CORPORATE SPEAKERS

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José Carlos Pons, *Chief Financial Officer*

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[TRANSCRIPT BASED ON ZOOM CLOSED CAPTIONING / PLEASE REFER TO AUDIO FOR OFFICIAL RECORD]

Alejandro Elizondo:
[Slide 2] Good morning and welcome to Alpek's Second Quarter 2021 Earnings Webcast.

[Slide 3] I am Alejandro Elizondo, Alpek's Investor Relations Officer, and today I have the pleasure of being joined by our CEO, Pepe Valdez, and our CFO, José Carlos Pons.

This presentation is divided into two parts. First, Mr. Valdez and Mr. Pons will provide commentary on Alpek's second quarter 2021 performance and an update on relevant events. Afterwards, we will move on to Q&A.

Please note that the information discussed today may include forward-looking statements regarding the Company's future financial performance and prospects which are subject to certain risks and uncertainty. Actual results may differ materially, and the Company cautions the market not to rely unduly on these forward-looking statements. Alpek undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

I'd like to remind everyone that today's Webcast is being recorded and will be available on our newly redesigned website, located at alpek.com [---]. I will now turn the call over to Mr. Pepe Valdez.

José de Jesús Valdez:

Thank you, Alejandro.

Good morning everyone and thank you for joining us. I hope you are all doing well. Today, I am excited to share with you that Alpek has delivered yet another strong quarter amid a booming global economic environment. During the second quarter, in addition to achieving record volume highs, we achieved our highest month ever in terms of Comparable EBITDA.

[Slide 4]
Let's start by reviewing the main topics that will be discussed in today's webcast:
- First, [---] Alpek has greatly surpassed financial performance expectations for the second quarter; José Carlos will review these in greater detail
- Second, [---] Alpek made large strides in its long-term growth strategy by acquiring CarbonLITE's rPET facility
- Third [---] Alpek has continued to make progress in its ESG efforts
- And fourth, [---] we will provide additional insight into our revised 2021 Guidance, as per the Earnings Report released yesterday

[Slide 5]

Providing some context for this quarter's results, the increase in the amount of people getting vaccinated against COVID-19 has improved market confidence, and therefore continued strengthening the global economy.

This stronger economic activity has generated rising demand for petrochemical products, including PET. As such, during the second quarter, Asian integrated Polyester reference margins further improved to an average of $356 dollars per ton. This was much higher than Alpek's revised Guidance figure of $285 dollars per ton, which was based on the supply/demand balance expectations prevalent at the end of the first quarter.

[Slide 6]
Similarly, the market has experienced strengthened demand for Polypropylene. This has kept this product's inventory levels low in North America, thereby extending the positive effects of the Texas polar vortex on margins. In the second quarter, margins continued to strengthen to an average of 47 cents per pound. We believe this tendency has the potential to carry over into the third quarter.

At this point, I would like to turn the call over to José Carlos, who will go into more detail regarding the positive impact of these events on our financial results.

José Carlos Pons:
Thanks Pepe, and thank you all for being here with us today.

[Slide 7]

I want to begin by highlighting the Company's outstanding performance throughout the quarter. Alpek achieved:

- An overall volume of 1.2 million tons, a record high for any second quarter period in our history
- Comparable EBITDA of $225 million dollars, as a result of record second quarter volume and higher-than-expected PET and Polypropylene margins, as discussed by Pepe
- A Leverage reduction to 1.3 times, as last-twelve-months EBITDA significantly increased, and strong results offset CAPEX and Dividends in the quarter

[Slide 8]

Turning our attention to Volume, Alpek reached 1.2 million tons this period, setting a record for any second quarter in our history, and achieving an 8% increase year-on-year [---].

In the polyester segment, volume was 1% higher versus the figure for last year, due to strengthened demand. Volume decreased by 5% versus the previous quarter, as a severe drought in Altamira temporarily affected our PTA production rates.

In Plastics and Chemicals, volume increased by 45% year-on-year, mainly due to demand strength across the segment, as well as the incremental volume from the Styrenics business we acquired in the United States last year. This figure exceeds our highest ever P&C volume, set in the fourth quarter of last year.

