

Mexichem S.A.B de C.V.  
Fourth Quarter Earnings Call  
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**CORPORATE PARTICIPANTS**

**Antonio Carrillo Rule** – Chief Executive Officer

**Rodrigo Guzman** – Chief Financial Officer

**Marcela Munoz** – Investor Relations

## **PRESENTATION**

### **Operator**

Good morning, and welcome to the Mexichem Fourth Quarter Earnings Conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on a touchtone phone, and to withdraw your question, please press star then two. Please note today's event is being recorded.

I would now like to turn the conference over to Marcela Munoz, of Investor Relations. Please go ahead, ma'am.

### **Marcela Munoz**

Thank you, operator. Good morning, and welcome to our conference call. We are pleased to be here today to present our fourth quarter and full year 2016 results. We appreciate your time and your participation in this conference call. Our speakers today will be Mr. Antonio Carrillo, CEO; and Mr. Rodrigo Guzman, CFO.

Please, Mr. Carrillo

### **Antonio Carrillo Rule**

Thank you, Marcela, and good morning, everyone. For those of you who do not know her, Marcela has taken over the responsibility for Investor Relations now that Berenice has moved to strategic planning. We're happy to have Marcela here, and we appreciate all of you joining us to review Mexichem's fourth quarter results and full-year results.

I would like to start this call by thanking the great team of people we have at Mexichem for their excellent performance in 2016, I'm especially grateful to the group of people who came together at the time of the PMV incident last April to assist with both the human and business aspects of the incident. They gave us the confidence to assure our stakeholders and rating agencies that Mexichem was financially resilient. In fact, our 2016 performance was even better than we had expected with adjusted EBITDA coming at \$926 million, exceeding our guidance of \$900 million and showing positive year-on-year performance across key financial metrics. Specifically, our reported and adjusted net income increased substantially in both the fourth quarter and the full year, consistent with our objective to progressively increase Mexichem's return on both invested capital and equity.

The achievements of 2016 are closely tied to the key elements of our strategy, namely increasing our portfolio of specialty products, focusing on margin rather than volume, diversifying our end markets and geographies, and building our vertical integration. I am pleased to report that we made progress in all of these initiatives in both the fourth quarter and the full year.

As we further integrate and streamline our business around the product lines and geographies, we're able to more effectively implement efficiencies across the entire organization. Key highlights of our fourth quarter performance are the 38 basis point expansion of adjusted EBITDA to 18%, the \$58 million in adjusted net income, and the free cash flow of \$228 million, 17% higher than the 2015 fourth quarter.

For the year, we were able to increase consolidated adjusted EBITDA margin by 109 basis points to 17.3%, despite a 5% decline in reported revenues, thanks to a 94 basis point expansion in EBITDA margin improvement in our resin compounds and derivative business unit, a stable 39% margin in our Fluor Group and a 105 basis point margin expansion in Fluent, reflecting increased profitability in all four

regions of our operations.

This performance is even more impressive when you consider that we were operating within a very tough industry environment and when you take into account our EBITDA was reduced by \$54 million due to foreign currency translations. A major highlight of the year was our adjusted net income which reached \$262 million, an increase of 94% from 2015. As a result, we succeeded in increasing adjusted returns on equity and invested capital to 6.9% and 6% respectively.

Free cash flow increased by 85% from 2015 levels, now that most of our investment in the ethylene cracker in Texas is behind us. We are very pleased that the cracker project will start commercial activities on time and budget before the end of the first quarter and will ramp up progressively through 2017. The cracker has the capacity to produce 1.2 billion pounds of ethylene annually which our partner OxyChem will use to manufacture VCM for Mexichem under a 20-year supply agreement. Once it's at full capacity in early 2018, the supply will provide us around 70% of our anticipated annual requirements of our commodity PVC business.

It is important to remember the rationale for building this cracker. As you know, Mexichem produces commodity resins both in Mexico and Colombia and exports it to many regions of the world. By producing ethylene in North America coming from shale gas, we believe that Mexichem will significantly reduce its cost structure and therefore have a long-term competitive advantage in exporting PVC to regions with higher cost structures.

