

Mexichem

Fourth Quarter and Full-Year 2014 Earnings Results

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CORPORATE PARTICIPANTS

Antonio Carrillo Rule – *Chief Executive Officer*

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Con formato: Título 1

Con formato: Español (México)

PRESENTATION

Operator

Good morning, everyone, and welcome to the Mexichem Fourth Quarter and Full-Year 2014 Results conference call. Your speakers today will be Mr. Antonio Carrillo, CEO, and Mr. Rodrigo Guzmán, CFO. Following today's presentation there will be an opportunity to ask questions.

During this conference call management will make forward-looking statements to assist you in understanding its expectations for future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially. I'll refer you to the company's press release of February 25, 2015 and the company's filings with 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 these views to change. Please consider the information presented in this slide. 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 Muñoz, Director of Investor Relations.

Berenice Muñoz

Thank you, operator. Good morning, and welcome to our Fourth Quarter and Full-Year 2014 Results conference call. We are pleased to be here today and share with you our unaudited accumulated results for the year. We appreciate your time and participation at this conference call.

The speakers, as mentioned, will be Antonio Carrillo, Chief Executive Officer; Rodrigo Guzmán Perera, Chief Financial Administration Officer; and myself, Berenice Muñoz, Director of Investor Relations. I will now turn the call over to Antonio for opening comments.

Antonio Carrillo Rule

Thank you, Berenice, and good morning, everyone. Thank you for participating in today's call to review Mexichem's fourth quarter and full-year 2014 results and discuss our plans and outlook for 2015.

The fourth quarter was a difficult period for Mexichem and our global peers, which are not integrated into ethylene for several reasons. As we discussed last quarter, price volatility and ethylene shortages continued to significantly increase our VCM input cost. Mexichem's VCM purchase formula is structured such that our cost lagged those of the market by one to two months; therefore, in the middle of the quarter we were operating in a high raw material cost environment as prices of oil and PVC were falling rapidly. Fortunately, this situation started to improve at the end of the fourth quarter as ethylene prices began to decline, and this pricing situation should actually benefit our results in the first quarter of 2015.

At the same time, the cost of North American ethylene was mounting. We faced lower margins on exports to Europe due to both depreciation of the euro against the dollar and the increased competitiveness of European ethylene and PVC producers due to lower oil prices. Adding to the problem was a longer than anticipated shutdown of the ethylene cracker and VCM plants in our PMV joint venture. As the equipment was dismantled we notice that more work was needed, which caused

us to delay restarting of the facility until early January. During the shutdown we also identify technical problems in our ethylene cracker at the PMV, which were we are in the process of evaluating solutions and estimating potential delays to reach full capacity. This perfect storm in our chlorine-vinyl chain was the primary reason that our fourth quarter results came in below expectations.

Our integral solutions chain in Latin America hosted higher year-on-year operating results. In Europe, after a very difficult third quarter, we were able to reverse the trend and posted higher year-on-year operating results. And finally, in the integral solutions business Dura-Line added to the positive performance. On a reported basis, however, comparisons were penalized by non-recurring income that benefited last year's fourth quarter and the change in the official exchange rate in Venezuela. Absent these two items, EBITDA would have been up by over 50% in the quarter.

Overall, a very strong performance of our integral solutions business in the fourth quarter. These strong numbers of our integral solutions business proved the benefits of our vertical integration strategy. As prices of PVC were falling and margins in our chlorine-vinyl chain were contracting our downstream business was benefiting from our reduced raw material cost. Therefore, we were able to partially mitigate our results and the result the dramatic volatility we saw over the last few months of 2014.

The fluorine chain was one of the real pluses for the quarter, and we ended 2014 with positive momentum. We negotiated several important contracts in the second quarter of the year, which led to improved pricing and margins for the fluorspar in the second half of the year even though volumes continue to be below normal levels. In our refrigerant gas business we also saw modest improvement in both pricing and volume year-on-year. These factors combined to give us a 47% boost in EBITDA in the fourth quarter and sales growth of just 4%, excluding one-time benefit from a legal settlement.

When we consider full-year results in the context of Mexichem's long-term strategy, 2014 was a year of significant progress thanks to both organic initiatives and the two acquisitions we made in the second half. We posted 8% growth in revenues, EBITDA, excluding Venezuela & PMV, was relatively stable, down 2% year-on-year, primarily as a result of the ethylene VCM situation, and operating cash flow was \$699 million, reflecting disciplined working capital management. In terms of organic growth, results in our fluorine chain improved substantially in the second half of the year thanks to the successful negotiation of fluorspar contract. In chlorine-vinyl the bright spot was our increased capacity in Colombia and proportionally higher sales in specialty resins. And the Latin American operations of our integral solutions chain benefited from a shift in mix to higher-margin products, particularly in Brazil and Central America, and recent investments we have made to add more specialty products like those using irrigation, [indiscernible], and glass-reinforced pipe.

