

Mexichem

Second Quarter 2015 Earnings Results  
Conference Call

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**CORPORATE PARTICIPANTS**

**Antonio Carrillo** – *Chief Executive Officer*

**Rodrigo Guzman Perera** – *Chief Financial Officer*

**Berenice Munoz** – *Director of Investor Relations*

## **PRESENTATION**

### **Operator**

Hello, everyone, and welcome to the Mexichem Second 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 an opportunity for questions and answers.

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 results and events to differ materially. Please refer to the company's filings with the Bolsa Mexicana de Valores for full details of those risks.

In addition, statements during this call including statements related to the market conditions and future performance are based on management's views as of today, and it is anticipated that future developments may cause those 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 will 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 second quarter of 2015 as well as the first six months of the year. We appreciate your time and participation in this conference call.

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

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

### **Antonio Carrillo**

Thank you, Berenice, and thank you, all, for joining us for today's call. I am pleased to report that our second quarter operating performance came in pretty much as we expected, and adjusting for Venezuela and PMV, our EBITDA growth outpaced revenue growth. This was especially noteworthy given that we continued to operate in a tough pricing environment in some of the end markets we serve, and we faced currency headwinds which significantly impacted our year-on-year comparison.

Later in the call, Rodrigo will provide detailed breakdowns of our results on a constant currency basis and exclusive of special charges. These results show that the second quarter of our underlying operating performance was quite strong with revenues on EBITDA up 17% compared to last year's second quarter. Also, while the early traction we are getting on the number of our strategic initiatives are not yet meaningful to our financial results, our methods on profitability over volume is resonating across our organization, and the expanded margins we are achieving in our Chloro-Vinyl and Integral Solution chain this quarter, demonstrates this point.

In the second quarter, we reported EBITDA growth adjusted for Venezuela and PMV of 8% on 6%

sales growth, driven by a more favorable product and geographic mix, the consolidation of our Dura-Line and Vestolit acquisitions as well as improvements we are making throughout the company.

Looking at our business segments, the Chloro-Vinyl chain produced solid results this quarter, with sales growth of 9% and EBITDA growth of 14%. Volumes were actually up 29% on a year-on-year basis, but average PVC resin pricing remained under pressure mainly due to exchange rate movements in some of our most important markets. Low PVC pricing has been partially offset by reductions in both VCM prices as well as energy costs in our Mexican operations. Also, during the quarter we were not able to run our European business at full capacity due to several force majeure in the region which created shortages in the ethylene market.

We are also experiencing positive trends in our PMV operations, which is part of the Chloro-Vinyl chain. Despite low VCM and caustic soda prices, the stable production we achieved in the second quarter allowed us to absorb our fixed costs. At the end of the quarter we ran the plant at an annual run rate of 230,000 tons. In the first half of 2015, our VCM production increased 13% compared with the same period last year. PMV's results were also positively affected by the ethylene shortages in Europe which allowed us to export ethylene to that region. We are cautiously optimistic that there will be progressive production growth in the remainder of 2015.

The Fluorine chain performance was significantly affected by the decline in volumes of metallurgical fluorspar. We sell metallurgical fluorspar mainly to two industries: steel and cement. Demand from the steel industry has been soft and is likely to continue to stay that way for a period of time, and therefore we are focusing our near term sales and marketing efforts on increasing our sales to the cement industry. Longer term, we are building a business development area within this group whose mandate is to further diversify our client base and end markets. Fortunately, some of the impact of lower volumes in metallurgical fluorspar has been offset by better performance in our acid grade fluorspar and hydrofluoric acid units, but in the third quarter we will face more difficult year-on-year volume comparisons. With respect to the downstream part of the Fluorine chain, we continue to see positive trends in our European operations.

Now let me talk about the Integral Solutions chain. In the quarter, the Integral Solutions chain posted 10% EBITDA growth on 1% sales growth, reflecting the benefit of the contribution of Dura-Line's acquisition, where softness in demand from oil and gas clients was offset by higher sales to the telecom and datacom end markets. This is the chain that is most affected by the appreciation of the US dollar against the euro and the various Latin American currencies. Looking at it purely on a constant currency basis, ex-Venezuela, sales were up 23%, more closely tracking the 25% increase in volume, and EBITDA was up 37%. On a constant currency basis, European sales would have been flat and EBITDA would have been up 14% in the quarter and 16% year-over-year. This increase in EBITDA and margin reflects better economic conditions in Europe, significant efforts by our team to make improvements in some of the least profitable countries we operate in, and the restructuring we have made in the whole region, also our focus on selling products that have more acceptable margins.

In dollar terms, our Latin American business experienced significant decline in revenues resulting from exchange rates; however, they were able to post increased EBITDA in the second quarter compared to last year. The results of our LatAm operations are noteworthy since our largest market is Brazil, which as you know is going through tough times. The other countries we operate in were able to compensate for Brazil's performance.

On a constant currency basis, our LatAm operations, excluding Venezuela, would have shown a 6% sales increase and 24% growth in EBITDA. This is an extraordinary accomplishment given the general

weakness in the region. Our recent investments in new products and our focus on the retail sector have enabled our business to continue to perform very well.

To sum up, our second quarter performance showed significant strength and resilience in our operating segments. At the same time, we continued to make solid progress on our long-term strategy and have set the stage for a stronger second half.

Finally, it is very important to highlight our cash flow performance for the first half and the quarter. As you know, 2015 is by far the year with the highest cap ex requirements in Mexichem's history because of our two joint ventures with Pemex and Oxy; therefore, we have been focusing on becoming a more efficient company in terms of cash. The first half of the year was crucial because it is normally the time when Mexichem uses cash to fund strong seasonal demand. Yet on a comparable basis, during the first half of 2015 Mexichem needed \$56 million in additional net working capital, while in the same period last year, our needs were \$283 million.