It is important to remember that 2020 figures were adversely affected by shutdowns in the construction and automotive industries at the height of the COVID-19 pandemic. Moreover, if we exclude our recently acquired EPS sites, volume would have still been 25% higher versus last year.

[Slide 9]

Moving on to raw material price dynamics:

- As the global economy continues to strengthen, demand for refined products has kept rising, leading to an increase in average spot Brent Crude Oil to $69 dollars per barrel, 13% higher than in the previous quarter [---].
- Correspondingly, U.S. reference paraxylene prices also increased by 12% versus last quarter.
- In Plastics and Chemicals, Propylene prices averaged 67 cents per pound, an 8% decrease when compared to the previous quarter, but rising to 74 cents per pound in June. [---]
- This rise in prices towards quarter-end generated a positive Inventory Adjustment and Carry-forward effect across both of our business segments.

[Slide 10]

Switching over to our EBITDA breakdown for the second quarter, we can see that Comparable EBITDA was $225 million dollars, 11% higher quarter-on-quarter, as Alpek experienced record second quarter volume and PET, Polypropylene and EPS margins were significantly higher than expected.

Reported EBITDA was $273 million dollars, 268 percent higher year-on-year, as this result also includes:

- A non-cash inventory gain of $18 million dollars [---]
- And a positive Carry-forward effect of $29 million dollars [---]

In terms of results by key segment, we can see that Polyester Comparable EBITDA was $102 million dollars, increasing by 14% quarter-on-quarter.

- Our results largely benefited from a rise in average Asian integrated PET margins to $356 dollars per ton

At the same time, Plastics & Chemicals Comparable EBITDA was $120 million dollars, an increase of 23% quarter-on-quarter since:

- Polypropylene margins increased by 46% as the effects from the Texas polar vortex have persisted, and thus inventories remain low [---]

[Slide 11]

With regards to Free Cash Flow generation: [---]

- Net Working Capital investment decreased by $6 million dollars, as feedstock price increases during the quarter, were more than offset by an improvement in supplier credit terms [---]
- CAPEX totaled $132 million dollars, and was mainly allocated towards the acquisition of CarbonLITE's rPET facility
- Free Cash Flow totaled $90 million dollars as strong EBITDA more than offset this quarter's CAPEX

Alpek also paid out a dividend of $128 million dollars, which had been approved during the Annual Shareholders' Meeting held in March.

[Slide 12]

Finally, regarding our financial position:
- Alpek's Net Debt at quarter-end increased marginally to $1.25 billion dollars [---]
- Last-twelve-months EBITDA increased sharply this quarter, resulting in an improved Leverage ratio to 1.3 times Net Debt to EBITDA, more than in line with investment-grade requirements [---]
- If considering Net Debt to Comparable EBITDA, we can also see that Alpek has further improved this ratio to 1.7 times [---]

Thank you everyone, I will now turn the call back to Pepe.

José de Jesús Valdez:
Thank you, José Carlos.

[Slide 13]

Switching over to our most recent events, Alpek made important strides this quarter on the Fostering a Circular Economy pillar of its long-term growth strategy. On June 7th, the Company announced its acquisition of CarbonLITE's state-of-the-art PET recycling and pelletization facility in Reading, Pennsylvania, in the United States, for $96 million dollars on a debt-free basis. This site is one of the largest integrated rPET facilities in the Americas, meaning it is equipped with a solid state polymerizer designed to produce food-grade pellet, the rPET format needed to enable fully circular bottle-to-bottle recycling.

With this acquisition, Alpek has grown its total rPET output capacity to 282,000 tons, reaffirming its position as the largest PET recycler in the Americas and achieving the company's target of supplying its customers with 25% rPET content before 2025. The Company expects to conclude commissioning, and begin production, in the third quarter of this year.

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Moving on, regarding ESG, a topic that has continued to climb higher on our agenda in recent years. During 2020, Alpek was able to:
- Increase rPET infrastructure as mentioned earlier
- Redefine its Dynamic Materiality Matrix, identifying the most pressing ESG topics for our stakeholders
- Reduce Scope 1 and 2 carbon emissions by 8.7%
- Reduce total water consumption by 7.7%

Today I am proud to report that as a result of these actions we have been included in the Bolsa Mexicana de Valores and S&P DJI's Total Mexico ESG Index. Participants in this Index have shown a commitment to ESG as part of their ongoing decision-making, which has historically translated into higher returns for investors.