Also setting the stage for future organic growth are the two bolt-on acquisitions we completed in late 2016 as part of our strategy to build our portfolio of specialty products and expand our geographic presence. In October, we acquired Gravenhurst Plastics, a Canadian supplier of high density polyethylene conduit products for fiber optics. In addition to expanding our mix of specialty products, the Gravenhurst transaction opened the Canadian market to our Dura-Line branded products that serve the telecom, data communications, and infrastructure industries. Additionally, we will invest in the Gravenhurst facilities to use it as a springboard from which we will expand all of Mexichem's business in Canada.

In November, we acquired UK based Vinyl Compounds Holdings Ltd., a leading British manufacturer of PVC compounds serving a broad range of industries. This acquisition not only increases Mexichem's internal consumption of PVC, but it also brings new technologies and formulas that we can deploy throughout the rest of the compound businesses.

These recent transactions are emblematic of the part of our acquisition strategy that's designed to drive organic growth by bringing in smaller companies that can be immediately integrated into one of our three existing business units. At the same time, we evaluated the potential growth prospects of our product lines in 2016 and started to convert our low margin pressure pipe business in the US to production higher margin datacom products. As a result, we are entering 2017 with a more streamlined product mix that fits with our views on marketplace demand.

Mexichem ended 2016 in a very strong financial position. Our net debt to EBITDA and adjusted EBITDA ratios are 1.8x and 1.7x respectively and are very manageable, and we had a substantial cash position of over \$700 million. As a result, we have substantial financial flexibility to take advantage of opportunities that can strengthen Mexichem's global position.

At this point, I will turn over the call to our CFO, Rodrigo Guzman, for a detailed financial review of our results. Rodrigo?

**Rodrigo Guzman**

Thank you, Antonio, and thank you all for joining our call. We are very pleased with the way our company has performed in 2016, especially as we faced difficult market conditions and the impact of the accident at PMV. Similar to previous quarters, I will focus my remarks on adjusted figures for EBITDA, operating income, and net income, which exclude the special financial charges and benefits related to the accident.

First of all, I want to remember that in our reported EBITDA of \$884 (million) is included the PMV VCM plant asset write-off of \$276 million which is offset by the account receivable related to the real cash value of the plant of \$219 (million) and the \$20 million related to the assembly policy for a net of \$37 million. It is important to highlight that neither the \$276 million related to the asset write-off nor the \$239 million related to the account receivables are cash items until now. This is the reason why we adjust our cash flow by the net effect of the above-mentioned figures of \$37 million. Once that has been said, and in relation with our results, despite currency relation headwinds and weak industrial demand in most regions of the world, we succeeded in achieving a strong finish to 2016. In the fourth quarter, we reported 7% growth in adjusted EBITDA, 15% growth in adjusted operating income. Adjusted EBITDA margin expanded by 38 basis points to 18% from 17.7%.

All of this included the one-time legal settlement benefit we have in Fluor during the fourth quarter in '15. Excluding this, our adjusted EBITDA will have increased 12% instead of 7%, our adjusted operating income 25% instead of 15%, and our adjusted EBITDA margin, we have expanded 109 basis points instead of 38. On a reported basis, these figures were even higher as we benefit from \$20 million in assembly insurance coverage at the PMV plant.

Fourth-quarter 2016 revenues were \$1.3 billion, an increase of 5% year-on-year despite the currency headwind of \$54 million. Excluding this effect, revenues will have increased by 9% year-on-year. Looking at fourth quarter revenues by business group, resins, compounds, and derivatives which account for higher than 95% of our Vinyl Group sales reported stable revenues of \$487 million, reflecting lower volumes partially offset by a more favorable product mix and slight recovery in selling prices.

In the fourth quarter of '16, our Fluent Business Group reported a 9% increase in revenues to \$671 million despite the \$45 million negative foreign exchange translation effect from which \$25 million was in Latin America, \$18 million in Europe and \$2 million in EMEA. On a constant currency basis, Fluent's revenue will have increased 17% to \$716 million.

In our Fluor Business Group, revenue increased by 16% to \$133 million, mainly the result of slightly improved volumes in our upstream business and our focus on cement industry customers, which represent in the fourth quarter '16, 36% of our total metallurgical fluorspar volumes.

In terms of sales by region for 2016, North America accounted for 36%, down 200 basis points from 2015, in part, reflecting the discontinuation of our pressure pipe business in Fluent operations and the gap existing between the exit of the pressure pipe market where products have lower margins and the reconfiguration of the plants to start producing a higher margin product for datacom. On the other hand, Europe accounted for 37%, up 200 basis points from 2015. The US alone represented 16% of sales, flat with the previous year. Germany, the UK and Brazil each accounted for 13%, 8%, and 6% of sales respectively.

