

Mexichem S.A.B. de C.V.

Third Quarter 2014 Results Conference Call

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CORPORATE PARTICIPANTS

Antonio Carrillio – *Chief Executive Officer*

Rodrigo Guzman - *Chief Financial Officer*

PRESENTATION

Operator

Good morning everyone and welcome to the Mexichem Third Quarter 2014 Results Conference Call. Your speakers today will be Mr. Antonio Carrillio, CEO and Mr. Rodrigo Guzman, CFO. Following today's presentation, there will be a question and answer session. During this conference call, management will make forward-looking statements to assist you in understanding its expectations for future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially. And I'll refer you to the company's press release of October 27, 2014 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 light. The company may at some point elect to update the forward-looking statements made today, but specifically disclaims any obligation to do so. Please note this event is being recorded.

I will now turn the call over to Mr. Antonio Carrillio, CEO of Mexichem. Mr. Carrillio, you may begin.

Antonio Carrillio

Thank you operator and good morning to everyone. Thank you for participating in today's call to review Mexichem's third quarter and nine months results and to discuss our business outlook. This was a pivotal period for Mexichem from several perspectives. First, we announced two important strategic acquisitions, one that already closed in mid-September and the other one that is scheduled to close next month. Second, we took advantage of market conditions to raise debt at favorable terms in order to prepay debt in pesos due in 2016 and also helped us keep a healthy cash balance, more on that from Rodrigo a little later in the call. And third, the long-awaited recovery in our fluorine chain, where our margins are the highest of our three chains, began to positively impact our financial results. This contribution to our fluorine chain made an important difference for us in the third quarter, enabling us to report EBITDA without Venezuela and PMV that was stable with comparable period of 2013, despite the difficult business and economic conditions faced by our European and vinyl segments, which penalized the results for the period.

In our chlorovinyl chain, the greatest impact came from what we produced last quarter, namely ethylene shortages in North America and the resulting price increases. As we have mentioned before, ethylene represents over 50% of the cost of PVC resin, therefore, a significant price increase in North America reduces the competitiveness of our resin in world markets and therefore reduces our margin. This situation has been going on since the beginning of the year, but it has worsened in the third quarter. Average spot ethylene prices in the US for the second quarter were \$0.59 per pound and for the third quarter they were \$0.68 per pound, representing an increase of 16%. It is also important that ethylene prices reached record heights during the quarter. As I mentioned, this is a regional increase in the North American market where we source all of our raw materials. At these prices North American ethylene is the most expensive in the world.

This increase of our raw material has two impacts; first, the reduction of our export margins. As we have mentioned before, Mexichem exports over 70% of its resin production outside North America. Second, record high North American ethylene prices are reducing export volumes to markets such as Europe and Asia, where lower oil prices are driving down the cost of ethylene. This situation is likely to persist for the remainder of 2014. There is a lot of uncertainty about what the differences in ethylene prices between regions will be for 2015. This will depend on ethylene capacity in the US, and on the other hand, on oil prices. However we believe that the current situation is not sustainable and in 2015 the regional differences should be reduced.

In the meantime, work on PMV, our joint venture with Pemex, continues. New equipment was successfully installed during the quarter, and we began to ramp up production in October to reach a little more than 60% capacity utilization. There will be additional plant shut-downs in April and July of next year before production is fully ramped up in the second quarter of 2015, when we will expect a meaningful contribution of low cost VCMs.

We are also making progress on our joint venture of ethylene cracker which should be operational in the early 2017. These ventures are a key part of our strategy to build Mexichem's position as a vertically-integrated producer of world-class crackers and PMV are running, together they will provide close to 60% of our projected ethylene needs in the Americas.

