

Mexichem S.A.B de C.V.

Mexichem First Quarter 2015 Results

April 22, 2015 at 1:00 p.m. EDT

CORPORATE PARTICIPANTS

Berenice Munoz – *Director of Investor Relations*

Antonio Carrillo – *Chief Executive Officer*

Rodrigo Guzmán – *Chief Financial Officer*

PRESENTATION

Operator

Good morning, everyone, and welcome to the Mexichem first quarter 2015 results conference call. Your speakers today will be Mr. Antonio Carrillo, CEO; Mr. Rodrigo Guzman, CFO; and Mrs. Berenice Munoz, Director of Investor Relations.

Following today's presentation, there will be a question-and-answer session. During this conference call, management will make forward-looking statements to assist you in understanding its expectations for future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially. Please refer to the company's press release of April 21, 2015 and the company's filings with Bolsa Mexicana de Valores for full details of those risks.

In addition, the statements during this call, including statements related to the market conditions and the future performance, are based on management's views as of today. And it's anticipated that future developments may cause these views to change. Please consider the information presented in this light. The company may at some point elect to update the forward-looking statements made today, but specifically, disclaims any obligation to do so.

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I'll now turn the call over to Ms. Berenice Munoz, Director of Investor Relations.

Berenice Munoz

Thank you, Operator. Good morning, and welcome to our results conference call. We are pleased to be here today and share with you our results for the first quarter of 2015. We appreciate your time and participation at this conference call.

The speakers, as mentioned, will be Antonio Carrillo, Chief Executive Officer; Rodrigo Guzman Perera, Chief Financial Administration Officer; and myself, Berenice Munoz, Director of Investor Relations.

I will now turn the call over to Antonio for opening comments.

Antonio Carrillo

Thank you, Berenice, and good morning to everyone. We appreciate your participation in today's conference call to review Mexichem's first quarter results and disclose the outlook for our businesses.

We are pleased to report that the first quarter results were in line with our expectations and represented the effective execution of our long-term strategy. Exclusive of PMV and Venezuela, EBITDA growth outpaced revenue growth. This, thanks to ongoing programs to increase our profit margins over time, our expanded customer base, and then markets, and our increased scale, and we made progress on our vertical integration, which of course will accelerate during the ramp-up of PMV and once our ethylene cracker is operational.

First quarter year-on-year comparisons are even more impressive when you exclude the impact of restructuring and one-time charges and the effect of stronger US dollar is producing. We included this information in our release to clearly illustrate the variations between our earnings power and reported results. On this adjusted basis, EBITDA, excluding PMV and Venezuela, increased 22% from last year's first quarter. Our EBITDA margin would have been just under 14% compared to 13.2% one year ago.

These results noteworthy in that they were achieved during the period of challenging market conditions and while we provided a breakdown tracking the impact of currency fluctuations on reported EBITDA, there were also significant defects on the volumes of our business segments, particularly reducing sales to Europe of resins and fluorine products. Overall, however, the greater scale that we have, thanks to our recent acquisitions, as well as added capacity, along with our focus on margin expansion, enabled us to achieve a strong start to 2015 and set the stage for future growth.

Looking at our business segments, I will start with the most complex to discuss, which is Chloro-Vinyl. Although pricing continued to be very weak, we were able to report sales growth of 11%, excluding PMV thanks to the addition of Vestolit, which we acquired at the end of the year. Also excluding PMV, we reported 4% growth in EBITDA, which primarily resulted from lower input cost and the adding of Vestolit. If you exclude the impact of currency translations of \$2.9 million, EBITDA would have been \$72 million, an increase of 8% over last year's first quarter. Also on the plus side, we saw progressive improvements in pricing in this chain during the first quarter, an indication that the dynamics of the business will continue to trend up at a modest pace.

PMV revenues on EBITDA were negatively impacted by the facility shutdown which continued through January as well as low sales prices. To put this in perspective, VCM and chlorine prices were down 30% from where they were in the first quarter of last year, and [indiscernible] were off 7% year on year. However, we did see more pricing stability in February and March, and volumes for the quarter were up 5%, all of which gives us confidence in the future potential of the plant and its role in Mexichem's ongoing vertical integration.