I want to take this opportunity to clarify that the Mexichem company's dollar-denominated sales represent only 9% of our total revenues while 39 of those are exports to US representing only 3.5% of our total sales, from which 88% were exports from our Fluor Mexichem companies with fluorspar representing the highest proportion of those exports.

For the fourth quarter of 2016, as I mentioned previously, adjusted EBITDA increased 7% to \$227 million or 12% excluding the Flour one-time legal settlement in the fourth quarter of '15 resulting in an EBITDA margin expansion of 38 basis points to 18% and 109 basis points respectively. This improvement was driven by a 10% increase in adjusted EBITDA in our Vinyl Business Group and a 13% increase in EBITDA in Fluent. This strong performance resulted from improved selling prices in Vinyl, a shift towards higher margin products in Fluent and operating efficiencies. I would like to point out that we achieved improved EBITDA despite an \$8 million negative translation effect currency impact.

Adjusted operating income for the quarter was \$132 million, an increase of 15%. Excluding the one-time benefit from Flour in the fourth quarter of 2015, adjusted operating income will have increased 25%. Our fourth quarter financial cost declined \$33 million or 54% from \$60 million to \$27 million. The majority of this resulted from a \$22 million decrease in foreign exchange losses related to the evaluations in active or budget monetary positions in areas of operation where the functional currency differs from our consolidated functional currencies.

In the fourth quarter, excluding the PMV write-off, current tax increased by \$49 million because inside Mexichem's consolidated financial figures some companies reported net income before taxes, but some others reported losses. Therefore, taxes declined \$15 million due to the recognition of exchange rate losses.

Adjusted net income was \$58 million, a significant improvement from the \$2 million loss we reported in the fourth quarter of 2015. As we have been mentioning, Mexichem's strategy is to be more focused on products with higher margins that could enhance our profitability in terms of EBITDA, ROE and ROIC in the mid and long term. This strategy has been guiding us to eliminate SKUs from our capital loss that were not profitable or to discontinue operations like the pressure pipes in the US in order to dedicate our capacity and raw materials in more profitable products like datacom also in the US market.

This strategy is one of the reasons why our full-year 2016 revenues adjusted by the translation exchange rate effect of \$246 million were flat when compared with 2015, but our adjusted EBITDA increased 2% to \$926 million or 8% when the translation effect of \$56 million is excluded. This increasing profitability is mainly the result of more profitable operations in Vinyl and Fluent.

Excluding the one-time benefit we had in Flour in the 2015 fourth quarter and the 2016 translation effect, adjusted EBITDA will have increased 9%. Adjusted operating income for 2016 was \$556 million, an increase of 10% year on year excluding the one-time benefit from Flour in 2015 due to the factors I just mentioned as well as lower depreciation and amortization expenses. Adjusted ROC and ROIC, priority metrics of Mexichem's, also improved substantially with adjusted ROE increasing to 6.9% from 3.7% and adjusted ROIC at 6%, up from 5.8%.

Turning now to our working capital, balance sheet, and cash positions, I would like to point out that Mexichem has a very strong cash position having exited our highest capital investment cycle ever with increasing our net debt to EBITDA ratio and having effectively managed and allocated our capital resources during the cycle. We are also pleased to report that during 2016, we reduced our working capital need by an additional \$106 million coming from \$319 million we reduced in 2015 for an accumulated amount of \$425 million during 2015 and 2016. These resources mainly were allocated in the ethylene cracker in Texas.

At December 31, 2016, our investment in Texas cracker reached \$688 million, representing 95% of our total equity investment commitment with OxyChem. In the first quarter of 2017, we will contribute in equity the last \$35 million. Capital expenditures in the fourth quarter of 2016 decreased by 53% to \$95 million, \$37 million of which was invested in the ethylene cracker, \$3 million as a carryover in PMV, and

\$54 million was allocated to organic projects. For the full-year 2016, CapEx decreased 38% to \$414 million from which \$166 million was invested in the ethylene cracker, \$44 million in PMV and \$204 million in organic products.