Moreover, this year we began Project Evergreen, an effort geared towards analytically defining the KPIs, targets and action plans we need to continue to improve on all of our material issues. We plan to unveil these targets and initiatives later this year.

[Slide 15]

Finally, regarding our outlook for the remainder of 2021, and after a careful review of the factors that led Alpek to revise its Guidance last quarter, the Company once again has decided to provide updated guidance figures and key assumptions.

Stronger-than-expected PET demand and margins, as well as the one-time benefits generated in the Plastics & Chemicals segment by the polar vortex continued into the second quarter.

In the Polyester segment, Alpek expects the continuation of strong demand, with Asian integrated margins now expected to average $300 dollars per ton for the year and normalizing at $285 dollars per ton in the fourth quarter.

In the Plastics & Chemicals segment, the strength in Polypropylene margins is also expected to continue late into August, increasing annual reference margins to 36 cents per pound. Moreover, margins at the end of the year, are also expected to be higher, as the entry of production capacity last year was well absorbed by an increase in demand.

Our new Guidance figures are based on an average Brent crude oil reference price of $70 dollars per barrel for 2021, up from $63 dollars under our previous Guidance, [---] as demand for refined products has further increased without a corresponding increase in supply. [---]

Based on these assumptions, Guidance for overall Comparable EBITDA in 2021 is now set at $765 million dollars, and at $880 million dollars for Reported EBITDA, as we still expect to end the year with a net positive Inventory Adjustment and Carry-forward effect.

Guidance for CAPEX is also being raised to $250 million dollars, to reflect the recent acquisition of CarbonLITE's rPET facility, which was only partially included in our original Guidance.

Overall Volume remains unchanged, as performance across both segments continues in line with our original Guidance.

As always, I would like to thank our team, customers, and suppliers for another great quarter. I would also like to thank all of you for your attention today. I will now turn the call back to Alejandro to open the Webcast for your questions.

Alejandro Elizondo:

[Slide 16]
Thank you, Pepe. At this time, we will now move on the Q&A portion of our Webcast.

To ask your question live, we ask that you raise your hand virtually through the Zoom application. We will call on participants in the order that hands are raised.

Alternatively, you may also type your question through the Q&A function of this application. We will attempt to cover as many questions as time allows.

Q&A

Alejandro Elizondo:
Our first question comes from Luiz Carvalho with UBS. Luiz, your audio has been enabled, please unmute yourself and proceed with your question.

Luiz Carvalho, UBS:
Thank you, hi Pepe, hi José Carlos, thank you for taking the question, if I may,

Three quick questions here:
The first one if you can provide an update on Corpus Christi. So, that will be great.

The second one is, I mean, you reviewed the EBITDA guidance upwards and as a consequence that opens room for potential dividends so I just would like to understand a bit more on the capital allocation front.

And third, if you have any update on ALFA restructuring and how this would, you know, impact potentially I would say Alpek in terms of actions for the company?

Thank you.

José de Jesús Valdez:
Good morning. First, on CCP there's basically no news from what we have discussed during the last meeting. The idea is to finalize all the contracts with different companies to be ready to start construction early next year. So basically, no change in what we have been mentioning before.

Regarding dividends. Well, the Alpek and ALFA Board, it's more ALFA on this situation, they will decide during the next couple of months the amount of dividends that should be paid. And of course, a consideration will be made at the higher than expected cash flow results for this year. But we do not have a number yet that we could share with you.

And, in terms of the Alpek spinoff. I think as we mentioned before, the spinoff is not necessarily something that we see in the very short term, it's a process that will take time. And again, on that front we don't have any new information to share with you.

Luiz Carvalho, UBS:
Okay, thank you. And congrats on the results.

Alejandro Elizondo:
Our next question comes from the line of Ben Isaacson with Scotiabank, Ben your audio has been enabled, please unmute yourself and you can proceed with your question.

Ben Isaacson, Scotiabank:
Great, thank you. Can you hear me okay.

Alejandro Elizondo:
We got you, Ben.