This is a great accomplishment by all of our businesses, and we expect that the second part of the year to deliver stronger cash performance given the seasonality of demand.

To give you more detail on all this, I will turn over the call to our CFO, Rodrigo Guzman, to review Mexichem's financial results. Rodrigo, please go ahead.

### **Rodrigo Guzman Perera**

Thank you, Antonio. I will now take you through the second quarter 2015 figures in more detail and comment on first half 2015 results. As Antonio mentioned, our second quarter operating results met our expectations, because even with strong headwinds due to the exchange rates, we continue to grow revenues and expand margins.

In the second quarter, revenue increased \$64 million year-on-year, or 4% to \$1.5 billion, thanks primarily to the contributions from our acquisitions of Dura-Line and Vestolit which took place respectively in September and December of last year. On a constant currency basis and excluding PMV and Venezuela, total sales would have increased 17% year-on-year.

Looking at the second quarter revenue highlights of the three operating segments, the Chlorine Vinyl chain posted 9% sales growth in the second quarter driven by the consolidation of Vestolit, which more than offset the 12% decline in PMV sales, as a result of lower VCM and caustic soda selling prices. The Fluorine chain's revenues declined 2%, mostly due to lower volumes of metallurgic fluorspar, which is sold mainly to the steel and cement industries. Integral Solutions' second quarter sales increased 1% to \$830 million, mainly reflecting the consolidation of Dura-Line. On a constant currency basis, however, Integrated Solutions sales were actually up 19%, and if you exclude Venezuela, the year-on-year increase moves up to 23%.

Turning to sales by region, North America and Europe continue to increase as a percentage of sales representing 39% and 36% respectively of total second quarter sales, thanks to Dura-Line and Vestolit acquisitions. Specifically, the US represented 17% of sales this quarter compared to 10% in last year's second quarter.

EBITDA for the second quarter was \$266 million, up 3% compared to the second quarter of '14. EBITDA, excluding PMV and Venezuelan operations, increased 8% to \$250 million; and after additional adjustments for currency translations and restructuring costs, the year-on-year improvement in EBITDA would have been 17% to \$272 million. The key factors benefiting the second quarter EBITDA performance were the consolidation of Dura-Line and besides PVC resins, the positive impact of lower

cost raw materials on the compounds business, lower electricity costs that benefit our derivatives business, higher and more stable production of VCM in PMV, and the consolidations of Vestolit resulted in EBITDA margin expansion of 71 basis points in the Chloro-Vinyl chain. In addition, EBITDA margin in Integral Solutions expanded 123 basis points, while Fluorine chain EBITDA margins remained stable.

Operating income for the second quarter was \$173 million, 10% higher than the second quarter of the last year. This was due to the factors that I just mentioned as well as lower depreciation and amortization costs due to foreign currency translations in our operations in Europe and Brazil where our functional currency is local. We also had lower year-over-year depreciation and amortization costs in the second quarter in PMV due to the increase in the useful life of the assets related to the investments we have been making in the Pajaritos plant as part of the revamping process.

Financial costs decreased 16% or \$12 million to \$62 million. This was due to lower FX losses, partially offset by higher interest costs following our bond issuance in September of 2014. Our effective tax rate for the quarter was 38%, similar to what we recorded in the second quarter of 2014. There was an increase from 39% to 62% 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 global currencies; however, this was offset by the benefit of deferred tax by both subsidiaries which resulted in a return to the 34% level.

The company reported net majority income of \$64 million compared to net majority income of \$50 million in the second quarter of '14, an increase of 29%. A brief review of first half of 2015 results shows a 6% increase in reported revenue to \$2.9 billion, which was driven by a combination of acquisitions and organic growth. On a constant currency basis and excluding PMV and Venezuela, total sales would have been up 19% over last year's first half.

First half EBITDA was \$464 million, 2% higher than the \$454 million reported in last year's first half. EBITDA, excluding PMV and Venezuela, increased 9% to \$446 million, and on a constant currency basis excluding restructuring and non-recurring charges, EBITDA would have increased 19%. In addition to the factors leading to Q2 EBITDA growth, first half EBITDA performance benefitted from better margins in our Fluorine chain.

2015 year-to-date operating profit was \$263 million up 2% from \$259 million, while net majority income was \$83 million down from \$99 million in the first half of 2014.

Moving to the balance sheet, and as Antonio highlighted, we significantly improved our net working capital requirements reducing our needs in the second quarter of '15 versus the second quarter of '14 by \$175 million and by \$218 million in the first half of the year. Financial debt, as of June 30, 2014, was \$2.4 billion, while cash and cash equivalents totaled \$604 million, resulting in a net financial debt to \$1.8 billion. The year-over-year net debt increased, was primarily due to the bond issuances of September 2014, and the acquisitions of Dura-Line and Vestolit.

Our net debt to pro forma EBITDA was 2.1 times and a solid improvement of 20 basis points compared to 2.3 times at the end of the first quarter of this year, and we expect our net debt to pro forma EBITDA to be close to 2 times by the end of this year which is ahead of our earlier forecast. Interest coverage to pro forma EBITDA was 3.9 times at the end of the second quarter of '15.

Operating cash flow before capital expenditures was \$246 million in the second quarter of '15, a significant increase from the \$54 million reported in the second quarter of last year.

Cap ex in the second quarter of '15 totaled \$140 million of which \$65 million was invested in the

ethylene cracker, \$16 million in PMV, and \$59 million was allocated to organic projects. Year-to-date cap ex were \$251 million of which \$112 million was invested in the ethylene cracker, \$30 million in PMV, and \$108 million in organic expenditures. For full year 2015, we reaffirm that our capital expenditures will approximately be \$700 million with 70% of our cash, our budget allocated to increase vertical integration through our joint ventures and most of the remainder earmarked for the fast-return, capacity expansion projects.

