, which should be reverted in upcoming orders.

And then, the last one, has there been any change in the supply strategy? I know you have mentioned previously that you have increased your purchases from domestic refineries versus imports. But if you could give us more color on that. And also, if you could say if you have been able to purchase any feedstock with large discounts over the auctions that Petrobras has been doing. Thank you.

**Pedro Freitas:**

Thank you for your questions, Fernanda. I am not sure where you were looking at the market share. The reference that I have is that market share has been stable, very similar to the past quarters. If I look at the market increase against the 4Q, it dropped against the 1Q19. But looking at that those references, our market share has been pretty stable.

When I look at what you call the markup of sales, Braskem, as I think everybody knows, sells at import parity in Brazil. And that is part of our strategy. Time and again, we do that, we adjust these prices to accommodate or to reflect changes in international prices, and also in the exchange rate.

There are two main factors that could affect that dynamic. One is just our commercial strategy. Looking at segments and looking at demand and client relationships, we will adjust that as part of our commercial strategy. But the overall concept of import parity is still there.

The other aspect, which does explain some of this difference that you saw, is the volatility, especially in FX in the 1Q. When Real is devaluating, becoming more devalued, we need to adjust our prices, to increase prices to reflect that. But there is a lag in the price adjustment.

Whenever the Real is devaluating, or the prices in the international markets are going up, we tend to lag this difference. If you look at import parity against the actual price that we sell, it tends to lag. So whenever prices are going up, or the exchange rate is going up, we will have a lower markup. Whenever they are coming down, then we usually show a bit higher markup, because it is the time to adjust the price table to the market. I think that explains this difference. But structurally, it is still import parity.

On the supply strategy, last year we imported roughly 2/3 of the naphtha that we consumed in Brazil. And this year, actually, it was reversed. We consume roughly in the 1Q, 70% of national feedstock, and 30% was imported.

So we are constantly revising that strategy and looking at price differentials the way that the cargo's and the supply was being priced in the international market against what we have in the contract here in Brazil.

The decisions in the 1Q were more geared towards national production, national feedstock. Part of that is because the tankers that naphtha are the same types of ships that are used for oil. And with the drop of oil prices, you may remember that a lot of the tanker capacity in the world was, and still is being used to store oil. So the three ships that we can use to bring naphtha had a higher freight. That is kind of the structural shift. This shift from imported to domestic impacted by the drop in oil prices, but also the increase in specific freight prices for tankers.

And then, when we go to the other point that you asked about, the options, Petrobras, in April, we did have an additional volume contracted with Petrobras that had a substantial discount because of this situation. So Petrobras had an incentive for us to consume roughly 220,000 tons of naphtha that we purchased with a discount that ranged between US$15 to US$30 per ton.

That was a spot trade, a spot purchase, but we did that. And whenever Petrobras comes back to us with similar conditions, we will look at those as part of just regular strategy.

Just an additional point on the naphtha's supply strategy, we do have the divestment of the refineries that Petrobras is conducting. We anticipated that there will be different owners in the two refineries that are closer to our plants in the South and in the North of Brazil.

Everybody knows that the naphtha contract that we have expires by the end of the year. So that contract now is being negotiated, We do not have a final deal done, but the structure of that will be to split that the naphtha contract into more than one contract, so that we have a contract in the South, another in the North, so that whenever Petrobras sells the refineries, we already have that contract structure arranged for the new configuration in the future.

**Fernanda Cunha:**

Okay. Thank you very much. On the first question, what I mention was that on the release you say that demand in Brazil increased by 3% year over year, and your sales volume remained flat. It would suggest to me that you have lost market share here. I was just wondering if there has been any change in terms of selling domestically and exporting, if you have changed your commercial strategy.

**Pedro Freitas:**

We will prioritize domestic markets. What I think that may explain that, and then I think you can get in touch with Rosana later to go over the numbers, but we did have a change in the chemical exports. We reduced exports of chemicals.