Ben Isaacson, Scotiabank:
Great. So I have two questions I'll ask them one by one, if I may. First one with the petrochemical cycle, looking like it's near peak, investors are starting to focus more on those companies that can still deliver controllable EBITDA growth over the coming years. Some of the feedback that we've received recently on Alpek, is that your leverage is very low, but possibly falling further, and perhaps limiting controllable EBITDA growth over the mid-term, which could lead to investors switching out of Alpek into more growthy names.

Can you discuss the balance between funding a more aggressive growth strategy from the balance sheet versus the need to maintain an investment grade credit rating?

Thank you.

José de Jesús Valdez:
Well that is an extremely good question, which does not have an easy answer. I think for us, as we have mentioned, of course, maintaining investment grade has always been important. But when we have had opportunities of M&A in particular, that present themselves, and let me remind you of the acquisition of Brazilian assets back in 2018, we have taken the growth opportunities with confidence that if anything our leverage ratios will increase only in the short-term.

So, while I do agree that at some point in time there is a certain conflict that you have to balance both alternatives. My opinion is if we continue to find attractive growth opportunities we will pursue those, of course, being very careful also with the leverage.

So, you know, it could be a factor but I do believe that, and particularly now that we have such a strong balance sheet I think we can accommodate both.

Ben Isaacson, Scotiabank:
Thank you for that. Let me ask my second question. You've given updated guidance on 2021 EBITDA, thank you for that. Now that we're more than halfway through 2021, the sell-side, the buy-side are starting to focus on 2022.

Now I know it's a bit early to provide guidance right now but can you just talk about how you see prices or margins PET or PP developing in 2022. And really what we're trying to figure out is what kind of EBITDA sensitivity should we be thinking about. I just see that EBITDA estimates for next year are all over the place, and it may do the company a disservice without some more guidance.

José de Jesús Valdez:
Well, I have to say that it is difficult at this point to make a forecast for 2022. But we believe that margins for most of the products, except for Polypropylene, were margins have really been extremely high. I think margins in most of our other products will be very similar to this year or could even have an improvement.

And let me explain a little bit, on top of the cycle and everything, there is a factor that has been helping our margins, that was not considered when we set the prices of the products at the end of last year for our contracts into this year. I'm talking particularly PET and prices for North America, which is by far our largest market and that has to do with the freight rates, ocean freight rates. Ocean freight rates as you are all aware, have increased significantly over the last year and again in order for us to assess how the margins we look into this year we do have to, you know, have a better idea of freight rates again for 2022.

But our expectation today is that this will allow at least again in PET, which is our largest product in North America, for an important increase in margins next year. The improvement in margins that we have experienced in Asia this year, have not been translated into higher margins for North American PET. They have been translated for higher margins, particularly in our South American region, but in the largest volume, which is North America they were not relevant this year. But hopefully for next year, as I mentioned, even if margins in Asia go down a little bit, we still have the impact of freight which could be quite considerable.

So, again, we are optimistic in terms of margin for next year for PET, we are neutral on EPS. In volume in both cases we are optimistic that we will be able to operate the plants at capacity in both styrene and polyester.

In fact, we do hope that next year, we will be able to improve our production versus the existing year, we have faced a lot of issues this year that should not be repeated again into next year. I think José Carlos mentioned briefly the drought we experience in Altamira, which took away a lot of volume. We have had a couple of shutdowns, some of them unplanned. And so again, for next year, margins of PET we see an improvement overall, not necessarily talking Asia, but overall margins in PET, we see them improving, volume improving. In EPS, margins neutral or stable, volume continues to be strong. And the big question for us at this point in time is polypropylene, we see again the volume quite stable, but, in terms of margins, we do expect them to go down, but as we did mention also today the level of supply demand that we are expecting for North America 2022, relative to what we were seeing last year is much better. So I do believe that the margins will come down, but perhaps we'll be able to keep a reasonable margin.

Ben Issacson, Scotiabank:
Can I just ask one more very quick question.

You've talked about freight rates being a much more important story this year. And I see that, when I look at your asset portfolio, I could be wrong, but I believe outside of the Americas, you have the Wilton site, I'm not sure how many other plants you have outside. But does that mean that maybe you're going to look more towards investing overseas now to try and arbitrage out those high freight rates, or are you still focused from an M&A point of view on the Americas?