We believe that the two acquisitions that we completed in 2014 have the potential to be transformational over the long term as they address a key element in our strategy, namely to build our position as a producer of specialty products. Vestolit, the German producer we acquired in December, derived 68% of the revenues from specialty products and is Europe's only manufacturer of high-impact suspension PVC used in products including window frames and car platform coatings. Dura-Line, which was consolidated all of this year's fourth quarter, is a global leader in high-density polyethylene conduit and pressure pipe solutions with a focus on growth areas such as telecom and data communications.

These acquisitions also have substantially increased our geographic footprint, as we are now present in 34 countries around the world having opened new high potential markets such as India, South Africa, and the Middle East, as well as strengthening our position in the US. This extended reach into high-growth regions will serve as a platform to expand the rest of Mexichem's product line in those regions.

As an example, in May we will open our [indiscernible] plant in India and we are currently evaluating additional growth opportunities there.

We also made significant progress in our vertical integration, a strategy whose importance has been underscored by recent market conditions. Our planned ethylene cracker in Ingleside, Texas, continues to progress on schedule and on budget, and we expect it to be operational in the first quarter of 2017.

At PMV, we extended the plant overhaul in order to ensure that the plant will operate according to the highest standards of productivity and safety. In PMV we will be working with our JV partner to redesign part of the business model to incorporate what we have learned over the last 18 months in order to increase the flexibility and efficiency of the operation. At the moment, our best projection is to be operating PMV at a run rate of 330,000 tons of ECM by the end of 2015. When these two projects are up and running they will provide close to 60% of our ethylene needs, insulating us from the kind of market volatility that impacted our fourth quarter results.

Now I would like to turn over the call to Rodrigo Guzman, who is now our CFO, to review financial details.

Rodrigo Guzmán Perera

Thanks, Antonio.

Con formato: Español (México)

I am going to take you through Mexichem's results for the fourth quarter and full-year 2014 in more detail, then take a look at cash flow, and then balance sheet as of December 31st.

As Antonio has discussed, Mexichem results for the fourth quarter and full-year showed positive performance in several levels, including integral solutions and the fluorine chain. However, they were also negatively impacted by several different factors. Firstly, the change in regulations in Venezuela that required companies, such as Mexichem, to use 12 Bolivars per dollar as an official exchange rate for 2014 from 6.30 Bolivars per dollar in 2013. At an EBITDA level, this reduced our fourth-quarter results by \$15 million. Secondly, the appreciation of the US dollar in the 12 months ending December 31, 2014 reduced our EBITDA by \$5.2 million. And finally, results from our chlorine-vinyl chain were hit by conditions in the North American ethylene and BC market and from the prolonged overhaul shutdown at PMV.

Turning to our financial results, fourth quarter sales grew 7%, or \$90 million, to \$1.4 billion. Excluding results from PMV in Venezuela, sales grew 10%, or \$126 million. The highlight was in integral solutions where earnings grew 12%, or \$87 million, thanks to the consolidation of Dura-Line. Excluding Venezuela, sales growth was even more impressive, up 16%, or \$116 million. The fluorine chains grew sales by 4%, or \$6 million, but with better pricing of fluorspar hydrofluoric acid and a modest improvement in refrigerant gases. Sales fell 6%, or \$28.4 million, in chlorine-vinyl with lower pricing receipts, compound from derivatives, and reduced output at PMV.

In the fourth quarter EBITDA fell 14% to \$157 million, including negative EBITDA in both PMV and Venezuela. Excluding these two factors, EBITDA rose 3% to \$167 million in the fourth quarter. Fluorine chain EBITDA rose 87% on a 4% increase in sales, while integral solutions, ex Venezuela, reported EBITDA of \$72 million, a 10% increase.

Turning to operating income, in the fourth quarter we operate we reported \$44 million, down from \$73 million a year earlier. These reflected the factors I have already discussed, as well as increased appreciation as a result of the growth in our asset base over the last 12 months.

Financial cost grew significantly in the quarter, up \$27 million. There were several factors at work here. Firstly, a stronger US dollar led to a larger loss from the valuation of local currency denominated debt and cash and cash equivalents. Interest expenses were also up \$14 million due in part to the 30-year \$750 million 144A [indiscernible] Bond we issue in September. This was a highly successful issuance, price of 270 basis points over US Treasuries with more than 150 participating investors. Additionally, we also began expensing some interest costs that had previously been capitalized. These costs relate to the expansion of capacity in Mexico and Colombia in our chlorine-vinyl chain.

For the quarter income tax fell by \$32 million on higher fiscal losses and deferred taxes from liabilities more than offset an increase of \$9 million cash tax expenses. This translated into a net loss of \$27 million compared to a loss of \$8 million in the year ago. Net loss from continuing operation was \$47 million compared with \$25 million in the fourth quarter in '13.

Turning now to full-year results. Full-year sales grew 8%, or \$406 million, driven by a \$182 million decrease in integral solutions. Excluding Venezuela and PMV, sales grew 10%, or \$512 million. On a geographic basis our sales were balanced with 37 coming from North America, 32 from Europe, and 29 from South America. Compared with a year ago, we saw proportionally greater revenue from North America where we continue to grow in absolute terms in every region.