Also, as a positive sign, we saw PMV's EBITDA growth progressively in the quarter, compensating for the heavy losses incurred in January. This ensures that PMV can be profitable even in a very weak pricing situation.

In terms of the fluorine chain, the story is more straightforward. Results benefit from better pricing in both upstream and downstream operations. That said, the major driver of the change, 20% EBITDA growth, was higher pricing from fluorspar and hydrofluoric acid, both tied to the new contracts that we will be comparing against beginning in this year's third quarter. The chain's volumes were penalized by a falloff in European demand, given the run-up in US dollar and lower demand from steel industry. We have already moved ahead with programs designed to diversify our customer base in this chain and are in the sampling phase with potential new customers.

Moving to integral solutions, this is another area where it's important to look at both reported and adjusted results. We reported 6% year-on-year growth for this chain, which reflects the addition of Dura-Line, offset by the impact of US dollar appreciation. This was the main reason that we reported 20% and 11% declines in European and Latin American sales respectively. Exclusive of currency impact on Venezuela, revenues for the chain would have been up 21% instead of 6%. On a constant currency basis, we would have reported at 4% decline in European sales. Some of that relates to our disciplined efforts to eliminate low-margin products and customer sales.

Dura-Line faced softness in demand from the energy market in the US in the first quarter but was able to mitigate it with higher sales to the telecom and datacom markets. Latin sales increased 3.1% on a cost on currency basis, reflecting a rebound in Mexico, Peru, and Central America. With respect to EBITDA in integral solutions, it was flat on our reported basis, but excluding Venezuela restructuring and the currency impact, it was \$92 million, up 32%, representing an EBITDA margin of 10.5%, much more reflective of the operating progress we are making in this business unit.

And what is even more encouraging with respect to Mexichem's future growth prospects is the pace at which we're integrating Vestolit and Dura-Line acquisitions, the efficiency we've been able to garner so far and the potential for significant revenue synergies. For example, we leveraged the production capacity in Europe to increase sales of Dura-Line products. We have used Vestolit's technical expertise in our JV with Pemex. We have started to sell Dura-Line products in Latin America. We are refocusing capacity between Vestolit and our other PVC plants to increase specialty sales, etc.

To sum up, this was a strong start for 2015, and particularly noteworthy in light of difficult economic and market conditions that prevailed in the first quarter. Our increased scale and the flexibility we are building into the Mexichem organization enabled us to adapt to difficult pricing situations and find new and improved ways to serve our customer needs and allow us to enhance our profitability. While this is still a work in progress, we are pleased with the results to date. Also, we have remained focused on disciplined financial management, and we were pleased to achieve 20% reduction in the normal season of changing working capital requirements for the first quarter compared to one year ago despite increased scope of our operations since the Dura-Line and Vestolit acquisitions. Our capital spending continues to be geared toward furthering Mexichem's vertical integration and building capacity in areas of strong growth potential.

Now, I would like to turn over the call to Rodrigo Guzman, our Chief Financial Officer, to go over the financial details of our first quarter. Rodrigo?

Rodrigo Guzman

Thanks, Antonio. I will now take you through the first quarter 2015 figures in more detail.

As Antonio mentioned, Q1 was a positive period for us as we continue to improve on margins and reach double-digit EBITDA growth, excluding PMV and Venezuela. Sales increased \$115 million, or 9%, to \$1.4 billion compared to \$1.3 billion in Q1 2014. We saw a positive contribution from our recent acquisitions of Dura-Line and Vestolit with Integral Solutions' revenue growing 6% and chlorine-vinyl revenue growing 11%. We also saw 3% growth in revenue for the fluoro chain which benefitted from higher contractual prices for fluorspar and hydrofluoric acid.

These sales figures were significantly reduced by the appreciation of the US dollar against [indiscernible] in the first quarter. On a constant currency basis, first quarter sales will have increased 19% compared to a similar period last year.

Looking at sales by direct region, Mexichem's presence in the US increased thanks to the Duro-Line acquisition, bringing North American sales to 38% of first quarter sales, up from 36% in last year's first quarter. Europe increased to 33% from 32% following the Vestolit acquisition, and South America represented 24%, down from 30%, while rest of the world doubled to 4% from 2%. As you may remember, last quarter we announced that we will incur restructuring cost of approximately \$9 million in this year's Q1 related to our operations in Europe.