I will now turn the call back over to Antonio for his closing comments.

**Antonio Carrillo**

Thank you, Rodrigo. Now I will give you additional insight into the trends that we expect as 2015 continues to unfold.

First let me talk about the three main headwinds I see. First, exchange rates which will continue to affect the non-dollar denominated countries. Second, there are clearly global issues affecting demand for some of our products, especially metallurgical fluorspar. And third, we continue to watch the Brazilian situation closely since it is the largest country of our pipe business representing 14% of our Integral Solutions' revenue. Year-to-date it has performed very well in local currency, but the economy continues to deteriorate.

On the positive side, we are starting the second quarter with no raw material limitations in our Chloro-Vinyl chain for the first time in almost two years. PMV has returned to healthy profitability and is starting to increase production. Our pipe business continues to show strong performance. Within this environment, we believe that Mexichem is more resilient than it was even one year ago thanks to the increase in scale and diversification that today we have following the Dura-Line and Vestolit acquisitions. We have the ability to scale production quickly and the flexibility in our commercial strategy to take advantage of pricing differentials within the various geographies in which we operate, and based on our first half results and our outlook for the second half, we expect to achieve double-digit EBITDA growth in 2015, exclusive of PMV and Venezuela.

To drive future growth, we are addressing significant cross-selling opportunities by using our different operations as growth platforms. As an example, our Fluor business is starting to sell metallurgical fluorspar in Brazil using our pipe business' resources there. It is also using Dura-Line's presence in India to develop that market. At the same time, we are serving an expanded number of end markets worldwide, and we continue to drive additional organic growth through capacity expansion. A few examples are: we opened our fourth pipe plant in India in the second quarter, and we are already looking for the site of the fifth plant; we announced the expansion of our specialty capacity in Vestolit; we have approved a new green field facility for Dura-Line in the US; and we opened a new water tank line in Brazil which is already operating at capacity.

Vertical integration remains a key pillar of our strategic plan and we are making significant progress in this regard. For the first time since PMV, the joint venture with Pemex. began operations, we recorded positive numbers this quarter in both the chlorine-caustic soda business and our VCM ethylene business. Also, we are becoming more stable every day. Our ethylene cracker joint venture with Oxy continues to be on time and on budget.

In summary, we are pleased with our progress to date in 2015, and we continue to expect a stronger performance in the second part of the year.

Operator, I would like to now turn the call to questions.

## QUESTIONS AND ANSWERS

### Operator

Yes. Thank you. We will now begin the question-and-answer session. To ask a question you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Nicholas Littman with Morgan Stanley.

### Nicholas Littman

Hi, good morning. Thanks for the call and congratulations on the numbers. First a question on the piping business that really did a remarkable turnaround. Can you talk a little bit about Mexico's role? You know, what was the delta from different factors? With respect, you did a good job in Dura-Line, Mexico, Europe. Can you try to just sort of discuss the weight for these different deltas, and also how should we think of our profitability in this division going forward?

Then the second question is related to the PVC profitability excluding the Pemex JV. It looks like you are kind of flat in terms of EBITDA per ton. Congratulations on Pemex, but can you talk a little bit about how you are affected through your profitability? And then I have a follow-up question.

### Antonio Carrillo

Sure. This is Antonio, Nicholas. So let me start first to give you a little more color on the pipe business starting with Latin America. As you can imagine in dollar terms, and I mentioned in Brazil it was the country that really pulled those down in this quarter, I mentioned it's 14% of the total revenue of the total pipe business, but it's about 30% of the Latin American business. So it's a significant part of our business.

As I mentioned, in local currency, Brazil is performing extremely well. We are a little above last year; however, when you translate it into dollars, it doesn't look very pretty. At the same time, we had countries—to give you which ones really compensated, the Mexico business really made a big turnaround. It's a business that's coming from very low profitability in 2013, improvement in '14, and improvement in '15. So it's really helping us, and the good news that I see in Mexico is that for the first time our Mexican business is turning into a home business. Historically it's been focused on infrastructure and little by little we've been turning it more into what we like which is the self-construction market, so that's where we're moving the business.

The other two countries that did a remarkable—three regions really, the Central American region did a fantastic job, Columbia has done an incredible job because they had a significant evaluation and they were in dollars above last year, and Ecuador also came very strong. So, I think overall, the region performed very well, and with the exception of Brazil, most of the countries were above last year.

In Europe, it's a combination of several things, as I mentioned in my talk. One is the economy is helping us. The second is, there are some countries that historically were not very strong for us and were having significant, let's say, bad results. And there's been a good effort from our team in fixing those, so it's more than adding, we are reducing the losses or they're not losing any more, but we are stopping the bleeding in some countries that were really affecting our business. So part of the restructuring charges we're taking is precisely to do those things, and the zero-based [ph] budget team that we have going around, both in Latin America and Europe, is really helping us improve on our cost side.

And finally, as I've mentioned, there's been a focus more in the company on reducing the amount of sales we do in certain countries, certain customers, and certain products that were not profitable. So we are reducing the amount of products we sell that were really not profitable for us.

Finally, on Dura-Line with the exception of our oil and gas business in the US, all the countries performed well, and the US part of the datacom and telecom business performed really well. So I think the overall business, that's a little color of how I see the things that happened during the quarter.

For the rest of the year, as I mentioned, my biggest concern continues to be the Brazilian economy. The third quarter is normally the strongest quarter of our business there. In local currency, I expect the business to perform well, but turning into US dollars is always a challenge.