So maybe it is a matter of the figures, looking at resin sales and what are our Overall sales in Brazil. That may explain this kind of divergence in the numbers. But probably the explanation there is in the chemical sales, not on the foreign sales.

**Fernanda Cunha:**

Thank you very much.

**Luiz Carvalho, UBS:**

Thanks for taking the question. I have to follow-ups. The first one is about Mexico, how are you seeing this situation with Pemex in terms of the contracts, the supply and the potential fines?

And second, we had a sequential discussion with some investors taking about the relevance of the basic petrochemicals in your results. Looking back to 2016 and 2017, basic petrochemicals used to represent something close to 40% of the results. But now when you rerun this number, despite that you do not give this breakdown anymore, we reach something close to 20% to 25% of the total result. I would just like to see if you can give us a bit more color on the relevance of the basic petrochemicals on your results. Thank you.

**Pedro Freitas:**

On Pemex, I think everybody knows that the underlying issue is the lack of availability of sufficient ethane in Mexico. The oil production is falling, the associated gas production is falling, and then, together with all that availability of ethane is falling.

Pemex is supplying the contracts within the minimum volume. They are suppling between 70% and 75% of the contract. We keep looking for a constructive solution with Pemex. There is this delay in the credit notes related to the liquidated damages. So Braskem Idesa, the JV in JP Mexico, is looking at all alternatives.

We did communicate with Pemex and send them a letter to preserve the rights of Braskem Idesa under the contract. All alternatives are being looked at, including legal measures also being evaluated.

But we do want to have a constructive solution with Pemex. It is really important for us to have very good relationships with our suppliers, and the same applies to Braskem Idesa.

We aim to have something that is good for all parts involved. So far, we do not have any resolution to that. It is still an open issue that over the next months we hope to have a positive, positive resolution to that. But so far, it is still open, and we are still looking for something that is constructive and positive for it for everyone.

On your second question, around the relevance of basic chemicals, the 40% that these chemicals used to represent, I do not remember if the 40% back then was related to the overall Braskem results, or just related to the Brazilian results. But basic chemicals are about 40% of the Brazilian operation, which is roughly 20% of the overall Braskem results.

Another part of that could be the way that you look at the internal transfers. Depending on how you look at the price of ethylene and propylene for the internal transfers for us to make PVC, PE and PP, the ethylene price dropped a lot.

So if you are accounting for an internal transfer where the internal price of ethylene is falling, ethylene prices depending on how you account for those, you could be transferring results from internal from chemicals to commerce. But if you exclude those internal transfers, you are right, the chemicals are about 20% to 25% of the results.

It is still a very important piece of this business, 20% to 25%. Giving an example, (58:11), we are one of the top five producers in the world.

I do not know, Rosana, if you have any other points to add there.

**Rosana Avolio:**

Probably, the 40% that you are speaking, remember that we used to disclosure Brazil in segments, which were polymers, chemicals and so on. The chemicals results in the past were included (58:39) that Pedro mentioned. Now, not anymore, because it is more (58:44). So now we are communicating by region, which is Brazil.

And when we take a look at specifically at Brazil, chemicals represent 40% of Brazil, which is 20% of the total, as Pedro mentioned.

**Luiz Carvalho:**

Okay. Very clear. And just one last question from my end if I may. With the current results, you delivered US$294 million on EBITDA this quarter. How the potential change in the short term in terms of oil prices coming back to US$40, and the FX rate coming back now to R$5 would change the competitiveness of the Company in the remainder of the year? If we decentralize the EBITDA, and I know that you do not provide any guidance, but between US$1.6 billion to US$1.8 billion would be something feasible under the current conditions?

**Pedro Freitas:**

As I said earlier, I think US$40 per barrel is still manageable for us. There is a dynamic, which is kind of tricky to model, even for us, which is what we call the inventory effect. If you look at the cost of goods sold that we have now in Braskem, especially in Brazil, in the naphtha crackers, because of the lead times and the operational cycle of the business, we are probably carrying now in May carrying costs of January, maybe February. We do carry costs that go back to when oil was at US$60, US$65 per barrel.