José de Jesús Valdez:
Look, in reality, first of all freight rates, I think this might be an issue of a couple of years, one, two years, three years, perhaps; I don't see this as a long-term issue. So again, it’s not a strong enough reason to change our strategy.

I would say that in general, even today most of the markets we supply are supplied locally or domestically, so in that sense, the increase in freight rates is mostly helpful for our performance, because in general we price our products at the import parity prices of these products coming from other regions so if the freights were to continue high and I'm not saying I believe that, at least not for a longer period of time, but if they were to continue being higher, that would be helpful, and allow us to improve our margins, but it does not have an impact in our decision making in terms of M&A.

Ben Isaacson, Scotiabank:
Okay, thank you.

Alejandro Elizondo:
Thank you, Ben. Our next question comes from the line of Nikolaj Lippman with Morgan Stanley, Nik, your line has been unmuted, please ask your question.

Nikolaj Lippman, Morgan Stanley:
Hi, good morning, gentlemen, everyone. Thanks for the call and for taking my questions, congrats on these incredible numbers, three questions.

One. Molecular recycling versus mechanical recycling you've clearly hit the ground on the mechanical side. And you're doing great progress, what is the current thinking with regards to molecular recycling initiatives within your organization, or what you're seeing in the marketplace, so any kind of reflections on that would be highly appreciated.

Number two: Back to Corpus Christi and the new capacity, you're growing volumes in PET by about 8%, you know, how would you feel if some of your partners there would not be prepared to push forward, would you be interested in taking perhaps a larger stake in the Corpus and thus increase your exposure to the virgin product?

And then finally, can you give us an update on the Caprolactam business and how I remember you were facing some supply issues there, how's that doing? Thank you very much and again, congratulations.

José de Jesús Valdez:
Thank you. Now chemical versus mechanical recycling well, I agree with you, mechanical recycling has for the most part been, you know, the largest growth existing today. A lot of different technologies, different companies working very hard investing a lot of money on the chemical recycling front. We are very close to some of them we're very very close to several of them, but the truth is that the chemical recycling has proven more difficult than what everybody expected and I do believe that eventually there will be a process that will succeed, but it's going to take time. So that's why, although we are active on the chemical part of the equation that is chemical recycling we still believe that in order for us to satisfy our customers' needs in 2025 we'll have to do that mostly with mechanical recycling.

In the longer time frame as I mentioned, I do believe of course chemical recycling will play an important role. Chemical recycling should be less sensitive to quality of bottles, being used so it has that advantage you can use a lower quality feedstock, which is important because, as you know, the biggest challenge today for recycling is getting the feedstock, I mean the feedstock is very limited so, and of course, with the right quality so as demand for used bottles continues to grow I think the quality of the bottles of some of those, the bottles that are left, so to speak, are going to be compromising quality and that's when I think chemical recycling is going to be very important.

As far as we know, there are many good ideas, there are many you know a lot of people working pilot plants, but we have not seen really anything that will tell you okay this is the one technology that is going to lead this chemical recycling. So I think we still have to wait a little bit.

In the case of Corpus , yes, I hear your question about our partners not wanting to proceed, well, at this point, we're not there. I mean, from what we know all of the partners are very interested in pursuing the project. I think with the good performance of the demand on the PET side over the last months, I think, in fact, I would say most of us are more committed to the project in the sense that certainly demand looks better. And whether one of the patners will not like to proceed, I think at this point is a very hypothetical question, Nik. We will consider that when it happens.

Margins for Caprolactam have been improving as of recently, we have been operating our plant at relatively low capacity. Again, I assume you're familiar but with this polar vortex that we experienced in February, it was a big dislocation in the prices of the raw materials and in this particular case benzene. Benzene normally has a certain relationship pricing between Benzene in North America pricing and Benzene in Asia. They are correlated, very similar prices, perhaps with a difference in freight rate at the most. During these past months, we saw a very let's say, high difference, a very large difference, which has kept us operating these, I mean, Benzene prices being higher, or significantly higher in North America, again as a result of the supply because of the polar vortex so for that reason we have operated the plant at low capacity. Last month, the prices became very much aligned and this month that is still continuing, so we are increasing the rates gradually of Caprolactam so that is the situation.

Nikolaj Lippman, Morgan Stanley:
Can you share roughly the contribution you have from this product line in 2021?