On your chloro-vinyl questions on the margins on the chloro-vinyls, when you look at volumes in that business it's very difficult to—when we talk about volumes you have volumes of PVC, you have volumes of caustic soda, then you have volumes of chlorine. And the mix of problems really makes it very difficult to compare profitability on a ton-per-ton basis. What I can tell you is that during this quarter, even though volumes were significantly up, they were up mainly in Europe. Most of the volume that was up was in Europe because of Vestolit.

The volume in our Latin American business—so the plants in Mexico and Columbia, the two big plants—continue to be, year-to-date they are below last year still, but for the quarter we are basically catching up. They are starting to pull back up in their volume, so most of the volume increase that you saw is on the European side, and as you translate that into dollar terms, I think that's the main impact that you're seeing.

For the rest of the year, I think that our Latin American business is going to start increasing the volume. We have not had the raw materials to increase the volume in the last few quarters as I mentioned in my speech, and also we don't have any more force majeure going on in Europe that are affecting our business. We have lifted our fourth majeure to our customer, so we are starting the chloro-vinyl third quarter in a very healthy way, I think.

**Nicholas Littman**

Thank you. That's very helpful. Just one final question, it's more of a technicality. When I look at your minority interest on the balance sheet it goes up like a \$100 million a quarter, is that the cap ex for the cracker that you just consolidated completely?

**Rodrigo Guzman Perera**

Yes, it's Rodrigo Guzman speaking. Yes, it's part of the joint venture with Oxy. We are working with them because we believe that some of the expenses that we have there we can have as part of the asset, but we are working with them and that will improve in the next quarter and the second half of the year.

**Antonio Carrillo**

As you know there are some discrepancies between US GAAP and IFRS, so we're working through those discrepancies.

**Nicholas Littman**

Okay. Well, thank you very much. Congratulations.

**Operator**

Thank you. And the next question comes from Frank McGann with Bank of America Merrill Lynch.

**Frank McGann**

Hi, good afternoon. Yes, just to kind of follow up on that question actually, I'm looking at Europe and the commentary that you made that results were up or EBITDA was up despite sales being relatively soft. I was wondering, in Europe and in Latin America, I mean you obviously have dealt with some pretty difficult situations over the last couple of years. Europe seems to be picking up a bit, and Latin America seems pretty challenging. It seems as if you must be doing a lot on the cost side and the efficiency side. I was wondering if you could provide us a little bit more detail on what enabled you to show the better results in Europe.

**Antonio Carrillo**

Well, if you look at the numbers over the last three years we have been doing significant restructuring and it's starting to show. In Europe the restructuring normally takes a while, and it takes, let's say, it's not over night that you can start cutting cost up. That's one side. The other one is, as I mentioned before, some of the countries that had a negative impact, and let me give you a couple of examples. So one of them is Turkey where we were having significant issues in our results over the last couple of years, it finally turned. Our team did a great job over the last six months, and we have the team from Mexico, the zero-based budget team, go to restructure the business. And we did a significant amount of restructuring both on the cost side and also in the capacity side. So we decided to close a few lines and concentrate on a few others; we're moving the equipment outside of Turkey. So those kind of examples, I think, are good.

We also went through a significant restructuring on the zero-based budget in Poland, which was another country that was reducing profitability, and now it's turned back the quarter. So over all, those are the good things.

The other thing that's happening that is harder to see, because, as I said, the sales are flat, the mixing of countries is also helping us. So some of the countries that are more profitable are the ones that are growing in volume, and some of the countries that are least profitable are being reduced in volumes and sales. So the overall mix is improving.

**Frank McGann**

Okay. Maybe just to follow up, you also mentioned that you are eliminating unprofitable products and lines and customers, how important is that or where could we see that change or how much more improvement do you expect?

**Antonio Carrillo**

Well, I think most of the change has already been made. Let me give you a couple of numbers that I've been using recently. When we bought the company in Europe we had about 100,000 SKUs in products we were selling. In 2014, we closed the year with 50,000, so 50% of them, and the revenues did not drop. So that's one thing we're doing, reducing the complexity of the business and reducing the amount of products that we have to keep in inventory for sales of less than \$1,000. In many of these products we were selling less than \$1,000 a year. So we are reducing the complexity of the business by eliminating some of those products, and that is also allowing us to reduce the working capital that was stocking some of those slow moving products.

Going forward we think that the business is going to stabilize somewhere around 40,000 SKUs, so dropping from 50,000 where we closed last year to about 40,000. I'm trying to think because maybe not this year, but maybe this year or next year. And the way I see this happening is not that we are reducing the products only, but that we are substituting some products with other new products. So the product development team is working very well. Our technology group is developing new products.

And as we develop more products we might introduce a few products and continue, let's say, improving the total mix of the company.

**Rodrigo Guzman Perera**

And Frank, Rodrigo Guzman speaking. And also it's important to mention that those improvements came from the way in which we are working now. We are dictating policies and politics here in the company that allows us to see these benefits in the long term. That means that we can sustain, let's say, that policy, because right now we are dictating policies for the long term not only for a quarter but for a year.

**Frank McGann**

Okay, and if I can just ask just one real quick question. In Mexico, is now 22% of sales in the quarter anyways, approximately?

**Antonio Carrillo**

No, Mexico represents 4% on sales over the total.

**Rodrigo Guzman Perera**

Are you referring to the pipe business or the total production that comes out of Mexico?

**Frank McGann**

I think it was the total business. The US was 17% and then in North America, its total is 39%. So is Mexico 22%?