Full-year EBITDA was \$818 million compared with \$899 million in 2013. Excluding Venezuela and PMV, EBITDA declined 2% to \$784 million from \$802 million, reflecting the weak operating environment in Europe and challenges in the chlorine-vinyl chain.

Going below the line, financial costs for 2014 rose \$83 million. The biggest factors in the increase were a \$33 million loss from foreign exchange operations in Venezuela in the second quarter, the foreign exchange losses from debt and cash held in local currencies, and the 30-year bond I mentioned earlier.

The effective tax rate for the year was 29% compared with 40% in 2013 as a result of lower cost taxes expenses and higher deferred taxes.

Before I hand the call back to Antonio I am going to give you an overview of our balance sheet and capital expenditures for the year. Throughout 2014 we took steps to improve our working capital management, both payables and receivables. The result can be seen in our full-year operating capital before CAPEX, which was flat despite a 9% decrease in EBITDA and the negative impact on foreign exchange operations in the second quarter. Working capital management and improvement will remain a focus in 2015.

Full-year 2014 CAPEX was \$460 million, up 52% from 2013, and was split equally between organic CAPEX and expanding on the two joint ventures. Of the \$229 million spent on the joint ventures in 2014 \$166 million was spent on our ethylene cracker plant in Texas and \$63 million was spent on PMV. In 2015 our focus for CAPEX is very much on our joint ventures. We plan to reduce our organic CAPEX to approximately 3% of 2015 sales compared with approximately 4% in 2014. As Antonio mentioned, we do expect double-digit sales growth for the year.

Turning to the balance sheet, our financial debt was \$2.4 billion at year-end, or \$1.8 billion taking into consideration cash and cash equivalents. This compares with \$933 million at the end of 2013. The increase reflects our recent acquisitions, as well as the CAPEX at our two joint ventures. Our net-debt-to-EBITDA ratio was two times at year-end calculated using Dura-Line's and Vestolit's last 12 months EBITDA. Given our current outlook, we expect this ratio to peak in the third quarter then declining late in the year.

To sum up, results in the fourth quarter and full year demonstrate the importance of Mexichem vertical integration strategy. For that reason we have been investing in our joint venture with Pemex and OxyChem. We will maintain that focus in 2015 while maintaining our commitments to lower leverage and activity, managing working capital to boost operating cash flow.

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

Antonio Carrillo Rule

Thank you, Rodrigo. Now let me go over our thinking for 2015.

Con formato: Español (México)

Based on our current visibility we expect to achieve double-digit growth in EBITDA in 2015, excluding the impacts of PMV and Venezuela and restructuring charges. The environment will be challenging but full of opportunities. Our strategy is to take actions to drive revenue growth and increase profitability, and we are focused on those actions that are aligned with our long-term vision, as we are not interested in just implementing short-term fixes.

First let me tell you some examples of what we're doing to drive revenue synergies with our two recent acquisitions and the progress we have made to date. Both Dura-Line and Vestolit offer sophisticated products and we are seeking to cross sell into global customer base.

In Dura-Line's case they did not have capacity in the Czech Republic to fulfill a large order for a telecom customer in Europe, so they collaborated with Wavin and part of the order is being produced and shipped from Wavin's facility in France. We have also placed dedicated sales personnel in our Brazilian offices to develop Latin American markets for Dura-Line's value-added products and solutions to end markets like telecom and data com. I'm pleased to report that we have met meaningful demand, and we just received our first contract in Central America for 125 kilometers of micro technology products for fiber optic deployment.

From our Vestolit colleagues we have identified numerous ways in which to apply their technologies to increase the efficiency of our operations, as well as cross sell. Just last month, several technicians from Vestolit visited the PMV facility and made recommendations not only for the current improvement plan, but for potential changes in technology to make the plant even more efficient.

These are just two of the initiatives that we are putting in place, and we see meaningful potential for both growth in sales and realized expense synergies.

We are also moving ahead to eliminate low margin products from our portfolio and emphasize profitability over volume across the organization. Based on what we have identified so far, we will incur a restructuring charge of \$9 million in the first quarter of 2015 and an additional \$4 million in the second quarter of this year, which relates to the closing or streamlining of several facilities. These actions have already been announced to the facilities and are in the process of being implemented. We will continue to evaluate the long-term potential of other low-margin businesses throughout the year.

We will be paring back our organic CAPEX as a percentage of sales to 3% in 2015 from 4% in 2014. The major portion of our CAPEX will be spent on our large vertical integration projects, namely the joint ventures PMV and the Texas ethylene cracker. The remainder will be allocated to those businesses that have the best projects focused on Mexichem becoming a more specialty, higher-margin company in the long run while delivering short-term results. For the long term the key investments in ethylene and VCM continue to be transformational projects that will allow Mexichem to become an integrated player in what we believe will continue to be the most competitive region in the world.