Free cash flow in the fourth-quarter 2016 and the full year in '16 increased by 17% and 85% respectively and the company's 2016 free cash flow generation totaled \$175 million, closing with a cash position of \$715 million. At the end of 2016, we reduced our leverage even more, finishing the year with a net debt to adjusted EBITDA ratio of 1.7, down from 1.9 in 2015.

As noted into our earning release, we will change our method for accounting for fixed assets effective in the first quarter of 2017. Mexichem will adopt the historical cost recognition method instead of revaluation method under IFRS which is used by the vast majority of Mexichem's public peers, especially those which fixed assets are meant to produce rather than to be sold in the near-term. This will result in a reduction in the value of the fixed assets and equity on our balance sheet, and this change will eliminate the revaluation value that has been accrued since 2010. This will not have any effect on cash flows or on bond ratings.

Looking ahead to 2017, we remain confident in our strategy which has enabled us to succeed in one of our most challenging years. Mexichem is well positioned operationally and financially to continue to increase profitability and returns over the long term and build shareholder value.

Thank you, everyone, and I would like to turn the call back over to Antonio for closing remarks. Antonio?

#### **Antonio Carrillo Rule**

Thank you, Rodrigo. As you have heard, we are quite proud of Mexichem's achievements in both the fourth quarter and the full year, and we are entering 2017 with positive momentum. As you know, the cracker is an important part of our EBITDA growth for this year; however, it is in a start-up phase at the moment and as it becomes more stable, we will be able to be more precise. That being said, we expect our 2017 EBITDA to grow between 10% and 20% over 2016 reported EBITDA. All three of our business units are well positioned to achieve organic growth in their markets and to benefit from the repositioning we have carried out during the last few years.

In Vinyls, we believe prices have bottomed, and we are encouraged by the slight pickup in pricing that materialized in the 2016 fourth quarter. Our Vinyls Group will increasingly improve this position along the cost curve as the cracker ramps up this year which ultimately will make Mexichem one of the lowest cost producers of PVC in the world.

In Flour, we expect to see further volume pickup from the cement industry customers in 2017 and improved margins in refrigerant gases assuming the International Trade Commission ratifies the preliminary dumping duties on Chinese exports.

Our Fluent business unit is now unified in one single organization, and we expect to see continued progress in their ability to cross-sell specialty products globally and to implement manufacturing and operating efficiencies across the regions.

These three business units represent a balanced portfolio for Mexichem. As the cracker comes online, we will see significant expansion of our upstream operations. But we will still derive over half of our revenues from finished product serving an expanding number of end markets around the world.

Over the last 18 months, we have implemented structural and organizational changes that have streamlined Mexichem operations and have unified the company around the shared vision. Also over

the last few years, we have implemented substantial operational and financial discipline which I am sure will drive sustainable growth and value for the company.

Our recent selection for the inclusion in the FTSE4Good Emerging Index is proof of the progress we have made in creating a culture committed to the high standards of environmental, social and governance practices. There is much work to be done in continuing to drive this new culture in the company to increase our return in investment, to manage our new cost structure with the benefit of the cracker, to diversify our product and drive organic growth. I am confident that the over 18,000 employees that Mexichem has and the management team we have put together are ready to take this great company to the next level.

Operator, I will now open the call for questions.

## **QUESTIONS AND ANSWERS**

### **Operator**

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

Today's first question comes from Nikolaj Lippmann of Morgan Stanley. Please go ahead.

### **Nikolaj Lippmann**

Thank you very much. Good morning, everyone, and congratulations on this great set of numbers. Thanks for taking the questions. I have three questions, first on caustic soda pricing and how is it impacting your second-half '16 result and potentially '17 EBITDA. I'm asking because if I remember correctly, you have a rather complex pricing structure with Oxy for that change. That's question number one.

Number two, also with regards to the Oxy JV, would you be able to share with us the potential benefits that you would have in terms of tax benefits for the cracker? And this is both in terms of corporate tax and any potential border adjustment given that you are exporting the product. In a way we don't really know the future tax structure of the US, but how does the contract with Oxy deal with this kind of potential offside?

And finally on Fluor, I'm aware of some new projects in Canada. How should we think about that in relationship to you? Is that a potential risk to your asset grade market share in North America? Thank you very much.

### **Antonio Carrillo Rule**

Nikolaj, good morning. So let me start with the first question on caustic soda. You've seen caustic soda prices. First, we cannot disclose the structure of our formula with Oxy [audio disruption]. Sorry. Can you hear me, Nikolaj?