In the first quarter, these charges total \$7 billion and were taken in our Integral Solutions chain and reflected the closure of certain production lines and personal reductions in our head office there. We reported an additional \$2 million in nonrecurring expenses related to an increased [indiscernible] in our Integral Solutions chain. We expect to incur an additional \$4 million in restructuring costs in the second quarter related to our European operations.

Consolidated EBITDA totaled \$188 million, flat with Q1 2014. Exclusive of PMV and Venezuela operations, we achieved a double digit or 11% increase in EBITDA from \$176 million in Q1 '14 to \$196 million in Q1 '15, in line with our [indiscernible] guidance of double digit EBITDA growth, excluding PMV

and Venezuela.

Several factor of this year-on-year growth. First, we saw improved performance with higher pricing in the four chains, which resulted in a more than 600 basis points increase EBITDA margin to 35%. Second, the consolidation of Dura-Line and Vestolit contributed \$25 million in EBITDA. Third, the positive impact of cheaper raw material, including lower energy cost, boosted EBITDA, excluding PMV in the chlorine-vinyl chain, mitigating some of the impact of the significant year-on-year return in product prices. As Antonio noted, EBITDA performance on a constant currency basis is even more impressive. After adjusting for foreign exchange effects, restructuring costs, and nonrecurring expenses, EBITDA, excluding PMV and Venezuela, grew by 22% to \$215 million.

Operating income for the first quarter was \$19 million, 11% lower than in first quarter '14. In addition to the factors effecting reported EBITDA, we had a 13% increase in depreciation and amortization costs tied to our expanded asset base related to capacity expansions in Mexico and Colombia which began their operations during the second quarter of '14, investments in PMV, and the acquisition of Vestolit and Dura-Line.

Financial cost increased \$39 million to \$68 million. The appreciation of the US dollar against Latin currencies led to a \$22 million loss from the reevaluation of local [indiscernible] cash and cash equivalents, compared with \$7 million loss in last year's first quarter. Interest expense increased \$10 million year on year from which \$6 million are related to the \$750 million 144A bond issue we completed in September 2014 and \$4 million to interest expensed as financial cost related to expansion of capacity in Mexico and Colombia. These financial costs were capitalized in first quarter of '14 as the plants were in a startup phase. Additionally, we have a lower cash-on-hand position due to the acquisition of Dura-Line and Vestolit in the second half of 2014, which reduced interest income by \$6 million.

In the taxation line, our effective tax rate was 36% in the first quarter of '15 as compared to 29% in the first quarter of '14. Income from continued operations before income taxes declined by \$51 million, or 70%, in the quarter, while cash taxes increased \$10 million, or 36%. This implies an increase from 37% to 170% in the cash tax rate due to higher tax loss positions of certain subsidiaries, mainly as a consequence of the appreciation of the US dollar against other dollar currencies. On the plus side, this increase in the cash tax rate was offset by the benefit of different tax recognized by those subsidiaries with increases in tax losses leading back to a 36% effective tax rate.

Consolidated net income was \$14 million in Q1 compared to \$52 million in Q1 2014. The reduction of \$38 million is mainly due to the increase in net interest expenses of \$16 million and decrease in [indiscernible] lost in \$15 million, as was explained previously.

Moving to the balance sheet, financial dip of March 31, 2015 was \$2.4 billion while cash and cash equivalents totaled \$404 million, resulting in net financial debt of \$2 billion. The increase in net debt was primarily due to the \$750 million bond issuance in September 2014 and the acquisitions of Dura-Line and Vestolit. We ended Q1 with a net debt to pro forma EBITDA ratio of 2.3 times. This figure is based on pro forma trailing 12 months EBITDA of \$869 million, including EBITDA for Dura-Line and Vestolit. Interest covered to pro forma EBITDA was 4.2 times. Net working capital increased \$148 million compared to Q4 2014. By comparison, the first quarter of 2014, our net worth in capital increased \$184 million from Q4 2013. In other words, our cash needs fell by \$36 million year on year despite the fact that we are now a much bigger company due to the consolidation of Dura-Line and Vestolit. The increase from December to March in any single year is due to seasonality in Europe where working capital requirements are higher in the winter months.