In summary, we're taking action to build value in 2015. In our corner are revenue contributions from our 2014 acquisitions, continued recovery of our fluorine chain, a higher percentage of specialty products, our vertical integration, and the dedication of over 19,000 employees worldwide.

Operator, I would like to open the call for questions now.

QUESTIONS AND ANSWERS

Operator

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 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 Frank McGann of Bank of America. Please go ahead.

Frank McGann

Hello. Good day. Two questions, if I could. One, with the economies somewhat softer in Latin America I was wondering if you could comment on what you see as trends in sales in integral solutions, both in the construction markets as well as the infrastructure markets.

And then the second question just maybe an update on how you're seeing the transition to new refrigerants in 2017.

Antonio Carrillo Rule

Sure. Good morning, Frank.

Well, let me start with your first question in Latin America. With the exception of a couple of countries, Mexico and Argentina specifically, the rest of our business in Latin America is very focused on self-construction markets. So that market is we continue to see relative strength in the market, we continue to see, we saw growth in 2014, and we are seeing good trends in 2015, so we don't see a big impact from the economy slowdown, at least for the moment in that market.

In the infrastructure market there is, as you know, with the oil crisis collapsing in some countries, specifically the countries that are oil dependent, Ecuador, Colombia, Mexico, there is a reduction in spending in those countries. However, as I said, that's not our biggest focus. We do have lines focusing on that. The lines are doing relatively well and we are not forecasting for this year a big slowdown there, but we don't see robust demand let's say.

On your second question— And just to finish that question, the big focus for Mexichem is moving more and more in Latin America towards the self-construction; that's where we want to focus. The new products we have launched and we are developing are focused on that market, so that's where we are trying to concentrate our efforts.

On the second question on refrigerant gases, as you know there's two trends, one in Europe where in 2017 there is a like kind of an accelerating curve to change the refrigerants, in the US it's more an incentive-based program where some car manufacturers are receiving incentives to change. We have seen specifically one car manufacturer change some of the refrigerant gas to the new refrigerant, however, from our point-of-view, we have not seen any reduction in our demand for our product and we don't expect a reduction in volume for 2015.

Frank McGann

Okay. Thank you very much.

Operator

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

Luis Miranda

Yes. Good morning, everyone, Antonio, Rodrigo. Thanks for taking my questions.

I had two questions, Antonio. I don't know if you could give us a little bit of more of color for the first half of the year or on the PMV project. You mentioned the 230,000 tons for the year. I was wondering, with the information you have right now, how would be the ramp up and if we could start to see a steady improvement throughout the first half with relatively stable expenses or lower expenses than before.

And second, when we are seeing the fluorspar improvement you were mentioning that volumes remain a little bit lower than historic levels. I'm wondering if going into 2015 we could start to see normalized levels and still see some potential benefits of the negotiations of the new contract. Thank you.

Antonio Carrillo Rule

Sure. Thank you, Luis. Let me go to your first question on the PMV. As I mentioned, the overhaul was a pretty significant event for us and we learned a lot about the plant. When you operate the plant and you evaluate it from the outside while it's working its one thing; when you open the equipment it's a completely different story. I also want to remind everyone that we are operating in a new territory for a private company as a joint venture with a public company in Mexico, so all of those things are lessons learned that we're applying and that's why I mentioned that we are working with our JV partner to improve our business model and give the company more flexibility and more efficiency in the future.

But to your specific question, the good news is that after the overhaul the plant has been very stable. I would say it has been since January, the second week in January, very stable. It's the most stable period we've seen since we took over the facility in September, so that's very good news. The next stage in improvements come it comes in April and that will take the capacity a notch up, and then the final, the third big step will be in July. So the plan is for the plant to continue to ramp up capacity throughout the year and we expect it to be in a stable basis, so that's the good news.

The other side of it is that throughout this period the last six months, as you know, PVC prices, but also VCM prices, have fallen significantly. So we are now in a stable plant in what with a much lower sales price, which we already see trends of being trends turning around. So we are seeing trends for VCM and ethylene start picking up in the next few, in the next month really, and that should help the PMV going forward.

So the good news is that we are seeing a stable plant, we do have the plans to improve, and we see positive trends in pricing over the next few months. We need to work on our business model and a few things to make the plant more flexible and more efficient. And as I mentioned, we also have the help now of Vestolit, which is coming to help us and providing a lot of feedback from our operations.

On the fluorspar side, yes what's interesting is that 2014 was a year of very low demand very specifically in our acid-grade fluorspar. As we have mentioned, especially during the first half of the year, demand was very, very low because there were a lot of inventories. Inventories were reduced during the second half. There's still some, so you will see, I would expect to see increase in volumes and strength in pricing throughout this year, so I think we have positive trends in fluorspar for the year.

Also in HF, which is another important product for us, we see very positive trends for the year. So all of those are good news.

Luis Miranda

Thanks, Antonio.

Operator

The next question comes from Gustavo Gattass of BTG. Please go ahead.