### **Nikolaj Lippmann**

Loud and clear.

### **Antonio Carrillo Rule**

Okay, sorry. So, we cannot disclose the formula with Oxy, but I can tell you that we're optimistic with the caustic soda increases happening in the US. It's been a strong market over the last few months. As you

know, it doesn't really have an effect on 2016 numbers because we're very small in the caustic soda market and we mainly sell in Mexico, which has a completely different market dynamic. So the impact in Mexico in 2016 was very, very small.

For 2017, as I mentioned, we provided a wide range in our cracker, but it's more related to the start-up rather than for pricing. Of course, pricing will have a huge impact also, but as I mentioned, we'll be more precise once the cracker is commercially operational and is stable. So that's on caustic soda.

On the tax structure, again, we cannot give you a lot of details at the moment, and as you mentioned, we don't have a lot of detail on what's going to happen. What I can tell you is that we will take advantage of all the tax opportunities that become available. Today, the one opportunity that's available is the accelerated depreciation on assets of that kind. So you will see in 2017 a significant impact on our taxes because we will take advantage of the bonus appreciation in Texas, in the cracker in Texas. What that will do is that will reduce our cash tax but will increase our deferred taxes in 2017. But it's going to be a good benefit for us in 2017.

Finally, on Fluor in Canada, there are several mines in Canada for Fluor. Most of them are very small, and we have not seen them in the market. The only one that was, let's say, a big threat for us few years ago is now not operating, and they have not even taken a single piece of rock outside into the ground. That was the biggest one that we saw as a threat a few years ago, but for the moment, we don't see any impact in our Fluor operations from Canadian imports.

**Nikolaj Lippmann**

Okay, thank you.

**Operator**

And our next question today comes from Vincent Solanga of Bank of America. Please go ahead.

**Vincent Solanga**

Hi, good afternoon, Antonio, Rodrigo, Marcela. I had basically three questions. First of all, Mexichem is probably entering a period of very strong free cash now, and we were wondering what will the company's priority be in terms of use of capital going forward? Could Mexichem consider raising dividends a bit, or will potential acquisitions continue to be the main priority?

Second, we're also seeing a PVC cycle that has reached very, very healthy levels, and we expect here the cycle to last another four or five years as we're not seeing any major capacity additions coming on stream. Would Mexichem consider looking at potential acquisitions under PVC resins within the Americas or this is something you're not looking at all?

And then finally, how are you guys seeing activity in Brazil as of today? We were wondering if you're starting to see any signs of a recovery in sales of Amanco, or is too soon to say that? Thank you very much.

**Antonio Carrillo Rule**

Thank you, Vincent. Let me start with the first question on cash. Yes, we expect a significant improvement in our cash flow this year and going forward. As you know, Mexichem, our goal, and I mentioned it in my script, I think that in this new period you should expect a very disciplined Mexichem in terms of capital allocation, and not only disciplined in the way we deploy the cash but also in the way we evaluate growth projects and acquisitions. And we will be very, very disciplined about it.

Having said that, what that means is today we have more projects than cash. So we have been, let's

say, holding down on many of the very interesting and very attractive projects we have going on. And as I mentioned, the two acquisitions we did in 2016 are the type of things we're looking at, bolt-on acquisitions that we can integrate really fast and become accretive extremely fast and create platforms to continue to grow and increase our return on invested capital.

Having said so, I don't want to leave the impression that if there's a nice acquisition that's a little bigger or bigger and it makes a lot of sense, we will look at it with a very disciplined approach, but I want to make sure that I leave the door open for that. Doesn't mean we are planning on it at the moment, but it does mean that if there is a huge attractive opportunity for us, we will take it.

Now, from our investor point of view, both the controlling family and all our minority investors have to understand they're, let's say, wanting more dividends of course, and if we cannot come up with great alternatives for investing, our board will decide on the dividend policy whether it can be moved or not.

On the PVC side, as I mentioned before, our goal to improve our return on invested capital and reduce commodities, we are focusing our acquisitions on the downstream side of the business which reduces our volatility and improves our returns. And as I mentioned in my script, with the cracker coming online, we will grow again in the upstream, so we are compensating by focusing the acquisitions on the downstream.