**Antonio Carrillo**

Yes, that's right. The only issue is that if you are trying to make sure for example, the impact on the exchange rate, not all the sales from Mexico are in Mexican pesos and many of them are in US dollars because they came from fluorspar and from chloro-vinyls and those appraisals are in US dollars.

**Rodrigo Guzman Perera**

So the reason Mexico is growing, is because most of the sales are in dollars and the minority of the sales are in local currency. So, it's only about 4% of the total.

**Frank McGann**

Okay. Perfect. Thank you very much.

**Operator**

Thank you. And the next question comes from Vanessa Quiroga from Credit Suisse.

**Vanessa Quiroga**

Hi. Good morning. My question is regarding the—to quantify the Venezuela impact. What was the EBITDA coming from Venezuela in the first half of 2014 and the first half of 2015 please?

**Rodrigo Guzman Perera**

I don't have the figures in front of me. Let me go a little bit. I will—give me a second. I will give you the figure.

**Vanessa Quiroga**

Yes. Thanks, Rodrigo.

**Rodrigo Guzman Perera**

EBITDA. No, I don't have the figure now, but I will send it—thank you. We have the figure now. Hold on. It's—in the Q1. In the Q1 of 2014—

**Vanessa Quiroga**  
2014.

**Rodrigo Guzman Perera**  
No, you do not have the figure.

**Vanessa Quiroga**  
[Indiscernible].

**Rodrigo Guzman Perera**  
Yes. So—it was \$7 million in the first quarter of 2014, in the second quarter '14. In the first quarter it was \$8 million, so the total was \$14 million in the first half of 2014. In the first quarter of 2015 it was \$2.4 million. In the second quarter of 2015 it was \$490,000. And the impact was totally in the second quarter of 2015, which was for \$9 million. So, that means that the—on a comparable basis, this year will be \$10 million of EBITDA compared with \$7 million over the last year.

**Vanessa Quiroga**  
Okay. Those numbers are very useful, and regarding the restructuring costs, do you have an estimate of restructuring costs for the whole year 2015?

**Rodrigo Guzman Perera**  
It would be the same as we already have. Perhaps at the end of the year we could add up a million dollars more in Europe in general.

**Antonio Carillo**  
Vanessa, the restructuring we—you saw in the first and second quarter we announced it last—in the fourth quarter of last year, so right now we have not announced any additional restructuring, so for the moment that's what we have.

**Vanessa Quiroga**  
Okay. Thank you and congratulations for the results.

**Antonio Carillo**  
Thank you.

**Rodrigo Guzman Perera**  
Thank you.

**Operator**  
Thank you, and the next question comes from Diego Mendes with Itau.

**Diego Mendes**  
Good afternoon. So, my first question, it's actually related to the performance of PMV. It was of course much better now in the second quarter, but if I remember there was a brief plant closure in April. So I'd like to understand what is the impact from this closure in April, and what your guys are expecting for the coming quarters if you should see relevant improvements in the production there?

And the second one in terms of the refrigerant gases, if you could provide us an update on how the

petition for them [indiscernible] the Chinese refrigerant gas is evolving, what are the next steps going forward? Thank you.

**Antonio Carillo**

Sure. Let me start with PMV. So, PMV, yes we didn't shut down completely in April. It was a slowing down in the VCM plant, and so the number for PMV to give you a little more information and color, had a lot of things in the middle this quarter. The reason I want to expand a little bit of this is because I want to explain the flexibility that PMV is bringing. As I mentioned the word force majeure in Europe during the quarter, so what we were able to do while the plant of VCM was shut down, is to export some ethylene to Europe, and we continue doing that at the moment because the margins are better.

So, what—the way to look at PMV is a set of assets where we, depending on the situation in the markets we are moving, we can let's say, take advantage of certain situations and our team has become very good at doing that. So, the profitability comes from basically three areas.

Number one is we had a relatively consistent production during the quarter, and we continue to see consistent production at the start of this quarter.

Second is the exports to the European market on ethylene, which were very profitable for us.

And, finally, as we have a more consistent production we absorb our costs better and we reduce our costs of start-up and shut down. So, those costs are significant and right now we are avoiding those costs, so I think overall I'm happy with the performance even though the capacity still sits low. I mentioned that about 230,000 tons of run weight, but are already seeing at the beginning of this quarter a little pick up and we expect to see some pick up continue to pick up throughout the year.

One thing to mention, and we did not mention it before, we will not have any more long planned shut downs this year. With the shut downs we've done, we've done enough maintenance to cover this year and we will do the shut down sometime in the first quarter of next year, so we expect consistent production for the rest of the year. No more lengthy shut downs.

On your question on the fluor gases, we announced recently the new anti-dumping petition where we are part of a consortium of not only competitors but also some distributors in the US. This specific anti-dumping is related to a mixture of gases called blends—that we call blends, and we have a very small share in the US market.

So, we don't expect—we expect to have a case there. It will be—we will receive some news maybe in the next month or month and a half. But, at the same time I want to be clear that we don't expect significant improvements in our margins from this specific case.

Where we continue to proceed is on the appeal of our current case that we lost in October of last year, and we are evaluating launching a new case on that specific gas that is our biggest gas, which is called 134 in the last part of the year. So, to summarize we hope we have a case on the blends, but that's not going to have a huge impact on Mexichem. We continue with our appeal and we are studying the possibility of a new case later in the year.

**Diego Mendes**

Okay. Just to be clear. In the case of the 134, is that a completely new case or do you try to revert the decision from last year?

**Antonio Carillo**

Well, two things. Both things. So, the appeal. We are going on with the appeal, but the law in the US allows us to start a new case even while we're going on an appeal, so even though we continue with the appeal we are studying the possibility. We don't have a conclusion yet, but studying the possibility of launching a new case.

**Diego Mendes**

Okay. Thank you very much.