Gustavo Gattass

Hi, guys. I had a couple of questions here. The very first one, if I could, was to follow-up a little bit on the guidance that you put for the double-digit EBITDA, and I just wanted to understand how it fits with the performance and expectations of Dura-Line and Vestolit. Because if we go back to that original call where we had a little bit more detail given the impression I got at the very least was that Dura-Line and Vestolit together should be able to deliver something like 10 to 15% growth on your EBITDA if what you were expecting to see eventually played out, and if that has not changed is the message from the company that the organic business is not going to contribute that much? So that's the first part of the question.

The second part of the question, just with regards to the fluorine business as a whole, we have been seeing a slow creep in the margin up, and I was just wondering is the full process of repricing of the fluorine business through and can we think about margins being stable at these levels for 2015, or was there a potential for a bit more yet to come? Thank you.

Antonio Carrillo Rule

Let me go to your first question. Really nothing has changed from Dura-Line and Vestolit when we, since the first call we had. Probably the first half of Vestolit will be a little slower than we expected and the second half probably a little stronger, and the reason for that is that, as we've discussed, in the chlorine-vinyl business there was a trend in the reduction of prices and volumes. When you have a price coming down fast because of oil prices and people expect it to fall, to continue falling, demand slows down and that accelerates the pricing, that accelerates the price reductions. That has stopped. We have seen stability in the prices and we are seeing a slow improvement in prices over the last couple of weeks, and we continue to expect that. But what that will come in line probably in the second quarter of this year, so for Vestolit we expect a slow first quarter but then a pickup in the second, third, and fourth quarter.

For Dura-Line nothing has changed. I think we are very excited also about Dura-Line and the prospects and the team we have there so and also the growth perspectives, as I mentioned, in India and in Latin America with their product. So nothing really has changed from that.

The growth that we expect, the double-digit, based on current expectations and what we know today, it would come 70% from Dura-Line and Vestolit and the rest would come from the organic side of the business more or less; that's our estimates today. What I can tell you is that we expect growth in all of the lines of Mexichem, so we are expecting growth in chlorine-vinyls, we're expecting growth in fluorine, and we're expecting growth in integral solutions as a whole.

On your second question, so fluorspar. As I said, the volume part is still not at full capacity. We did not sell full volumes in 2015. We don't expect full volumes in the first quarter, but we expect to be growing the volumes as the year goes by. And as we increase volumes the volumes will come from some of the new contracts we have, so we do see positive opportunities to improve margins. As you know also, the margins in the fluorine are a combination of fluorspar, HF, but also the refrigerant prices. The

refrigerant prices since we lost the antidumping in November of last year have seen some reduction in prices. So we have, we feel it's a very positive trends on fluorspar, HF, but we see not such a positive thing, especially in the US in refrigerant prices. In Europe we are seeing good trends based on new regulations, so it's a combination. Overall I would say we see positive trends and positive opportunities for the whole fluorine business.

Gustavo Gattass

Perfect. Thank you.

Operator

And the next question comes from Nikolaj Lippmann of Morgan Stanley. Please go ahead.

Nikolaj Lippman

Thank you, everyone, and thanks to, thanks for the call and for taking my questions.

Three questions, if I may. First just a quick question on the full business. Antonio, I think you mentioned that the gas business or the fluorocarbon business was up both in terms of pricing and volume in the fourth quarter. The volume as such you report 9% down. Would that mean that the mining it business is down more than 10%, am I reading this correct? That's the first question.

And the second question, it looks like you have a bit of a write down on the equity capital, but that's just simply FX?

And finally, on ethylene prices they've been very volatile but have been coming down a lot lately. When would you expect us to see the benefit of the declining in ethylene prices? Thanks.

Antonio Carrillo Rule

Sure. Let me start with the first question. The gas, as I mentioned, volumes and pricing was up in the fourth quarter. It's a combination of I would say timing. We lost the antidumping sometime in the middle of the quarter, so we had a positive trend in the beginning and a negative trend at the end, so that is the combination. I think the combination gave us those trends. However, for starting of 2015, as I mentioned before, in the US we see negative trends on pricing, but in Europe we are seeing positive trends on pricing and volume so and we expect that to compensate for the negative part of the US. What we see on the gas business is a relatively stable 2015. We don't expect either big jumps up or down.

What we do expect in the fluorine business is a significant growth from the mining and the HF. And yet as I said, as you correctly state, the mining side was down in the fourth quarter. It's basically volumes and it's basically on the acid-grade fluorspar. We expected that and, as I mentioned, first quarter is going to continue to be relatively low on acid-grade but picking up from last year, higher numbers than last year, and we expect that to continue throughout the year.

On the write down I will let Rodrigo comment about the write down, but it is very basically a foreign exchange, foreign exchange situation on the write down on equity.