And your final question on Brazil, we saw we had a very good quarter in the fourth quarter in Brazil. But as you know, we report in dollars. So part of the improvement came from the dollar. The real that has improved in its value, so therefore, we report in dollars, but also we saw, I think we already saw the bottoming of the market in Brazil, and the second half of 2016 was much better than the first half, let's put it that way.

### **Vincent Solanga**

Great, very clear, thank you very much.

### **Operator**

And our next question comes from Adam Rodriguez of GBM. Please go ahead.

### **Adam Rodriguez**

Hello, and thank you for taking my questions. I would like to get your outlook for PVC prices during 2017, and can you give us a little bit more color on what is the boost you expect from that transition from pressure pipes towards datacom tubing? Thank you.

### **Antonio Carrillo Rule**

Yes. So, let me start first with the PVC and then the datacom. So on the PVC side, I cannot give you a specific range on pricing, but as Vincent mentioned in his question, what we're seeing is that there is really no capacity being built. We saw a small improvement in the fourth quarter. That doesn't mean we expect it to be very robust this year, and in our projections we don't have a very robust margin improvement. We're not basing our projections on that. We do see some improvement, but this market and let's say, the margins on PVC should turn over the next short to medium term. And as that happens, our margins should improve, but we are not basing our projection on a huge increase this year. I cannot tell you exactly when that's going to happen, but we expect it to happen relatively soon.

On the datacom, you will see it in three areas. When you change from pressure pipe to datacom, your volumes go down. Pressure pipe is heavy, and datacom pipe is very light, so your volumes go down and you saw that during 2016 already. But margins go up. So, we are turning our plants. We will still participate in some regions in some specific markets for some oil and gas pipe, especially gas. But the

main change is that we are changing our capacity towards lighter, higher margin pipe, and we have significant growth expected in our US business for 2017 coming from this change, both in terms of EBITDA and EBITDA margin.

**Adam Rodriguez**

Thank you, Antonio. And just a last one if I may. Just to be clear, your EBITDA guidance is over the \$884 million EBITDA base, right?

**Antonio Carrillo Rule**

Correct. That is correct, yes.

**Adam Rodriguez**

Okay. Thank you very much. Have a good day.

**Operator**

And our next question comes from Andre Hachem of Itau. Please go ahead.

**Andre Hachem**

Thank you for the questions. I have two questions. The first one on hydrofluoric acid prices, we saw large increase in the prices in this quarter. Do you think this trend should be held throughout 2017 or you think we should return to the same levels of prices we saw during the first nine months of the year?

My second question is in regards with PMV plant. Has there been any decisions what would be the next steps, if there will be write-offs, more write-offs or when the insurance claims will be effectively paid? Thank you.

**Antonio Carrillo Rule**

Question, Andre, the first question was on fluorspar prices?

**Andre Hachem**

Exactly, on fluorspar prices, we saw a very strong recovery in the fourth quarter compared with the first nine months of the year. Do you think this trend should be held for 2017?

**Antonio Carrillo Rule**

Fluorspar prices have not changed dramatically since the third quarter. What you see there is a mix of products and a mix in margins. And what happens is when you sell, fluorspar is a strange product in terms of the less you touch it, the higher the margins you have. So, as you change your product mix throughout the quarters, you will see that happening. But, prices have not had a significant change, and we don't have in our projections a significant change in 2017. What we do have is a robust increase in volumes in the cement industry that we've been working over the last few years, and that's metallurgical fluorspar which is the one that has the highest margin.

On your second question on PMV, we are hopeful that the authorities come up in the next few months or hopefully in the next month with their final report on the accident. As you know, we have our internal reports, and we are confident we are very well insured, but we have to wait until the final authorities come up with their final report which hopefully is in the next, as I said, very short term.

And with that, everything else get triggered, so you get the trigger of the insurance, you get the triggers of closing all the pending stuff that we have, and we can finalize our business plan with Pemex going forward. So unfortunately I don't have any new news for you, except that we are hopeful that the authorities will conclude their studies very soon.

**Andre Hachem**

Okay, thank you very much.

**Operator**

And our next question today comes from Veronica Romero of BNP. Please go ahead.

**Veronica Romero**

Yes, hello. Thank you for taking my call. I have two questions. Can you please give us an update on the remediation plant that was going to be implemented regarding the accident? If you can please specify actions taken and the cost that it implies, and the second question is about VCM sourcing impact, if you can also comment on that in terms of volume and prices? Thank you.