It is worth mentioning that net working capital at the end of the first quarter in '14 was \$857 million, while on a comparable basis, the figure at the end of March 2015 was \$619 million. That represents a decline of \$238 million, or 28%, even though sales remain stable in a constant currency basis excluding PMV and Venezuela. This shows Mexichem's commitment to maintaining low leverage, with our target to keep net debt to EBITDA below two times on a long term basis.

As with our working capital management, we will limit leverage without reducing sales or profitability. Operating cash flow before capital expenditures was \$11 million higher than in the same period last year. Capital expenditures in Q1 '15 totaled \$111 million. Of this, \$47 million was invested in our ethylene cracker joint venture; \$14 million in PMV, \$50 million was spent [indiscernible]. As we move through 2015, we expect to have 70% of our capex budget to look to be allocated to our two JVs, in line with our [indiscernible].

Finally, as you know, there have been recent changes in the exchange rate regime in Venezuela; however, to date there have not been any official accounting opinions rendered on which exchange rates should be used to convert the results of our Venezuela operations into our reporting currency. We are reviewing our options with our view forward adopting the most conservative policy with respect to our Venezuelan operations.

In full year 2014 and in the first Q of 2015, at an exchange rate of 12 bolivars per dollar, Mexichem's Venezuelan operations represented only 1.1% and 1% of total company sales and 2.1% and 1.2% of total EBITDA.

In closing, our financial position remains strong as we continue to deploy financial discipline across the organization and work toward improving margins while growing our business unit. I will now turn the call back to Antonio for closing comments.

Antonio Carrillo

Thank you, Rodrigo. Now let me review our outlook for the markets we operate in and how Mexichem is positioned to address all the challenges and opportunities that we see before us.

Our company, as well as our global peers, continue to face tough business conditions. Pricing remains low for most of our [indiscernible] categories. Economic conditions have reduced demand for certain [indiscernible] markets and lower oil prices while benefitting our costs in both our Integral Solutions and chlorine-vinyl chains could reduce activity in oil producing countries. This being said, we saw signs of improved conditions as the first quarter progressed, and we're cautiously optimistic that there will be higher demand and modestly improved pricing as we move through the year.

Whatever the scenario, we believe that Mexichem has some key advantages that we did not have even a year ago and that will enable us to show positive operating progress in 2015 and beyond. One is increased scale, and we're working hard to leverage leadership positions in key [indiscernible] categories. We are refocusing our sales effort into more value-added products and reducing our focus on commodity production in order to increase our margins. We are offering a broader array of specialty products that will enhance profitability over time, and we are reaching a larger customer base with an expanded growth portfolio.

Another advantage is diversification. We are serving an expanded number of end markets. From a geographic standpoint, the Dura-Line acquisition significantly increased our competitive presence in the North American market. We will open [indiscernible] plant in India next month. We're evaluating two greenfield facilities in the US for Dura-Line product lines, and we will expand our specialty capacity in Vestolit. Also, we are making progress on our vertical integration strategy. Recent production results

of PMV were encouraging. There was another brief plant closure in April, but we are expecting the plant to ramp up ethylene and [indiscernible] production in the coming weeks. Our ethylene cracker joint venture Oxy with remains on schedule and on budget.

In summary, we are pleased with the first quarter results as they came in as expected. And based on the forecast from our operating units, we reaffirm our expectations that Mexichem will achieve double-digit EBITDA growth in 2015, exclusive of PMV and Venezuela, as we continue to focus on driving sustainable, profitable growth.

Operator, we would like to open the call for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press * then 1 on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press * then 2. At this time, we'll pause momentarily to assemble our roster.

The first question comes from Frank McGann with Bank of America Merrill Lynch. Please go ahead.

Frank McGann

Hi, thank you very much. Just a question following on your comments at the end here about the outlook, as we go through the next couple of quarters, I was wondering if you could say specifically what factors would lead to improvements in results, whether it be pricing or demand in certain markets? If you could be maybe a little bit more explicit about the kind of demand trends you're seeing in Europe and infrastructure in Mexico and around Latin America as well, just to give us a better idea as to what's going to really drive an improve as we go through the remainder of 2015.

Antonio Carrillo

Sure. This is Antonio, Frank. So, let me go business by business. Let me start with Chloro-Vinyl. Chloro-Vinyls we saw improved pricing progressively throughout the quarter, so I think we hit bottom in January and early February, but we are seeing better things as the quarter moved.