And finally, on the ethylene prices I mentioned it in the script but I'll try to be more specific. If you see the trends in our integral solutions chain the reduction in ethylene prices and VCM prices are, have been helping us on the downstream businesses. What happens is as our PVC prices fall based on ethylene we also receive that benefit on the integral solutions side in terms of margins. In some businesses we can maintain prices better than in others, but overall the business is much, much more resilient to raw material drops or increases than the petrochemical side of the business. So we are

seeing, we've seen it since probably December, we're seeing it at the beginning of the year, and we expect that during the first quarter we will continue to see improvements in our margins in our integral solutions business coming from reduction in ethylene and VCM price.

Nikolaj Lippman

Thanks. Very helpful. Thanks a lot, Antonio.

Operator

And the next question comes from Chelsea Konsko of TIAA-CREF. Please go ahead.

Chelsea Konsko

Hi. Thank you. Most of my questions have been answered, but can you please just clarify for PMV you said you're expecting a run rate of 330,000 tons of the VCM by year-end, and that's equivalent to how much of your VCM needs?

Antonio Carrillo Rule

Yes, [indiscernible]. Our total capacity for PVC in the world let's say is about 1.8 million tons of PVC, and it's almost 1:1. So our total needs are 1.8 more or less, of which we produce already in Europe about 400,000. So our needs that are not covered by our own production are about 1.4 million, and out of that 1.4 million the PMV will supply 330,000.

Con formato: Español (México)

Chelsea Konsko

Okay. Thank you.

Operator

The next question comes from Fernando Perez of GBM. Please go ahead.

Fernando Perez

Good morning. Thank you for the call. I have two brief questions. The first one is, are you planning to do some impairment, well impairments to the same vendor as given the declining [indiscernible] prices?

And I was wondering if you could further explain like what do you see such a large increase in EBITDA in say resin compound division of the current, well of the current division?

And the third question is what was the layoff settlement in the fluorine division? Thank you.

Antonio Carrillo Rule

Okay, let me start with the first one and let me see if I understand. I think you're asking if we are going to see impairment because of declining in raw material prices in our inventories. No?

Fernando Perez

Yes. Exactly.

Antonio Carrillo Rule

Yes. Well, we have already been doing it throughout, and a part of the hit that we saw in chlorine-vinyls come from there, part of the— We could have seen better margins in our integral solutions business but we've been writing down inventory, especially in Europe, throughout the third and fourth, specifically fourth quarter and some already in January. The reason we don't give you a specific number for that is because as you write it down you also sell it into the market, so it's very difficult to estimate how much of it stayed in the business as a hit rather than you already recognized it when you sold the product. But it's we've been writing it down and we at the moment I can tell you we're very comfortable with the

level that we have today and we don't expect significant write-downs anymore. It's been most of it has been taken in the fourth quarter. The first estimate we have was close to \$10 million that we have written down inventory. How much of that has come back as sales I cannot give you an exact figure. But yes, that has happened already.

Resin compounds why did it fall so much. As I explained, the last six months of the year if you look at the numbers for the resins up to the month, of the end of June we were doing very well, you were right on track, and capacity was coming online. The third quarter became a very complex quarter, because ethylene prices reached record high. To give you an idea, by the, by September they were at \$0.76 per pound, and that is at those prices North America was the most expensive place in the world to buy ethylene. We source our raw material in North America, but we sell PVC worldwide. So as your raw material prices go up and you try to sell PVC in the world your margins contract significantly, and that was the third quarter. As we start the fourth quarter, oil prices continued to fall down very sharply, so resin prices continue to fall down significantly and we were left with very high raw material prices in a declining sales price environment, so that was the main impact. And finally, we had a significant lack of raw material throughout the year, basically because one of our suppliers declared forced [indiscernible] for a significant portion of the year and then PMV did not produce, so we had also we could have produced a significant amount more of PVC that we could not produce because there was not enough raw material. So I hope I gave you a good explanation.

On the legal side, unfortunately I cannot give you more detail because there are some confidentially clauses that I cannot go around. So, unfortunately, on that one I cannot give you more detail.

Fernando Perez

Okay. Thank you very much.

Operator

Question comes from Maria Madrazo of Credit Suisse. Please go ahead.

Maria Madrazo

Hi. Thank you very much for the call. I wanted to see if you could provide additional details on your restructuring program, specifically related to Wavin's operation.

And I also have a second question, sorry if I missed this, but regarding Wavin could you provide additional details on local currency pricing trends. Thank you.

Antonio Carrillo Rule

Sure. I don't want to go into the detail of which facilities are being restructured. What I can tell you is that what restructuring program we're going through is in Europe and it's been announced. So all of restructuring that we have that we are talking about here the employees who are leaving already know about it, so this is not new or not something that the employees will be surprised. And the reason I say this is because, as I mentioned, Mexichem will have to continue, as our strategy dictates, looking for higher margins, we will continue to evaluate our businesses looking to keep those businesses that provide the higher margins, and the restructuring is focused on that and reducing our costs, and in some cases reducing some of the product lines that do not provide good margins. We are—

And that goes a little bit with your second question about demand trends in Europe. Mexichem will focus on margins rather than volumes going forward, and in Europe you could sell more if you wanted to sell very cheap, and that's not what we want to do. We want to, we believe we have a fantastic company in Wavin and in Latin America in Amanco and Dura-Line in the US and in India, and what we want to do is to make sure that we don't undersell our products and we want to make sure that we put

value on the things and on the technology that we have. So, overall, what I can tell you is that we are going to be focusing on margins rather than volumes and the restructuring will come on those products that do not provide those margins and volumes that we expect.