**Antonio Carrillo Rule**

Yes, with the remediation, I think we are better off waiting for the report of the authorities because we have concluded all the environmental impact studies around the plant, water, plants, houses, soil, et c., and we have a very good report. The authorities have it in their hands. We also have concluded all the health impact studies coming from the environmental impact study, and the authorities have it in their plan. We have our internal view, and we have our expert opinions, but I'd rather wait until the authorities come up with them. At the moment, we don't see any major impact coming from that with all the information we have as of today.

On the second question, I'm glad you asked the question on VCM. So, VCM within the contract with Oxy, we not only have a contract for 20 years, but it also increases the amount that we have bought historically in the new contract. So in 2017, Oxy will supply even more than they have been supplying in recent years. And we have additional sources for the pending part of the VCM. As you know, in Europe we don't have that issue, we produce our own VCM, and in Americas we have Oxy and a couple of other suppliers that are very good suppliers and we don't foresee an issue for 2017.

It is important to mention and we did not mention in our comments that our Vinyl business in the fourth quarter had a significant impact for a shutdown that Oxy had in the facility. So our numbers in the fourth quarter had some impact of lack of VCM coming from Oxy in the fourth quarter, and it was related to the connection of the ethylene plant to the VCM plant. So, the numbers could have been better in our Vinyl business in the fourth quarter.

**Veronica Romero**

Thank you. Would it be possible to quantify a little bit of that impact on the shutdown in Oxy? Because probably that increment can be seen in your cost side or—

**Antonio Carrillo Rule**

It was about 20,000 to 25,000 tons in the quarter.

**Veronica Romero**

Thank you very much.

**Operator**

And our next question comes from Jean Bruny of BBVA. Please go ahead.

**Jean Bruny**

Hi there. Thank you for taking my question, just a couple. The first one is on the guidance again. Just to make sure, for the base is basically the \$884 million to grow between 10% to 20%. And since you

have been changing your accounting policy, do we have any impact from this as well or it's net of continuing impact?

**Antonio Carrillo Rule**

So, yes, the first question is yes, it's over the reported EBITDA which is the \$884 million. And the accounting policy will not impact at all the EBITDA. You will see an impact in depreciation which will impact net income and operating profit, but not EBITDA.

**Jean Bruny**

Sure, and the second one is basically do you have any buyback program in place currently or if you can remember that point?

**Antonio Carrillo Rule**

Yes, we already have the buyback share program authorized, but we don't have any shares at this point in time in our hands. As you know, we gave a dividend in December, so we gave all the shares back to investors.

**Jean Bruny**

Okay, super. Thank you very much.

**Operator**

And our next question comes from Damien Midot of BNP. Please go ahead.

**Damien Midot**

Yes, hello. Thank you for taking my question. I just have one question regarding the PMV. If Mexichem and Pemex were to rebuild the plant, do you have any proxy of the CapEx that's invested from Mexichem?

**Antonio Carrillo Rule**

Damien, can you repeat the question? We can barely hear you.

**Damien Midot**

Sure, sure. Can you hear me now?

**Antonio Carrillo Rule**

Yes, perfect.

**Damien Midot**

Yes, thank you for taking my question. I just have a one question regarding the PMV accident. If Mexichem and Pemex were to rebuild the plant, do you have any proxy of the CapEx that would be invested by Mexichem?

**Antonio Carrillo Rule**

The CapEx by Mexichem, the CapEx if we buy—

**Damien Midot**

Yes, yes.

**Antonio Carrillo Rule**

Well, the plant was insured for a new plant of that capacity, and the value of that plant is close to \$400 million of a new plant for VCM of that size. Of course, we have the cash coming from the insurance that would help us cover a large portion of it if we decide to rebuild it. So maybe Mexichem would be 56% of

that, and we expected to, if we decide to rebuild it which we are discussing with our partner, the next steps in that business plan, if we decide to rebuild it, it would be covered in most part by insurance.

**Rodrigo Guzman**

Perhaps it's important to clarify the figures. If the cost of the plant is \$400 million, we have insured our plant for \$310 (million) roughly. So the difference is \$90 million and from that \$90 million, 56% will come from Mexichem and 44% from Pemex.