We also saw improved demand for our products in some of the regions that were probably the most affected at the end of the year with a significant drop in oil prices with slow demand. So, at the end of the year, as price of oil were coming down, people stopped buying expecting prices of PVC to be lower tomorrow than they are today, so that reduced demand significantly. As oil prices stabilized, we started to see improved demand and improved pricing also. So, that's one of the areas that we see in the second quarter and third and fourth moving progressively better.

As I mentioned — continuing with the chain, as I mentioned in PMV, the results for the quarter show a breakeven situation; however, that's heavily affected by losses that we incurred in January. If you look at the results month-by-month, February was better. March was the best month we've had since we got this joint venture going, both on volume size and on EBITDA. And that gives us—and it was during a period of very low pricing, so that gives a lot confidence that as we increase capacity, and we expect capacity to start increasing in the month of May, we will see better numbers from PMV.

Going to the fluorspar, we expect to continue to see stronger pricings compared to last year, especially in the first and second quarters. As you go into the third quarter, you will have a more even comparison base since the contracts last year started in the third quarter. So, you will have a stronger second

quarter than you had last year. And in the third quarter, as I mentioned, we saw some weakness in demand in the first quarter coming from Europe specifically because of the dollar situation and some weakness also in the steel industry, but we also see some signs of a stronger demand in some of our other product categories and specifically customers; but we don't see a year with very high volumes compared to last year. We see a relatively flat year compared to last year in volumes, just with stronger pricing.

As we move into the pipe business, our Integral Solutions business, I think it was a — without the restructuring of the currency — the great results we had were not shown completely. Europe and euros had the best start of the year in seven years, and we saw improved demand in the countries where we are, let's say, focusing on. At the same time, we started to, let's say, focusing on improved margins so we did reduce some sales to customers and on product lines that we didn't see margins where we wanted them to be, so you'll see that also masking the results. But, overall, Europe did very, very well.

Our Latin American business, as you know, Brazil is our biggest business in Latin America, and Brazil, apart from the huge devaluation we've had, is also going through a slowness in demand; however, if you look at it in local currencies, it was above last year. Volume was above last year, so not all of it is bad news. It's just the results are masked by the valuations. We don't expect huge growth in Brazil; we expect a relatively flat year. But on the other hand, we have countries like Mexico, Central America, Peru that are starting to come stronger. I would say that they are better in terms of EBITDA and margins than they are in terms of volume growth, but we see improvements specifically in these three markets also on the volume side.

And then Dura-Line has basically two large businesses, the oil and gas and water business in the US and the rest is mainly a telecom and datacom business. The oil and gas business, as you can expect, was very low in the first quarter, but the datacom and telecom was very strong, and we ended the quarter with very strong backlogs and very strong order intakes. So we believe that the Dura-Line numbers will show increased sales and margins coming from, specifically from the datacom business.

As I mentioned, we're opening our fourth plant in India. India is doing very well. All of the countries where Dura-Line is present did better than last year significantly, the US probably the least because of the oil and gas, but all the rest of the countries grew in a very significant way.

So, I hope that gives you a perspective of where we see things coming.

Frank McGann

Yes. Thank you very much. I was wondering, if I could just follow up just quickly, in terms of your net to EBITDA, how do you see that going through the year? Will that likely come down as you go through the next several quarters?

Antonio Carrillo

We expect, as we've mentioned since the end of the year, we expected the first and second quarters to be the peak of our net debt to EBITDA. We had a good first quarter. I think the working capital helped us a lot. We still see a second quarter with significant opportunities to renew working capital and generate great cash flow; so we expected the months of April and May to be the peak of our net debt to EBITDA, similar a little above of the closing of first quarter, and then it drops, and we continue to expect to close the year at two times net debt to EBITDA.

Frank McGann

Okay. Thank you very much.

Operator

The next question comes from Diego Mendes with ITAU BBA. Please go ahead.

Diego Mendes

Yes, guys, good afternoon. So my first question is on PMV like you mentioned that in January it was a very bad month but in the end improved, but now in April, operations stopped again. So I'd like to understand what is happening with the operations and when we are going to see them running full with no operational problems? And I also, if you could expect positive EBITDA contribution already now in the second quarter? And my second question is on Dura-Line and Vestolit. You mentioned there are a lot of synergies that the operations are running very well, so I'd like to understand or if you could mention to us, what is the size of synergies that you are expecting from these two operations and when we are going to see them fully, let's say, fully delivered into your earnings? Thank you.