The expectation at the beginning of the year for the year was of US$62 per barrel. So now, with the current oil prices, we still think that it is positive. In the 1Q, for example, we were carrying an inventory cost in the cost of goods sold related to the 4Q19.

That effect hurts 1Q results specifically. In the 2Q, I think the issue is more around volumes and less on costs.

This is not going to be huge, but on the margin, we decided to carry a little bit more naphtha eventually, and buy a little bit more feedstock than we needed when the oil price was below US$30. So right now, I think we are caring much more cost advantage in the inventory, which should translate into results over the 3Q.

So, again, it is a bit of a complex calculation and modeling to be done, but overall, I think that we will catch some value out of this more, opportunistic position that we took when the oil price was much lower.

The other point is that some of the chemical prices sustain a good spread. If you look at the spreads of polyethylene and naphtha, for example, at the turn of the year, it was around US$250 to US$300 per ton. It went up to US$600 per ton. Now it is about US$400, US$450. Still a very good spread compared to the end of the year or to the expectations we had for the year.

Overall, the discussion that I am having with my team looking at this year, it is going to be complex to explain, because every worker will have a different dynamic. 1Q, still good volumes, a squeeze on margins because of the higher inventory cost. I would say a good fixed cost performance, be it because of our internal efforts, but also helped by exchange rate.

2Q, we are probably looking at better spreads, but lower volume, and still a good cost performance. And then, going to the 3Q, we will probably carry the positive spread impact. We do hope to have a bit of volume recovery, so the 3Q could be very good. But then, going into the 4Q, that will depend on where the spreads end up. But the spreads could go back to US$300, US$350 per ton. That would be more expected in that downturn.

I think it is going to be very volatile for each quarter, but looking at the 2Q and 3Q, I would expect to have a benefit in the cost of goods sold because of that.

**Luiz Carvalho:**

Okay. Thank you very much. And again, thanks for taking these additional questions.

**Guilherme Levy, Morgan Stanley:**

Good morning. Thanks for taking my question. My first question, can you give us an update on the ramp-up of the new U.S. plant? I would like to know if the expectation remains to start the plant in July.

And the second question, it is actually a follow up question, you mentioned that the overall demand in Brazil is down 20%. Can you provide more color on how is the demand behavior by product? For PP, for basic chemicals, PVC etc.? That would be very helpful. Thanks.

**Pedro Freitas:**

I will take the first question, and then I will ask Rosana to take the second one. On the U.S. plant, the expectation is to start up in the next quarter, the 3Q. Hard to say if it is going to be in July or not. We did have an expectation to start up in the 1H20, around May or June, and then there was this delay because of the commissioning of the plant.

If you look at the construction percentage, or percentage of completion, we are close to 100%. It is spatially done. There is no more construction risk out there. It is more about having the certification by the system providers so that we can ensure that the guarantees that they provide are in place. And then, the commissioning of a few systems in the plant.

If you go back to a couple of months, our expectation was for that to be done by July. There is still some uncertainty out there because of COVID and the ability of people that need to travel to get to the plant to perform some of the tasks.

So we cannot be certain that we ought to start up in July, but it is basically done. It is more about getting people there to do the tasks and then start up. That is why we are saying we assume that by the 3Q we should be able to start it up. As far as construction risk and getting things done, it is pretty much done.

**Rosana Avolio:**

About demand, about what we are expecting right now, year over year in terms of polyethylene we are expecting a drop by 5% compared to last year; for polypropylene, a drop about 8%, and polypropylene being more affected because we are talking here about durable goods. And in PVC, we are expecting a 6% drop from 2020 to 2019.

Of course, there is still a lot of uncertainty in the scenario, this is the projection that we have at this point, and let us see what will happen in the coming months. But these are the numbers that we are seeing right now.

On the other hand, just to give you a comment, we are seeing a recovery in Asia. So we are exporting a lot to Asia in the last two weeks from now. So not only polymers from U.S. and Brazil, but also chemicals.