**Operator**

Thank you. The next question comes from Fernando Perez with GBM.

**Fernando Perez**

Hi. Good morning. Thank you for the call. I have one question regarding PMV. I was wondering how much ethylene—well without the main shut down in June this quarter, how much ethylene do you expect to export to Europe and how much do you expect to use it to produce VCM?

And, just one more question. Can you repeat the amount of investment that you have already made in the Oxy cracker please? Thank you.

**Antonio Carillo**

Sure. Let me answer the PMV and Rodrigo will give you the investment. So, PMV, the business model for PMV is to produce VCM, so once the plant is running at full capacity we will not have ethylene to ship to Europe or to any other place. So, the business model is really to use all the ethylene from that plant to produce VCM. In fact we—one of the improvements we have to make next year to that plant is to increase a little bit the capacity on the ethylene.

So, as I said what this is giving us is the flexibility to reverse those courses in case the numbers or the margins allow us to improve profitability by selling ethylene. We expect to sell some ethylene still in this quarter, but maybe by the fourth quarter we should not be selling any more ethylene. We should be concentrating on VCM unless the situation of the markets force us to do another thing.

So, conceptually you should continue to see some ethylene sales. They are not big sales. We are a very small ethylene player and the ethylene cracker is very, very sub-scale in Pajaritos, but it's a good source of profitability when situations like the force majeure in Europe happen. As I mentioned the force majeure is already over, so we still have a few contracts to supply in the third quarter, but for the fourth quarter we should not be selling ethylene anymore.

**Rodrigo Guzman Perera**

And, the question from the cracker. As of now, as of the end of June we have invested roughly \$300 million from our site.

**Fernando Perez**

Three hundred?

**Rodrigo Guzman Perera**

Three hundred million dollars from our site. That's not this year. It's the total since we started the project, so that means just as a reminder, the total investment is \$750 million so we already—we're approaching the mid-point of the investment and 2015 is the heavy, heavy year for investment, so this year it starts going down.

**Fernando Perez**

Okay. Thank you, and just another—well, just another follow-up question regarding PMV. Do you expect—well, could we see the same margins next quarter or with the reduction in ethylene sales that the margins should be reduced?

**Antonio Carillo**

So, the best estimate we have for the rest of the year is to close the year somewhere around \$32 million. So, that means that we have about \$15 million expected for the second half of the year, so it's a lower margin than the second quarter.

**Fernando Perez**

Thank you very much.

**Operator**

Thank you. Next question comes from Luis Carvalho from HSBC.

**Luis Carvalho**

Hi, Antonio. Hi, Rodrigo. Thanks for taking the call—the question. I have two questions here. The first is about the PVC business, as you mentioned you delivered quite good results in the quarter. However, we are starting to see some deterioration on the economic activity in Brazil, and despite you presenting good results in real, I just remember that you mentioned dollars, the results were not that good because of the FX rate.

So, what can we expect through the second half of the year, meaning that the volumes are probably—will go down? So, what are your expectations on that front?

And, second now that your leverage is almost back to two times on EBITDA, what's the plan looking forward now? I want to understand more in strategic perspective if you have any other projects actually to make some new acquisitions or increase events [ph]. What's the plan looking forward? Thank you.

**Antonio Carillo**

Let me first talk about the volume segment in Latin America specifically and specifically Brazil. Our volume in Brazil is a little down compared to last year, but not much. It's still holding on, and it's really not because our—the economy's doing well or we—it has two sides to it.

First of all Brazil is the country in Latin America within Mexichem that has the most of—in comparison to the rest of the countries, most of its sales selling through retail stores. So, it has a stronger, let's say demand driver because it's a less volatile customer let's say.

At the same time, part of the volume that's increasing is because we have been investing in new products that I mentioned the new water tank line, but we also started a new agricultural line, irrigation line. We have several projects going on in our geotextiles and we are studying a few more projects, and those are—is what making part of the volume not to be seen as a bigger drop.

On the other hand most of the volume that Brazil has dropped in the infrastructure and residential area, this quarter specifically was picked up by Mexico and by a few other countries. So, I don't expect volumes for PVC in Latin America to drop in the second half of the year even though we might see lower numbers in Brazil. We expect to continue to be able to compensate them with the rest of the business in Latin America.

As of the debt ratio, yes we're almost back to normal. To be honest we had a very—the peak of the

working capital requirements for Mexichem is in May and June, and we were very strict on the working capital. During the quarter we had great results and the business did a fantastic job. But I need to make sure that these results are stable and that they don't have requirements in the third quarter.

I don't expect that these numbers to increase in the third quarter because we start generating much more cash, but I still—it's been a significant effort on the working capital and I want to make sure that I give the business enough working capital for the growth they require. That's number one.

The second is, we do have a few projects on the acquisition side, nothing major, but a few projects that are add-ons that will help us to continue to improve our margins and reposition Mexichem in some of the markets that we are looking at. Nothing is huge, but, so for this year don't expect huge M&A activity, but maybe some small here and there, and with a goal of continuing to close the year at two times net debt to EBITDA. That continues to be our goal.

**Luis Carvalho**

Okay, but just to follow up. If you plan to actually do something small, that would mean that your [indiscernible] might go up a little higher than you have now, and then I mean through 2016 or until late this year you're probably going to add back to two times. Is that right?

**Antonio Carillo**

Well, as I mentioned, what we want to do is—the acquisitions we do should not take us far away from the two times net debt to EBITDA. Our goal continues to be—

**Luis Carvalho**

Okay. Yes. Thank you very much.

**Antonio Carillo**

Thank you.

**Operator**

Thank you. And the next question comes from Luiz Miranda with Santander.