Antonio Carrillo

Sure. This is Antonio, Diego. So, let me start with PMV. What I mentioned, it was a short stoppage in the month of April, and the reason for that is that some adjustments that we have to make to the plant for the increased capacity that we are expecting. So we installed, during the month of April, a new piece of equipment that is being, at the moment, finalizing all its connections and all the instrumentation on the equipment. And that will allow us to start ramping up capacity in the month of May. So, the operations, since we started in January, has been very stable, the most stable that we've seen. And even in the month of April, without this stoppage, it was relatively stable. So we don't expect a significant hiccup in the results in April, and we expect positive EBITDA contribution for PMV in the second quarter. So, as I mentioned, as we have gone through the year, things have improved. Stability is improving, and based on some of the comments I made in the first quarter, we are also doing a lot of progress on the improvements on the business model that we discussed in the closing of the year. So, I'm optimistic. I think you should see the plant running almost at full capacity after our next stoppage which will be sometime in late July or early August, and that will take us almost to full capacity. So, as we achieve stability and grow capacity, things should get better. Also, pricing, which had fallen year over year over 30%, is starting to pick up, so the month of April has better pricing than it had in March. So, things are starting to look up better.

On your second questions on synergies, it's very difficult to put a number on specific synergies because what we have seen both from Vestolit and Dura-Line during the time we've had them, I think we have two fantastic organizations with two fantastic teams. Starting with Dura-Line, let me tell you that the focus right now is on growing their product line. We believe there's significant synergies in Latin America, so we've opened offices for them in the Andean region, Colombia and Ecuador, and we also opened offices for Dura-Line in Brazil. So, the synergies we expect to be faster are coming from increased sales in Latin America.

In Europe, as I mentioned, we are using Wavin's capacity to sell more of Dura-Line's product line. Wavin has a similar product line that we are in the process of consolidating with Dura-Line to expand our portfolio in Europe. And the other thing that we are using Dura-Line, which is something we have not mentioned but it's a very important contribution of Dura-Line, Dura-Line came with a strong organization. In the US we have three different organizations for Mexichem. One was fluoro. One was chlorine-vinyl, a very small organization for the whole entity of Mexichem. At the moment, we are consolidating all of the back office of Mexichem in the US to generate synergies from that but also to establish a stronger presence in the US for compliance and all those purposes which are important. So, that's one of the other things that it's having. So, overall Dura-Line, what we are focusing is on growing the product line in the rest of the geographies where Mexichem is.

On the Vestolit side, Mexichem used to export a lot of specialty resin to Europe. Europe used to

produce a lot and export to other parts, so we are in the process of aligning the production to minimize transportation costs and at the same time, we will announce internally in the organization a single, unified specialty resin unit that will take care of all these specialty resins and grow the business.

So, that's where I can take you. We expect significant growth from both companies, and the synergies will be coming in as we do all these action plans.

Diego Mendes

Okay. Thank you very much.

Operator

The next question comes from Lillian Starke with Morgan Stanley. Please go ahead.

Lillian Starke

Hi, good morning and congratulations on the sequential improvement on the results. Two questions: The first one is regarding the fluoride volumes. If you could provide us with some color of how much of the volumes in Europe represent of the fluoride volumes, just to have a sense of the magnitude of the decline. And then in terms of Dura-Line, how much of your revenue comes from the oil and gas business, and most importantly, in the US that would be?

Antonio Carrillo

Sure. I don't have the exact number of fluor, but I can give you a rough estimate. Fluor, the volumes that dropped were mainly the metallurgical fluorspar, not the acid grade, the acid grade a little bit, but mainly the metallurgical fluorspar. The metallurgical fluorspar is about 50% of our volume, and of that volume, around 15% to 20% comes from Europe. That's more or less a rough number that you could have — so 20% of 50%.