José de Jesús Valdez:
Yes, well, as I said, we have the plant down for most of the beginning of the year so, it's been relatively irrelevant.

Nikolaj Lippman, Morgan Stanley:
So it could be a factor for the next year, but so far this year, it just hasn't been now.

José de Jesús Valdez:
Exactly, so that's it. You can see that as an upside.

Alejandro Elizondo:
Our next question comes from the line of Andrés Cardona with Citi. Andrés your audio has been enabled, please unmute yourself and proceed with your question.

Andrés Cardona, Citi:
Hi good morning Pepe, José Carlos, congratulations for the results: I have two quick questions.

The first one, this let's say, 2021 has been very unusual year, right. And so, I wonder if you can remind us or, like, guide about how should we think about minority interest in particular at the Plastic and Chemical segment and if you come flag if there is other relevant minority interest, in particular I would like to understand how much of the $270 million dollars of the recurring EBITDA of the segment belongs to third parties. And the second question is, if you may be able to provide some color about the assumption for fall polypropylene for 2021. And where are the margins nowadays for both: polypropylene and integrated PET margins.

José de Jesús Valdez:
Okay. Look, you're asking the assumptions of polypropylene for 2021, for the guidance you mean, for the new guidance? Oh, okay. Well, let me let me transfer this call to José Carlos.

José Carlos Pons:
So, yes, thank you. Basically as you remember we started the year with a very low expectation for margins in terms of polypropylene, the more that we see the development, the margin is in the neighborhood of 18 cents per pound. We're actually expecting as Pepe said, today as we speak, it's better than that, but as we see it on an average for the year and especially for the year-end it will average out around 18 cents per pound.

And, I believe your second question I'll just answer that one because it's a data point that the minority interest within Plastics and Chemicals. So we have a JV on our polypropylene division with LyondellBasell, it's a 50/50 JV and we have a JV with BASF in Polioles, our specialty chemicals. So those are the only minority interest there. The one that has a little bit more relevance is Indelpro for polypropylene as polypropylene represents roughly half of our plastics and chemicals EBITDA depending on the year, Andrés.

Alejandro Elizondo:
Our next question comes from the line of Leonardo Marcondes with Itau. Leo, your audio has been enabled, please unmute yourself and proceed with your question.

Leonardo Marcondes, Itau:
Hey guys, can you hear me well.

Alejandro Elizondo:
Yeah, we got you.

Leonardo Marcondes, Itau:
Sure. Thank you. So, good morning everyone thanks for picking my questions.

My first question is maybe a follow up from the previous question on the 2022 figures. I just tried to get a sense on potential risks, on margins for the next year. I'd like to know if you guys are seeing any capacity addition, on the main markets for both PET and polypropylene that would likely impact, margins next year.

My second question is regarding the recent acquisitions that Alpek has made right for the NOVA acquisition, it should start contributing with margin during the second half of this year, right? So, I would like to know if everything is on pace with that. And also if you guys could share a little bit more on the contribution you guys expect for the CarbonLITE acquisition for this year and maybe next year. Thank you.

José de Jesús Valdez:
Okay. Well, in terms of new capacity additions in North America we don't expect any new PET or polypropylene capacity. Yeah, this should last, what we saw in polypropylene in North America was the Braskem facility that started off at the end of 2020.

As I mentioned also during this presentation, demand of polypropylene in the US this year has grown approximately 500,000 tons, I mean for the year. And, the new Braskem facility, the capacity was 450,000. So pretty much what that is telling us is that the supply demand balance should be very similar to what was in 2020. Okay, so you could expect margins of 2022 similar to margins in 2020, just based on on the supply demand factor, okay.

In case of PET as I mentioned, there is no there is no new capacity. And I already mentioned that, in fact, you know we're short of capacity there, until Corpus Christi starts up.

So, I also mentioned regarding margins of PET that we do believe that there will be an improvement in margins in North America, polypropylene they will go back from very high margins this year to a more normal margin, similar to what we saw in 2020.

That will be at this point, our forecast, we will review these in more detail and incorporate that in our Guidance for 2022 later but that's in general, how we see things.