So probably these exports that we are seeing, and remember that being a naphtha producer at this point creates an advantage, considering the oil price that Pedro explained before; so we are exporting not only chemicals, but also polymers with a good one to Asia. This is offsetting this weaker demand in Brazil.

**Guilherme Levy**

Okay. Thank you very much.

**Jamie Nicholson, Credit Suisse:**

Thanks so much for the call and for taking my question. I just have a quick follow up about the comments you made on the rating agencies. If Fitch and S&P have your BBB- rating on a negative outlook, I am wondering if they have given you any timeframe for when they would like to see your leverage come down before they may take potential negative rating fractions. Thanks.

**Pedro Freitas:**

Thank you for the question. The indication that we had from the rating agencies is that they would give us roughly 12 months to take any action. Of course, it is not written in stone, but they said that they would expect at least 12 months before they would take any action. That is, of course, compared to the moment where they gave us the negative outlook, back in the end of November.

We have been reinforcing with them the actions that we that we are taking in terms of CAPEX reductions and fixed cost discipline that we already mentioned earlier. The other thing that they look at is the debt coverage of 55 months that we have, looking at the cash position.

There is a lot that goes into that type of assessment. We do expect to show a deleveraging of the Company by the end of the year, especially with this recovery in the 2Q and 3Q. We do expect to see a deleveraging, which we expect to have a positive view from them.

They know that, on the one of the cycle, leverage goes up. I would not say if it is a run of the mill day-to-day discussion. The metrics are not good, we recognize that. What we are doing is taking all the measures necessary to get those metrics back on more acceptable numbers, or more expected numbers. But I think there is a lot going. We are making a lot of effort to get it back on to more normal metrics.

**Jamie Nicholson:**

Thanks for that color. Do you have any leverage target for the end of the year that you are trying to achieve?

**Pedro Freitas:**

Not specifically by the end of the year. We do have two numbers.

**Rosana Avolio:**

Just to continue here, Pedro will be connecting again in a few minutes, but about the targets that Pedro mentioned, we do not have a specific target. We have. We have a specific target for dividend distribution because we have a dividend policy in the Company that says that any distribution on top of the minimum, which in Brazil is 25% of the previous year's net income, we are not allowed to pay additional dividends.

But internally, what we follow, if I can call like that, is kind of 2.5x in USD without project finance of Mexico. This is the reference that we follow internally, but in terms of specific targets, it is just for dividend distribution.

And just one comment, we see the whole picture. So it is leverage plus debt profile, and not only leverage and debt profile. We see the whole picture together. We are presenting a leverage higher than in the past quarters. But again, as Pedro mentioned, when we take a look at our debt profile, we are pretty much comfortable. We ended the quarter with US$2 billion, an additional US$1 billion as standby credit facility, and no pressure in the short term.

So once the cycle gets better in terms of spreads, we will have a better EBITDA, and then we will deleverage the Company. This is how we see the whole picture, leverage plus debt profile.

I think Pedro is back.

**Pedro Freitas:**

I am back. Sorry. Something happened, I was disconnected. I am not sure, Rosana, if you answered.

**Rosana Avolio:**

I mentioned the reference that we follow, the 2.5, the dividend distribution, and that we see the whole picture, leverage plus debt profile.

**Pedro Freitas:**

I was going to talk about the 2.5, which is the initial target, that is what we want to get under, and we feel more comfortable when we are under 2. The main goal is to get under 2.5.

**Jamie Nicholson:**

Okay. Thanks.

**Declan Hanlon, Santander:**

Thanks, everyone, for the call. Just a follow up on that discussion around net leverage. I presume that that "lower net leverage" by the end of the year is driven more by improving

EBITDA because of the FX catch up rather than having any asset sales baked into that. Is that correct?

**Pedro Freitas:**

Yes. The way that we work on, Declan, is to not assume that we are going to be able to sell any assets by December. We are working on that, but when you look at the numbers, our base trend, right, the way that we look at the Company is looking at just the operational gains that include FX, but also importantly, CAPEX reduction. And also, the other point that I mentioned, reduction of fixed costs and better spread.