Our Integral Solutions chain posted mixed results in the third quarter, while the chain's revenue increased at a mid-single digit rate, EBITDA declined as a result of difficult economic conditions in Europe. This situation was exacerbated by geo-political issues in some of the key markets we serve in Eastern Europe and Turkey. Internal forecasts from our European subsidiary operations in this chain called for a return to budgeted results in the fourth quarter, but we are closely monitoring developments in the region to ensure that we are providing value-added specialty products to customers, while maintaining reasonable and sustainable margins. On the other hand as anticipated, our Latin American business showed strong growth compared to the similar period of last year, benefiting primarily from new product line launches and startup of new investments we had done in previous quarters

During the quarter, we also started to see improvements in the Mexican and in the Peruvian markets, which were some of the weakest markets in previous quarters. Our fluorine chain was a standout performer in the third quarter for Mexichem, posting 9% growth in sales and 57% increase in EBITDA. As previously noted, new contracts that became effective by the end of the second quarter of this year brought higher revenues for acid grade fluorspar and hydrofluoric acid. Additionally, the preliminary favorable ruling by the US International Trade Commission in the second quarter resulted in slightly higher prices and volumes for the refrigerant gases. On October 15, the US Department of Commerce released its proposed final resolution regarding the antidumping duties and countervailing duties on imported Chinese refrigerant gases in response to Mexichem's complaint, which dates back to October 2013. Assuming a positive outcome with respect to the final ruling, we expect by the end of next month Mexichem will stand out to benefit from higher volumes and pricing, beginning this year and accelerating in 2015.

On the acquisition front, we were pleased to be able to reach definite agreements on two key transactions in the third quarter, both of which are fully aligned with our stated strategy

of expanding our portfolio of specialty products, building out our global footprint and diversifying our end markets.

To provide an overview, VESTOLIT is a vertically integrated producer from South through high end PVC resins, with a large share of the important German market. It is Europe's only manufacturer of high impact suspension PVC, deriving 68% of the revenues from specialty products. And it provides us with significant revenue synergy opportunities by opening up new markets, expanding our geographic reach and providing fantastic technology that we can deploy to other facilities. Also important is their significant technology knowhow, which we will put in use in our PMV joint venture. We expect to close VESTOLIT acquisition before the end of the year, hopefully by the end of November.

We have already closed Dura-Line acquisition and consolidated its results for the last 11 days of September in our third quarter numbers. With Dura-Line, we have purchased a manufacturer of high margin products for growth markets such as datacom and energy. They also expand our geographies throughout their presence in important new markets for Mexichem such as India, South Africa and the Middle East, as well as strengthening our position in the US. In addition to broadening our specialty product portfolio, Dura-Line gives us immediate access to new markets, new customers that we intend to cultivate through an aggressive cross-selling program together with our Integral Solutions chain.

I have personally spent a lot of time over the last months with the management and employees of both of these companies and I am very pleased and impressed by the caliber of people that are joining our organization.

To sum up, we executed on several of our strategic fronts and priorities in the third quarter and effectively managed our operating performance, despite the industry and economic headwinds that limited the profitability of certain of our business.

At this point, I would like to turn over the call over to Rodrigo Guzman, our CFO, for a financial review of the third quarter.

Rodrigo Guzman

Thank you Antonio, good morning everyone. As Antonio mentioned, sales grew 8% from last year's third quarter, with growth in each of our three chains, including the consolidation of Dura-Line and the Integral Solutions. The fluorine chain saw the most pronounced increase, rising 9%, thanks to higher prices for acid grade fluorspar and hydrofluoric acid, and slightly higher refrigerant prices following the recent ruling by the US International Trade Commission.

On a geographic basis, our sales remain balanced with South America, North America and Europe each accounting for at least 30%. Once we have full quarter contribution from our recent VESTOLIT and Dura-Line acquisitions, we will see higher price percentages from Europe and North America, even as our Latin America business continues to grow in absolute dollars.