Now, contribution, EBITDA for CarbonLITE, okay, we could say at this point, it will not be very relevant over the next three to six months because we're just in the starting phase. Once the was the plant is up and running and assuming everything's going well, we do believe the EBITDA will be around $15 to $20 million dollars per year.

Leonardo Marcondes, Itau:
Okay, great and for the NOVA acquisition it should start contributing with margins during the second half, right? Is everything on pace with that?

José de Jesús Valdez:
Well actually, the NOVA acquisition has been accretive for us since the beginning of the year. In our original plan, the NOVA acquisition we were going to have negative EBITDA, this first year, 2021, but we have had positive EBTDA under the circumstances in margins that we've discussed.

So again, we are having positive EBITDA and we hope we will be able to improve that for next year, as we continue to reduce costs and increase volume, particularly with the specialty product, ARCEL®. Volume for ARCEL® has been low this first half of the year, as a result of tolling agreement that we have in Asia that has been on hold, but, we just extended or renewed this agreement as of last month, so we shall continue to see the improvement, you know, starting in July, so EBITDA for next year should be better than what we experienced in 2021, and certainly much better than what we had anticipated in our original project.

Leonardo Marcondes, Itau:
Okay, that's perfect. Thank you.

Alejandro Elizondo:
Thank you, Leo. Our next question comes from the line of Vanessa Quiroga with Credit Suisse. Vanessa your audio has been enabled, please unmute yourself and proceed with your question.

Vanessa Quiroga, Credit Suisse:
Okay, hi. Hi everybody. Hi Pepe, hi, Jose Carlos, Alejandro and all the team.

My question is regarding if you can give us an update on the reason why Asian PET margins have remained so strong, and also what kind of visibility do you have that these strength in margins in spreads will reflect for your operations in North America for next year. I wonder if you are already in discussions with your customers regarding the negotiations for next year. Thank you.

José de Jesús Valdez:
Look Asian margins have been very strong this year. I hate to bring this up but in reality in Asia, you have to sort of look at two different margins. One is what we call the China margin, the margin in China, and that has been, you know, during the first half of the year I would say was stronger than expected, but right now as we speak that margin is pretty much in line with what we had in the guidance, it’s around, today I saw it this morning I think it was $220 dollars, PET margin in China over PX and glycol. So margin in China it was higher than guidance during the first half, right now it’s similar. But for us, and particularly going forward, the margin that matters is not so much the Chinese margin, but the margin in Asia, and the margin in Asia, traditionally, it has been margin in China, close to $30 to $40 dollars. So if in China it's $220, you would expect margin in Asia to be $250, $260.

Today, however, you know margin in Asia is more like in the $300 figure, so what we have experienced in Asia, is the fact that China has become more separate from the rest of the countries, so now we have an $80 dollar difference and we believe this might persist for some time, and again, part of the reason of this difference has to do with the fact of the availability and cost of the containers in Asia and China in particular. As containers are not available, and freight rates have increased so much so the prices of PET in Asia have gone up, and have become different from China.

So this is something that is important, we have some of our contracts, let's say, with our customers some of them were based on China prices and some of them were based on Asian prices. Going forward, I have to say that part of the important changes that we're doing for next year, we're going to move all of our contracts and we will reference our contracts to Asian margins not to China margins, so that should be an important improvement for us going forward. Again, assuming that the difference between China and Asia remains at higher than usual levels. Okay, so that's important, but again, China has gone back to normal in terms of margins of PET, Asia remains higher than in history, because they have separated from the, from the margins in China and again, they can do that, because they don't have the pressure of having to compete with Chinese products as a result of higher freight rates and less availability and less particular reliability in terms of shipments.

So hopefully that gives you have a more clear picture of what's happening with PET in in Asia.

Vanessa Quiroga, Credit Suisse:
Yeah, Pepe that's very clear, and the feedback from customers has been that these change is reasonable? The reference to Asia?

José de Jesús Valdez:
Customers right now, Vanessa, as you can imagine, are much more interested in in reliability of supply than in $10 or $20 dollar price difference, so yes, I think that all of these factors that I mentioned are part of the reason that we feel confident that we will be able to to get an increase in our margins in most of our customers next year. So it's the difference between Asia and China, and, again, availability and cost of freight rate and in a way, the two go together, but that's the biggest change that is helping us I would say move forward with increases when next year.