But we look more at the operational numbers. And then, if we are able to execute any asset sale by the end of the year, then it is a plus.

**Declan Hanlon:**

Thanks. Just a couple other things. I presume that I should look at the credit lines that you are providing to suppliers as something that will run through your working capital calculation. Is that correct?

**Pedro Freitas:**

Yes, they are there. Just not to overstate the point, we are providing credit lines to our customers, and also supporting some of our suppliers, especially the small and mid-sized companies. The numbers involved in the supplier side are not large. We are talking about less than US$50 million dollars. It is like US$20 million, does not even get to US$30 million.

Because these are small and medium sized suppliers, the amounts that we have outstanding with them, the payment terms we have with them, they are not substantial in total. For each individual company, they are they are substantial, but not for Braskem.

On the client side, we already give our client credit terms. We already give them payment terms that range up to 30, 45, sometimes even 60 days. What we are doing is just that the financial cost related to that extension, the charges that we that we charge to extend payment terms, we have reduced those.

It is not like we are extending additional credit limits to clients. They are working still within the credit limits that they have. In certain cases we are creating some exceptions, but those are very much on a case by case basis. It is more of a financial incentive, but it does not impact materially our working capital.

**Declan Hanlon:**

OK. That is clear. A final thing, just to make sure that I understand the current language versus what was initially in the end of project finance structure at the Idesa JV, in the event that you received a downgrade from either of the two agencies that are currently rating your investment grade there is a contingent equity call that could be up to US$1 billion to the parents, I guess, 75-25 between yourselves and Idesa. Is my understanding in that correctly? In the event that you are downgraded, you could be responsible for posting collateral and an LC, or even cash for up to R$750 million. Is that correct?

**Pedro Freitas:**

At first you said US$1 billion, and then you said R$750 million.

**Declan Hanlon:**

Sorry, it is R$1 billion. It is US$200 million, I guess, and that presumably would be split between yourselves and Idesa.

**Pedro Freitas:**

That is related to the structure of the contract. If you think about the structure of the contract, formally, even though the plant is operating for more than four years now, we are still under construction, under the structure of the financing. Because we have not reached the milestone of physical completion because of the lack of ethane.

Because of that, we still do have an obligation like that related to the construction, which is done. We do have that situation.

**Declan Hanlon:**

But the contingent equity is driven by ratings language in the document. Is that correct? There is the equity call, which is separate, which is a function of completion, and then there is the Braskem ratings specifically, right?

**Pedro Freitas:**

Yeah, it is it is related to the ratings of Braskem.

**Declan Hanlon:**

These are two separate facilities. So Braskem Idesa could call an additional equity. Their leverage now is in the 7x area and they have got some amortization issues. So that is a potential risk to the parents. And in additional, we still see potential ratings downgrade.

**Pedro Freitas:**

No, they are related. They are related. It is basically the same. Remember that Braskem Idesa has more than US$200 million in cash. So in terms of liquidity in Braskem Idesa, I do not think we have an issue.

But if there is an issue with debt service, there is a debt service reserve account in the project, which is supported by the parents. But then, the number is likely lower. It is around US$150 million. That could be if they had any issues with debt service. It is limited to that.

**Declan Hanlon:**

Just to clarify, the contingent equity language was reflected in the original project finance.

**Pedro Freitas:**

It is still the same.

**Declan Hanlon:**

Understood. Thank you very much for that. That was all I had.

**Operator:**

As there are no questions, I would like to turn the photo over to Mr. Pedro Freitas for closing remarks.

**Pedro Freitas:**

Thank you. I would like to thank all of you that participated in the call for your questions. I think we covered pretty much all the aspects of the business, all the relevant points and the latest developments. And I do hope to see you back, hopefully in August, with the 2Q results, if not sooner.

Thank you all, and stay safe. Bye-bye.

**Rosana Avolio:**

Bye-bye. Thank you.

**Operator:**

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