The one more comment that I'd like to give you on Wavin is that, as I mentioned, in the fourth quarter Wavin grew compared to the fourth quarter of 2013 if you take away the one-time charge that they had in '13. So we have a fantastic team there, and the only issue that we have with Wavin really as you see most of our sales there are in euros and there's been a significant devaluation of the euro. So you see some reduction in the size of Wavin within Mexichem simply because of the euro devaluation.

Maria Madrazo

Thank you very much. This is very useful.

Operator

And the next question is from Julio Martinez of Signum Research. Please go ahead.

Julio Martinez

Thank you very much. Good morning, everyone. And I have two questions, if I may. The first one is a follow-up question about the restructuring program. Do you have estimates on the benefits for the EBITDA in the middle term perhaps of this program?

And the second is the volume of integral solutions, how much is Dura-Line represented and how much does it grow in the fourth quarter? Thank you.

Antonio Carrillo Rule

Okay, let me go to the restructuring program. I don't want to go into the detail of providing you the benefits of the restructuring program. What I can tell you is that, and as I mentioned in the script, we are not looking for quick fixes, we are not looking to just save money for the quarter or the six months. What we are doing is trying to restructure the business in a way that takes us in a more healthy margin situation going forward. So some of the restructuring has to do with reductions in products that we are not making money on, some has to do with some people that are leaving the company. Overall I think it's just to come out on the other side with a healthier margin for Mexichem.

On your second question on Dura-Line, I would say on volumes that neither— Latin America did not grow in the fourth quarter or very little, it grew very little, I would say single digits, low single digits, our European business did not grow, and Dura-Line did grow in the fourth quarter. So I would say that in the fourth quarter most of, some of the growth came from Dura-Line. And as I mentioned also, they are opening a new plant in India, so we expect to continue growing in volume in Dura-Line. Probably the highest growth volume wise will come from Dura-Line.

Julio Martinez

And how much is represented from the total integral solutions volume?

Antonio Carrillo Rule

Give me one second.

Julio Martinez

Yes. Thank you.

Antonio Carrillo Rule

Let me get back to you with that number. I'll get back to you with that number.

Julio Martinez

Okay.

Operator

Again, if you would like to ask a question please press star then one. Our next question comes from Pedro Medeiros of Citi Group. Please go ahead.

Pedro Medeiros

Good afternoon, guys. Thanks for taking the questions. These are actually very objective questions. The first one is can you comment on the progress for the OxyChem joint venture and if the change in [indiscernible] prices and the volatile business environment of late change in any way your start-up schedule for the plant?

And the second question is you briefly talked about potential improvements for your networking capital during the script, but can you talk a little bit longer about the initiatives and what kind of results can we expect to see from Mexichem by 2015 on working capital?

Antonio Carrillo Rule

Of course. Thank you. So let me tell you about Oxy. The joint venture is going very well. I can tell you I'm very, very excited about the progress that the team there is doing. I don't want to go into a lot of detail, but I can tell you it's on time, it's on schedule, and nothing in the situation that on the reduction in ethylene prices or oil prices is changing the schedule. I would say that even with the numbers that you see today between the margins between ethylene and ethane in the market they're still a very good return for our cracker and we believe this is, of course, a short-term situation that will reverse in the next few months. But overall the project's going very well. We're still extremely excited about the, our cracker. And as I mentioned during the call, we have been integrated in the fourth quarter of 2014. You would have seen a completely different Mexichem in terms of EBTIDA and results. No. So this is a strategic project that we are pursuing full steam ahead.

On the working capital, it's been a focus for us for the last couple of years. I can tell you that some of the big initiatives we have are specifically with our recent acquisitions; we have very interesting initiatives and very nice opportunities to improve working capital there. Within our Latin American business it's not only reducing working capital, but over the last couple of years we have a much healthier working capital, meaning we're focusing on healthy accounts receivable, on healthy inventory levels. We have already worked a lot on inventory levels, and that's why you don't see such a huge impact in the fourth quarter based on the reduction in raw material prices. If we had had a higher inventory we would have been severely hit. So I'm excited with all the progress we've done, but going forward specifically with our two acquisitions it's exciting to see what we can do there.

And second, I can tell you that it's also part of the incentive program of all the executives of Mexichem to work on working capital. I'm a firm believer in staying, in not having a huge amount of money in working capital. As I've mentioned before, it's our cheapest bank; if we can get the money out of the working capital we have a lot of cash available going forward. So that's the focus of the company.