Having said so, we also saw improvements in the last part of the quarter, so we don't expect the magnitude of drop that you saw in the first quarter to be for the year. That's not what we expect. And the other thing that you have to take into account, which is in the fluor volumes, it's very difficult to estimate the timing of shipments; and shipments, specifically to Europe or Asia, are high-volume shipments. So, when you have a shipment delayed by a week or so, it falls into the second quarter and the following quarter, and that blurs the results. So, yes it was a significant drop in fluor in the first quarter, but it's not a reflection of what we expect for the year. As I said, we expect a similar year in volume terms, so we just—we have a slow first quarter.

On the second question on Dura-Line, about 25% to 30% of Dura-Line's business in the US comes from oil and gas, so that's the number that I can give you. It's slowed significantly, but as I said, it's compensating with the datacom business, which we are seeing extraordinary demand, so we don't expect this to be a situation that changes our view on Dura-Line for the rest of the year. I think if the oil and gas market recovers, which we don't know, if it recovers, we will—I think it will just enhance our results for Dura-Line for the year.

Lillian Starke

Okay. Great. Thank you very much.

Operator

The next question comes from Luis Miranda with Santander. Please go ahead.

Luis Miranda

Hi, Antonio and Rodrigo. Good morning, thanks for taking the call. Antonio, sorry to go back to Dura-

Line and Vestolit, but just want to understand. This \$25 million in EBITDA for the first quarter seems to be a number that's ahead of expectations, especially considering seasonality for the second and third quarter. I just want to understand this is correct. And the second point is with PMV. You mentioned that maybe for the third and fourth quarter; you'd be on full capacity. Is this an improvement, because I thought that full capacity was going to be achieved in 2016 with the, well, basically, 400,000 tons? If you could clarify on that one.

Antonio Carrillo

Sure. Let me start with the first one. So, Dura-Line, Vestolit, to give you a little more color on the numbers for Mexichem, as I said, the numbers in total were based on our expectations. We were right there where we expected them to be for the first quarter. The mix was different, though. I think PMV we were below our expectations, so as I mentioned, the stoppage of the plant continued through January, and we experienced significant losses in January. So we expected a PMV that was higher than what we got simply because of January. February and March were on schedule where we expected them, but we expected a PMV that was higher than when it came out.

Having said that, we got better results, and other parts have compensated for PMV. So I would say that if you look at PMV and resins were the two ones that were below our expectations, but both Dura-Line, Vestolit, and Europe compensated for what we saw in those businesses. So yes, I think Dura-Line and Vestolit did better than the original expectation. I think, as I said, they have, especially Dura-Line, has wind on their back, and it's moving along very well and it's excited about what they're seeing and with the plant that we're opening. Vestolit is also doing very well. Probably, if I can see some clouds in Vestolit, if you have followed, there's some force majeure being announced in Europe on ethylene. It has not affected us yet, but could be, but I hope it doesn't affect us in the near future. But, overall, Dura-Line and Vestolit did very good, and they did ahead of where we expected them to be.

Going to the PMV and your question on capacity, what I mean by full capacity is that we will be at a run rate of full capacity. Of course, this year we will not produce at full capacity, but we will be at full capacity of the VCM plant. We still are working with PMV on ethylene. Part of the project includes an overhaul on the ethylene plant. We believe we're going to need a few additional months to increase the capacity of ethylene. That's going to be decided sometime at the end of the year. The plant will be operating at full capacity based on the capacity of ethylene that we have by the end of the year. So, I'm not sure if I'm being clear but that's—we are, let's say, very encouraged by the progress of the capacity we see in PMV.

Luis Miranda

No, that's very clear. Thank you. And two other questions. You mentioned the recovering some of the refrigerant volumes and prices. I don't know if you could just give us some color of how much is that? And a question for Rodrigo, tax rate going forward, what's your best estimate? Thank you.

Antonio Carrillo

So, refrigerant, it's a strange combination, and the combination is the following. So, in the US, with the loss of our anti-dumping case, of course the Chinese imports started coming into the US again, and we saw price decline in the US. As you know, we are going through the appeal, and we believe it's going to be a successful appeal, and we are working through some of the strategies to defend ourselves in what we consider to be an irrational market and irrational selling into the US.

However, that was compensated by Europe. In Europe, last year, the European governments announced a new quota for import sales of fluorinated gases into the European markets. The quota was determined by the amount of fluorinated gases that were sold by the different companies in the previous three years, I think. And, therefore, Mexichem got a very large quota compared to what we

were selling. So, we have improved volumes and improved pricing coming in Europe that have compensated for the US.