Third quarter EBITDA, excluding PMV and our Venezuelan operations, was basically flat with the similar period last year. EBITDA margins improved in fluorine chain for the reasons mentioned above, but declined in our other chains. Resins, Compounds & Derivatives margins were hurt by the situation in the North American ethylene market. During the same time as our plant overhaul at our PMV facility, leading to a significant

decline in EBITDA reported by our chlorovinyl Chain. Our Integral Solutions EBITDA declined 10% in the face of difficult European economic conditions, which masked a very strong performance of our Latin American operations.

Operating income fell 36% in the quarter partially due to the factors I have just mentioned and partially due to higher depreciation and amortization tied to the expansion of our assets base in recent years following the investment in PMV, the acquisition of the specialty resins business in mid-2013, and the capacity expansion in the chlorine vinyl chain.

Turning to the balance sheet, our net working capital at the end of the third quarter stood at \$791 million, including Dura-Line's net working capital of \$72 million, down significantly from September 30, 2013, when we had net working capital of \$961 million or adjusting to include Dura-Line, a pro forma working capital of \$1 billion.

Operating cash flow before CAPEX was \$382 million in the third quarter of '14, compared with \$96 million in the third quarter of '13. Again, this is due to improvement of working capital management, particularly in our Resins, Compounds & Derivatives business and Integral Solutions Chain.

Turning now to CAPEX, the total figure attributable to Mexichem this quarter was \$111 million, more than half of this was invested in our joint ventures, with \$46 million being invested in the ethylene cracker joint venture with OxyChem, and a further \$13 million in PMV, our joint venture with Pemex. As Antonio mentioned, both of these projects will contribute long-term value for Mexichem with one, PMV making a measurable impact starting in the second half of next year.

Year-to-date total CAPEX corresponding to Mexichem was \$302 million, of which \$113 million was invested in the ethylene cracker, \$28 million was invested in PMV and \$161 million invested in organic projects.

I am pleased to report that in August, Moody's upgraded Mexichem to Baa3 with a stable outlook. We now have international ratings of Baa3 from Moody's, BBB- from Standard & Poor's and BBB from Fitch.

As Antonio mentioned, this quarter we successfully issued a \$750 million 30-year 144A bond at an attractive spread of 770 basis points over 30-year US Treasury Bills. The offering was roughly four times over-subscribed and it went out with a spread slightly below our currently trading spread for a 2014 maturity with a tenure of two additional years, and we have more than 150 high quality investors participating.

Also, during the quarter and with the proceeds of the issuance, we prepaid our \$350 million 2016 maturity Mexican peso-denominated debt, extending our average debt maturity from 10 years to roughly 18. Additionally, during the third quarter, we unwound the contract swap covering that we pay Mexican peso-denominated debt into euros and at the same time, we contracted our new 10-year principle only swap with which we protect the US dollar value of our equity invested in Europe at a time in which we reduce our annual financial costs of the recent 144A bond by 150 basis points, to 437 basis points. This will represent savings for about \$11 million per year.

At the end of the quarter, we have financial debt of \$2.5 billion and \$900 million of cash and cash equivalents, bringing net financial debt to \$1.6 billion. Our net debt-to-EBITDA ratio at the end of the quarter was approximately 1.9 times. However, in the fourth quarter, we expect to complete the VESTOLIT transaction for a total purchase price of €219 million, or about \$280 million, of which €172 million, or \$220 million, represents our cash payment. This will bring our net debt-to-EBITDA ratio to about 2.2 to 2.3 times at the year-end, but we expect that ratio to be below 2 times as we achieve revenue on operating synergies over the medium term.

To sum up, we have been successfully managing our financial position and we have the resources to carry out our expansion plans, while maintaining a disciplined approach to our leverage.