Vanessa Quiroga, Credit Suisse:
Excellent, Pepe. Thank you.

Alejandro Elizondo:
Our next question comes from the line of Ricardo Rezende with JP Morgan. Ricardo your audio has been enabled, please unmute yourself and proceed with your question.

Ricardo Rezende, JP Morgan:
Thanks, Alejandro, hi Pepe, José Carlos hope you're all doing well. Actually a couple of follow-ups on my side. First one is on the Nova EBITDA, if I'm not mistaken couple of conference calls ago you had mentioned that the normalized EBITDA of this asset should be something around $20 million dollars a year. So just given how those assets are performing, how close are, are you to those $20 million a year, do you see upside to that number?

And then the second question, also follow up is related to M&A. So you're mostly seeing you guys looking at the rPET assets in North America. How do you see the environment in Europe for those assets? Would that be that something that you will be looking at, or does the focus on rPET remain mostly in the US? Thank you.

José de Jesús Valdez:
Well, let me start with NOVA, I think, as you mentioned, the equilibrium EBITDA, if we want to call it that way was in the $15 - $20 million dollars. Remember that the CAPEX for that asset was lower than $50. Okay. So, that’s the normalized EBITDA, we are not there yet, I would say we're a little bit more than 50% of that. In order for us to get there as I mentioned, we need to grow the specialty part of the business, and to continue to reduce costs.

Relative for M&A in Europe for rPET, I mean, we are, as I mentioned before, we're looking at opportunities, particularly in UK. In fact one of those opportunities we've been looking at is very much related to a potential chemical recycling, but nothing concrete yet.

José Carlos Pons:
And in addition we're looking at opportunities in South America, that’s something that could be complimentary to our portfolio.

José de Jesús Valdez:
I mean, we’re obviously looking at rPET opportunities particularly in the places where we have customers of virgin PET to complement our offer so that's right in South America and, and I would even say in Mexico we’re continuously looking for opportunities.

Ricardo Rezende, JP Morgan:
Okay, no very clear and if I may just a third question. Sorry to bother you guys, but the JV with Contour. I remember that you said that we should see an FID by the late third quarter. Does that remain the expected timeline?

José de Jesús Valdez:
We are reviewing that project as we speak. We will give update probably for the next conference.

Ricardo Rezende, JP Morgan:
Okay, very clear. Thank you.

Alejandro Elizondo:
Our next question comes from Luis Botero. He asks, great results. How is the process of proactive cultural transformation taking shape in every country and how do you see it enabling or impacting the positive result achievement in these difficult pandemic times?

José de Jesús Valdez:
Okay, look, I think the culture is always a very important enabler of the performance of the company, I think that happens in general, and particularly for us we've embarked, particularly beginning last year, and you know a month before the pandemic started we completely revisited our I will say, our vision, mission and values, particularly trying to to adapt the culture of the company, not a drastic change in culture, just to adapt be open to more innovation, more teamwork and the idea of doing that, of course, is to avoid complacency, you know, in the, in the behavior of our people.

I think sometimes, and particularly when you are successful, this becomes a big challenge, when you're being successful several years, you sort of become happy with the results and stop looking for more so, the biggest push in our effort to improve culture is what I'm saying, do not be complacent. To be in a way always trying to improve what we're doing, and the way to do that is by having more innovation, by having more people in the company participate with ideas.

Innovation is not something that we can detect for from the top up to the organization, it’s not that you have five or six people that are very smart and can find ways to improve things, it's an effort that has to come from everybody, so we're working very very hard at making sure we improve our innovation process. And again, we've been doing this for the last two years. And again, together with innovation, the other important factor that we recognize is that problems and challenges are more difficult every day and come from many different places. So for us to tackle those challenges in an effective way it’s much better if we can do that in groups in multi functional groups and that's why we're working in improving the way we operate in teams, you know, and those two factors in particular is something we’re working on a lot and I think that's going to help us maintain the continuous improvement or transformational improvements in the company.

Alejandro Elizondo:
[Slide 17]
Thank you Pepe. That was the last question we have time for today. Thanks to everyone for participating in today’s Webcast. Rest assured we will follow-up via email if we did not get to your question and make sure to visit our newly redesigned website at alpek.com. Have a great day!