**Luiz Miranda**

Hi, Antonio, Rodrigo. Good afternoon and congratulations on the results. Antonio, just a follow up on the PMV. You mentioned this 230,000 running rate at the end of the first half. What could we expect by the end of the year and if you could give us some color if by 2016 we could be reaching 300,000, 350,000 for PMV.

And, second question is with regard to Fluorspar, in terms of the market in practice and volume for the acid grade, Fluorspar, are you seeing a stable market or do you see some pressure also there in the short term? Thanks.

**Antonio Carillo**

Yes. Let me start with the—let me start with the PMV. So, if you look at the numbers the first thing that to me if you really look at what we've been trying to sell and the reason we separated PMV from our results is because we did not believe the company was stable and we wanted to show that there were impacts. It was not on the chloro-vinyl side, but it was more on this specific business that we are fixing.

For the second quarter we saw stability, which is the first great news. For me getting the business to be safe and stable is priority number one. And now we are seeing a—just last week we touched four days already of increased production. We broke records last week, and that continues to be the trend.

Let's say you reach a plateau and then you stay around that number for a little while and then a new equipment gets [indiscernible] or a new process and then you hit the next one.

So, for the total year if you look at what we see today we should be close to somewhere between 190,000 and 200,000 tons, which is if you look at the numbers last year we closed with 110,000 tons or something like that, so it's a significant increase from last year. As I mentioned in the first half, we only grew 13%. For the second half, we expect much stronger because last year was a disaster in our second half in PMV.

So, that would be more or less the number I expect. For next year—and to be running at the run rate of about 300,000 by the end of the year. So, that's more or less the pace that I see closing the year at somewhere between around 300,000 run rate, starting the year then have the next shut down and increase the capacity so that we are running at almost full capacity by the end of 2015. 2016, sorry.

**Luiz Miranda**

Perfect. And with regard to the acid grade—

**Antonio Carillo**

Yes. Yes. The acid grade. We saw stable demand. We're seeing stable demand both in acid grade and in hydrofluoric acid, and that is where we have the biggest contract, is mostly contracted to work, so that's where the contracts are driving our volumes and our pricing.

**Luiz Miranda**

Perfect, so stable for the second half really.

**Antonio Carillo**

Yes.

**Luiz Miranda**

Thank you, Antonio.

**Operator**

And this question comes from Karl Martinez with Interacciones.

**Karl Martinez**

Yes. Hello. Congratulations on the results. I just wanted to confirm a number. You mentioned before that you had growth of 29% in volumes. I was wondering what would have been the growth without Vestolit and Dura-Line?

**Rodrigo Guzman Perera**

Yes. The volumes I mentioned, the 29% was basically in the chloro-vinyl business. So Dura-Line has no impact there. It's mainly Vestolit, and I don't have the number in front of me, but I can take it to you. But, most of the volume growth was from Vestolit. So, most—I can tell you that—I can tell you most of it came from Vestolit. And, one thing too important, when we report the volumes that 29% increasing Vestolit is not only PVC resins, Vestolit is an integrated player in Europe, so they produce PVC, but they also sell chlorine and they sell caustic soda especially. So, it's a combination of those three products.

**Karl Martinez**

Okay. One quick question. Just to confirm another number. I mean, sales in constant currency basis excluding Venezuela and PMV, but also M&A, which is Vestolit and Dura-Line, of course. I have a

number here of 1,610. Is that correct?

**Rodrigo Guzman Perera**

I don't have it in front of me so maybe let us check the number and we can send it to you.

**Karl Martinez**

Great. Thank you.

**Operator**

Thank you, and the next question comes from Jean Bruny with BBVA.

**Jean Bruny**

Hi, Antonio, Rodrigo, and Berenice. Just one question basically. Rodrigo, you explained very well what happened with the tax rate in the second quarter. I just want to know what we can be waiting for in the second half of the year, if you will be reducing that rate closer to the 50%. I think the target for the full year was 51%, back in January. Thanks.

**Rodrigo Guzman Perera**

I think that the exchange rate that the second tax rate at the end of the year will be 38% in the full company. The issues that we are having—some issues with exchange rates impacting the different taxes, but I think that the second target rate for the full year will be 38%.

**Jean Bruny**

Perfect. Thanks.

**Operator**

Thank you. And the next question comes from Chelsea Konsko with TIAA-CREF.

**Chelsea Konsko**

Hi. Thank you for the call. Just two questions. The first on PVC. Are you seeing pricing pressure at all due to the decline in VCM prices that you mentioned in your press release? If you could just highlight kind of how that might filter through to your end product prices.

And then my other question is on your medium to long term outlook for ethylene prices.

**Antonio Carillo**

So, starting with the PVC. The VCM prices started falling really in the fourth quarter of last year when oil prices started dropping. We saw significant decline in both PVC and VCM prices. More or less the price we have on VCM today somewhere around \$580 compared to last year that was \$750 or something like that. So, it's a significant price decrease. So that's helping our PVC business, but also PVC prices as I mentioned are down.

So the way to see this is more the margin between PVC and VCM, and what we saw all the way through the fourth quarter and the beginning of the first quarter is, those margins between PVC and VCM declining, and that's why you see the decline in the margin for the total resin business. That has to do a lot with ethylene prices in the US being very high compared to the rest of the world.

As of late in the first quarter and all of the second quarter, we continued to see expansion in the margin, so we are seeing PVC prices accelerate faster than the VCM costs, so that is helping us and that has helped us during the second quarter, and we continue to see that throughout the third quarter and the fourth quarter. We think it's going to be a much better comparison in the margins between PVC and

VCM compared to last year.