Pedro Medeiros

Okay. Thank you.

Operator

The next question comes from Vanessa Quiroga of Credit Suisse. Please go ahead.

Vanessa Quiroga

Thank you, Mexichem team. I wanted to ask some details for each of the subsidiaries. Can you specify whether in Latin America integral solutions' prices are stable or going up or down in local currency?

Antonio Carrillo Rule

Sure. How are you, Vanessa?

Yes, in Latin America if you see there's different situations, depending on the country and the source of raw material. Overall our goal is to try to compensate the valuation of local currencies by increasing prices, and these price compensate as much as the valuation of local currency by increasing prices. That's been our strategy. In some countries you can do that better than in others. But overall I can tell you that our goal is to keep prices in terms of dollars stable. That's where we want to go and that's the strategy and the tools that we're giving to all the countries.

Vanessa Quiroga

Okay. And going to the fluorine chain, are fluorspar volumes up year-over-year, were they up in the second half or 2014 or only the third quarter, or are they still not up yet?

Antonio Carrillo Rule

They were not up in the fourth quarter and they were not up— I would say in any quarter in 2014 they were not up. They were down.

Vanessa Quiroga

Oh okay. And—

Antonio Carrillo Rule

And that's why I was mentioning that the potential in '15 is to increase that volume while at the same time maintaining the higher pricing.

Vanessa Quiroga

Of course. Yes. As the companies accept the restock on that on the product.

Antonio Carrillo Rule

Yes.

Con formato: Español (México)

Vanessa Quiroga

And regarding refrigerant gases are volumes going up or are you losing market share once more given the negative response from the authorities in the US?

Antonio Carrillo Rule

No, more than losing market share what happens with the Chinese is that they have not— There's still markets in the US for refrigerants. One is the OEMs, and that's an area where the Chinese don't play. But about 50% of the market is on the aftermarket, and that is where the Chinese come in and have a significant presence and more than losing volumes basically what you have to do is match prices. So volumes stay high, and we don't expect a significant drop in volumes, we are seeing volumes relatively stable, but we do see pricing erosion during, since we lost the case.

What you see sometimes in refrigerants on a year comparison the plant goes into heavy maintenance every other year, so and this year we have a heavy maintenance program in the third quarter. So you will see reduction in volumes basically because we have a major maintenance during the third quarter,

so you lose one month of production for the year. For the rest we see a stable volume environment in the US.

In Europe it's a different story. There's a new regulation for fluorinated gases that gave Mexichem an additional volume than the one we were operating at in the last couple of years. So we see pick up in volumes in Europe in a very significant way already starting the year.

Vanessa Quiroga

Okay. And are prices in Europe also going up like volumes are?

Antonio Carrillo Rule

Yes. Yes, prices in Europe are going up right now.

And if I may, on the question from Dura-Line on the volume it was approximately 23% of the total volume of integral solutions in the fourth quarter.

Vanessa Quiroga

Okay. And just a final question regarding what you mentioned about rethinking what to do with your low margin business lines and products. Do you see any opportunity for restructuring outside Wavin assets in Europe?

Antonio Carrillo Rule

We see opportunity for restructuring, I would say, throughout Mexichem. Of course, it's more I wouldn't say it's already on the table; it's more we need to come up with a plan to change the business models of some of our businesses throughout Mexichem. It's not Wavin [indiscernible], it's I think it's a mentality change for the whole company focusing on margins rather than volumes, and it's something that some of our products line are better equipped to do than others. I think we have most of our business will be able to cope, however there might be some businesses that don't. And it has nothing to do with Wavin; it's more related to the type of business we're in.

Vanessa Quiroga

That's great. Thank you for all the answers.

Operator

And the next question comes from Chelsea Konsko from TIAA-CREF. Please go ahead.

Chelsea Konsko

Hi. Earlier you had mentioned that you're seeing the trends in VCM and ethylene prices improving lately, and I'm just wondering if you could provide some color on to, into what's really driving that. Is it just because oil prices are off their absolute lows or what's kind of behind the improvement there?

Antonio Carrillo Rule

Well, you know, specifically on ethylene prices it's a very volatile market with very few players, and it has to do a lot with the plant shutdowns and the maintenance shutdowns, and there's been lately some announcements on some shutdowns that are helping the ethylene prices go back up in the US. We don't see huge hikes, but at least stability. And I think oil prices have been relatively stable over the last few weeks, and stability allows the market to come back to normal and start behaving in a more rational way. So I think it has to do with some stability in the market that's providing let's say becoming a more rational market than just a panic either up or down like what happened in the third and fourth quarter.

Chelsea Konsko

Okay. Thank you.

Operator

There are no further questions. This concludes our question-and-answer session. I would like to turn the conference back over to Antonio Carrillo for any closing remarks.

CONCLUSION**Antonio Carrillo Rule**

Well I just want to thank all of you for participating in the call, and if you have any additional questions you can call Berenice and she will be more than happy to give you the answers. Thank you very much again.

Operator

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