So, overall, it was a better quarter than we expected on the refrigerant gases. We don't expect huge things from the refrigerant gas going forward this year. We expect a relatively flat year compared to last year. And depending on our anti-dumping procedures, we could see that change, but it's going to take some months.

Rodrigo Guzman

In the tax rates, Luis, this is Rodrigo Guzman speaking, always when you work with different taxes it's—to understand that, it's very difficult. So in general, what I said is that the average cash tax rate for Mexichem will be 31% in the long run.

Luis Miranda

Okay. Perfect. Thank you, Rodrigo. Thank you, Antonio.

Operator

Again, if you have a question, please press * then 1. The next question comes from Fernando Perez with GBM. Please go ahead.

Fernando Perez

Good morning and thank you for the call. I have a few questions. The first one is regarding the policy that you expect to implement in Venezuela. What are you evaluating or why are you not assuming that policy right now and what are the expected effects that you expect with this policy?

Antonio Carrillo

Rodrigo, would you mind speaking again for Fernando?

Rodrigo Guzman

The issues that's in Venezuela at the end of February, the government merged the two systems that they had in the past SICAD I and SICAD II. They mainly disappeared the SICAD II, which was 52 bolivars per dollar, the exchange rate in average, so they remained with 12. But they also create a new one, which the name is SIMADI. And in that regime, the exchange rate right now is 170 bolivars per dollar. Up to now, there's no official news from the accountants that could say which exchange rate we can use in order to change the Venezuelan operations into our currency report.

So in this quarter we, in fact, in the next month, we are going to start reviewing what is happening in Venezuela really and discussing with the auditors and then decide what will be the exchange rate that we are going to use from the second quarter of '15 going forward.

Antonio Carrillo

This is Antonio. To calculate the impact, we look at the results from last year. First, second, and third quarter were calculated with 630 bolivars per dollar. So if we move to the 170, which is, let's say, the extreme, you could see a significant decline which, to be honest, I think Venezuela is such a small operation for Mexichem that has created so much noise because of the irrationality of the exchange rate situation that taking it away from the numbers basically makes life simpler for everyone.

Fernando Perez

Okay.

Antonio Carrillo

But what I can tell you also about Venezuela is we are making money. The operation is running good. It's not needing cash. It doesn't have debt, so it's a fully independent organization that's self-sufficient in terms of cash, in terms of funding, and the raw material is bought locally, and it supplies a very important part of the Venezuelan society. So, it's an important operation locally, and it's not requiring funds from Mexichem at all.

And even if we evaluate that thing at 170, at the end of the year, it represents 1% of our sales and 1.2% of our EBITDA, so it's nothing. It's immaterial for Mexichem, really.

Fernando Perez

Okay. Thank you. Just another question, I was wondering if you have any advice regarding the possible technology change of the refrigerant gases in the automotive industry. Because if I remember good, you were supposed to make a, well the industry was supposed to make a decision during 2015.

Antonio Carrillo

Well, the decision in the industry has been made a while back, meaning that the new refrigerant in Europe has to start in 2017 with the new platforms of cars. So Europe is using a deadline to start using this new refrigerant, and what it means by new refrigerant is a refrigerant that has less than 150 global warming potential scale. Mexichem has one gas that meets that and, of course, our competitors have a different one, and that's where we are today.

The US has not made that decision of changing in 2017. It's using a more carrot approach. They're giving incentives to car companies that reduce their CO₂ footprint. There is not a deadline for this to happen in the US. It will happen over time. What I can tell you is our plant is running at full capacity. We see at 2015 with our plant making the gas, running at full capacity. This is the gas that's being penalized by the Chinese imports, but overall we see volumes relatively stable for our plant this year, granted at lower prices because of Chinese. And we see the same thing for 2016, so it's not something that's going to disappear overnight. This gas has other applications. In automotive, there's a significant portion of our demand that comes from other applications that have nothing to do with automotive. So, it will be a transition. What's not been decided by all the car companies is the type of gas to use, but every car company will make their decision in time.

Fernando Perez

Great. Thank you very much.

CONCLUSION

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Antonio Carrillo for any additional closing remarks.

Antonio Carrillo

Well, thank you very much for attending the call and I look forward to talking to you in the next call three months from now. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.