So, we see positive trends at the moment. I mentioned the only negative was in Europe when we export a lot from America to Europe you do have a currency issue. You become less viable as an export company from Mexico to Europe when the euro devaluates significantly. So, that is probably the one thing that is slowing our volume in the European market.

**Chelsea Konsko**

So what is driving the margin expansion now?

**Antonio Carillo**

Well, as I mentioned the PVC prices are expanding faster than the costs of VCM.

**Chelsea Konsko**

Right.

**Antonio Carillo**

So, ethylene has come down in a significant way in the US. Our markets are not necessarily the US. Our markets are export markets and in those markets we are seeing better performance than in the US. So, that is basically what we're seeing.

If you look at the long-term strategy that's what we're doing. We are putting a cracker in the US and producing in North America because we believe this region has better costs and we can export to regions that are not the best ethylene regions. So, that's what we are seeing. That's what's making the margins expand in our view.

On the ethylene, we see ethylene right now at a point where we think it is stable, relatively stable for the short and medium-term. And when we model our ethylene cracker for the long term, we did not model it with prices we saw last year. We are modeling it more with the prices we are seeing at the moment. We believe our cracker is going to be on time and on budget starting in the first quarter of 2017, so we will catch a profitability that is similar to what we are seeing in the market today.

**Chelsea Konsko**

Thank you.

**Operator**

Thank you. And once again, please press star and then one if you would like to ask a question.

**Antonio Carillo**

Well, thank you very much for the call. I think we have another question. Sorry.

**Operator**

Yes, we do. We have one from Pedro Medeiros from Citigroup.

**Pedro Medeiros**

Hi. Good afternoon, Antonio, Rodrigo, Berenice. Congratulations for the results. I think most of my questions were already answered. I just had a very—two very objective questions about the quarter.

The first one is, was there any quantifiable impact from improved power costs in Mexico that were noticeable to your results? We understand that power rates for industrial consumers has been coming down throughout the year in Mexico, so I would like to understand if there is any quantifiable important

impact on the quarter.

**Antonio Carillo**

Yes. Sure.

**Pedro Medeiros**

And, the second question is also—okay.

**Antonio Carillo**

Okay. Go ahead.

**Pedro Medeiros**

Well, let me go for the second question as well very quick. It's also related to power. Just trying to understand what's the progress of the construction of a power plant on the contract that you won with TENAX [ph] slated to start by 2018, and I understand we are still slightly far away, but do you have any updated cap ex, guidance, and when should start spending cash on this construction?

**Antonio Carillo**

Sure. Let me start with the savings. Yes, as I mentioned in my script, one of the reasons that we saw expansion in margins was power savings. There has been a significant reduction in Mexico in industrial areas. We continue to see this quarter. To give you a sense of magnitude, most of the savings really go to our business that makes chlorine and caustic soda. If you look at the numbers for the last couple of years, making chlorine and caustic soda in Mexico was not a very feasible solution in the long term because of high power costs. A significant portion of the cost is electricity.

They've been coming down. We are still not at levels where the US is today, but we are becoming more competitive every day. The impact you see on the electricity is mostly on PMV. Some on the chlorine, some on the resin side, also, but mostly on PMV. Most of our chlorine and caustic soda is produced within PMV. To give you a sense of magnitude, all of Mexichem in Mexico more or less—well, let me give you another variable.

Last year, if you look at the first half of last year, there was a spike in gas prices that was very significant, and that's come back to a normal level. So, the savings are on two sides. On the electricity side and on the natural gas side. Natural gas, if you compare the second quarter of this year versus the second quarter of last year, there's a significant difference. We estimate that the savings for electricity for the quarter were somewhere around \$5 million to \$6 million compared to the second quarter of last year.

**Pedro Medeiros**

Okay. Thank you.

**Antonio Carillo**

That includes natural gas and electricity.

**Operator**

Thank you. And we have a question from Felipe Santos from JP Morgan.

**Felipe Santos**

Hi, guys. Good afternoon. Thanks so much for the call. Let me ask one straight question. You are investing in several fronts, PMV, in the cracker, I mean several different fronts. Would you have a view about what would be the breakdown in terms of percentage for your—the three main common

components in three to five years right now? I mean, [indiscernible] the chloro-vinyl would be responsible for x percent of the total, and Integral Solutions after the cracker startup of—this would be changed to [indiscernible] have this breakdown?

And, how much would you think that PMV can help to improve this profitability of the company in the short run, given the decelerating of the results in this quarter?

**Antonio Carillo**

So, let me give you a sense of perspective. Our cracker is going to be 550,000 tons capacity, so if you use a pricing like today the revenues from the cracker would be somewhere around \$700 million if my numbers are correct. So that—and that would be consolidated with the Chloro-Vinyl chain, and the profitability we expect from the cracker would be somewhere around \$300 million. So, that's also consolidated with the Chloro-Vinyl chain.

In terms of the pipe business, that will continue to be the largest business and the acquisitions we are looking at the add-ons. We continue to make that business grow, both on small acquisitions that are organic, so we expect continued healthy growth in our pipe business.

And finally, in PMV. PMV, we have said that our goal is to take it back to the \$80 to \$100 million EBITDA, and we continue to think that it's the case that we can do that. We can take that company back to \$100 million EBITDA, maybe within the next couple of years. So, that is the idea and I think what we can achieve with PMV.

**Felipe Santos**

Okay. Okay. Thanks so much.

**Operator**

Thank you, and once again, please press star and then one if you would like to ask a question.

**CONCLUSION**

**Operator**

Alright, there are no more questions at the present time, so I would like to turn the call back over to management for any closing comments.

**Antonio Carillo**

Well, thank you, everyone, for participating and hope to talk to you in three months. Thank you.

**Operator**

Thank you. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect. Have a nice day.