**Antonio Carrillo Rule**

Yes. If we decide not to rebuild it and not to operate the plant as we disclosed in the press release, the value of the plant is a little over \$200 million still. So, there's a range of opportunities that we're discussing with our partner.

**Damien Midot**

Okay, all right. Very clear, thank you.

**Operator**

And our next question comes from Lucia Tamez from Signum Research. Please go ahead.

**Lucia Tamez**

Hi, thank you for taking my questions. I have three questions regarding the ethylene cracker in Texas. First one is where do you expect to or where are you planning to locate your production? Is there going to be like exports, or are you going to locate them in the US market?

Second one is in which industry do you see more potential to locate your products, if it's in datacom, or infrastructure, or any other?

And the third question is when do you think the cracker is going to be operating at its full capacity? Thank you.

**Antonio Carrillo Rule**

Sure. So, let me start with the first one. We will not be participating in the ethylene market in the US, at least that's not the business case. The business case is the plant that we are building, that we are finishing at the moment is connected to OxyChem's plant which is next door, and we will send all the ethylene to the VCM plant, and the VCM will be exported mainly to Colombia and Mexico to be used in commodity PVC. It will also be a railed to our two special PVC facilities in the north of the US. So, all of the production will go into our own VCM and will be shipped either to our commodity plants which is the majority of the volume or to the two small plants we have in the US.

Having said that, VCM plants are scheduled for shutdowns once a year or once every other year. And, during the long periods of maintenance, we do have the capacity to support and sell ethylene in the US. So, we will be a small player selling during those periods. At the same time, we will be selling into the market some additional products that come with the ethylene which is propanes and butanes, but these are very small amounts.

The ethylene producing will go mainly to PVC products, so PVC products are more related to housing and infrastructure that rise on datacom, and they will be going mainly into Latin America and export from Latin America for housing and infrastructure products. They're not going into datacom market.

**Rodrigo Guzman**

The full capacity of the cracker will be, we believe that will be in full capacity as of September of this year.

**Lucia Tamez**

Okay, thank you very much.

**Operator**

And our next question today comes from Jose Vazquez of GBM. Please go ahead.

**Jose Vazquez**

Hi, good morning, Antonio, Rodrigo, and Marcela. I have a couple of questions. We declared the environment oil prices around \$55 natural gas prices. Can you repeat the economics of the cracker, and which would be the benefit for Mexichem?

And the second one is regarding the latest two acquisitions, are they fully integrated, or is there anything left, and when will they be fully integrated? Thank you.

**Antonio Carrillo Rule**

On the cracker, the first question, we don't disclose the specific economics of the cracker, but the idea is conceptually what you need to measure is the margin between—you should have measured Mexichem, the margin between ethylene and PVC, and now the way to measure Mexichem is from ethane to PVC. The current conditions are the assumptions we have on our budget for the cracker in 2017, we have some increases in ethylene during the year, and we do consider an increase in the ethane price during the year. So, our expectation is that ethane will grow faster than ethylene, and that's the assumption we have behind our projections for the year.

On the acquisition side, both of them are fully integrated. Of course, what I mean by fully integrated they're already connected to Mexichem, but we are in the process of extracting the synergies and creating the value that we saw in them. In the case of Gravenhurst, we have approved a significant CapEx in Canada to expand their capacity and expand and improve their capabilities.

In the case of Vinyl compounds, I was there a few weeks ago, and we are in the process of certifying their products. They have a product line that's very important as a raw material for Mexichem. And we're in the process of certifying that, and we're in the process also of certifying our PVC in their process. So the synergies are in the process of being generated, and we are, I would say, even more enthusiastic about both of them than when we acquired.

**Jose Vazquez**

Just a quick followup here, the synergies are included on this guidance that you're mentioning or are extra?

**Antonio Carrillo Rule**

They are included.

**Jose Vazquez**

They are included? Okay, thank you. Congratulations on the results.

**Antonio Carrillo Rule**

Thank you.

**Rodrigo Guzman**

Thank you.

**CONCLUSION****Operator**

And this concludes our question-and-answer session. I'd like to turn the conference back over to the management team for any closing remarks.

**Antonio Carrillo Rule**

Thank you everyone for listening in, and I hope to talk to you soon in the next quarter. Thank you.

**Operator**

Thank you, Sir. Today's conference has now concluded, and we thank you all for attending today's presentation. You may now disconnect your lines, and have a great day.