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

Antonio Carrillio

Thank you, Rodrigo. Based on our current forecast, we expect to report strong fourth quarter comparisons. EBITDA is expected to grow at double-digit rates over the last year including the ongoing effect of the ethylene shortages, but excluding the impact of PMV and our Venezuelan operations, where visibility is still limited. We anticipate that this growth will be driven by continuous improvement in performance in our fluorine chain, better business conditions in our key Latin American markets and the inclusion of one quarter of Dura-Line's results. For the full year however, we are now expecting a flat EBITDA performance without Venezuela and PMV compared to 2013, based primarily on the factors that reduced profits in the third quarter, mainly high ethylene prices in North America and economic conditions in Europe. We expect 2015 to be a year of both organic and acquisition growth, led by higher sales and profits in our fluorine chain, which is our highest margin business, ongoing capacity increases in Latin America, the ramp up of VCM production later in the year and the full year benefit of our Dura-Line and VESTOLIT acquisitions. We are looking forward to a strong finish in 2014, our financial position is solid and we are optimistic about what we can accomplish in 2015.

With that, operator, we would like to turnover the call for questions.

QUESTION AND ANSWER

Operator

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

Our first question is from Frank Mcgann of Bank of America, Merrill Lynch. Please go ahead.

Frank Mcgann

Hello, good day and thank you very much. Two questions, if I could. One, I am just looking at the Latin American business, you've highlighted that is starting to show a little bit more life, and I was just wondering if you could go into a little bit more detail on that. Which segments, particularly, and countries are you seeing improved results and particularly, what is the outlook in Mexico for infrastructure? And then, if you could go a

little bit more detail on PMV and Venezuela, the effects in the second quarter, and how significant those are likely to be in the, rather, in the third quarter, and how likely those are to be significant in the fourth quarter?

Antonio Carrillio

Sure, Frank, how are you? Well, let's start with your first question, Latin America. So if you look at our approach, our Latin American business, if you take out Mexico and Argentina, the rest of the businesses are mainly focused on, let's say the majority of their sales are towards the self-construction market, as we have discussed in the past.

So, every single country in Latin America grew in the third quarter with the exception of Ecuador, which is an important market for us, but the rest of the countries, in every single one of them we saw a growth in EBITDA and margin expansion in EBITDA. So we saw a very positive trend, probably the outliers, and the biggest growth countries were Brazil and Mexico, Mexico coming from a very low base, Brazil coming from a high base already. But we have been successful in Brazil, not only from products that we already produced, but we started new production lines in Brazil on irrigation products, on new, let's say, SKUs for our customers. So in general, we were very pleased, the growth was very solid double-digit growth for Latin America, and we were very pleased.

We see a strong fourth quarter for Latin America, infrastructure was not as strong as self-construction, but we did see a significant improvement in Mexico and in Peru, which were two of the countries that were of a bigger concern in the last quarter. So in general, we were very pleased.

On PMV and Venezuela, the results of PMV for the quarter mainly reflect that the plant was shut down for two thirds of the quarter. So when you have a plant that's shutdown for two thirds of the quarter, we were selling out of the, they had already built some inventory, and you reflect some of those sales in the inventory in the numbers you see. However you carry out, all the fixed costs, basically you are carrying them out throughout the quarter, and that's what you see in the bad results for PMV.

The plant is starting up, it's already started up, so we don't expect this to happen again in the fourth quarter. In fact, we expect the plant to become much more stable in the fourth quarter and continue to be stable until our next shutdowns next year. So we are optimistic that this is going to be a one-time bill for this quarter.

On Venezuela, as you can see, we have disclosed the numbers from Venezuela. Venezuela has been hit by different things. One, on one hand, you see reductions in volumes because of the situation there. On the other hand, there has been new caps, legal caps, on the margins you can make there starting in the second quarter of this year. So you will see a Venezuela that will continue to become profitable, but much less than in the past. And as you can tell, there is very little visibility in the future. So that's why we have decided to disclose it a separate business and let you know how it's going. We expect it to continue to be profitable, but just less than in the past.

Frank Mcgann

Okay. Thank you very much, very helpful.

Operator

Our next question is from Lillian Starke with Morgan Stanley. Please go ahead.

Lillian Starke

Hi, good morning and thank you for taking my question. I just wanted to see, in terms of the ethylene hike that you saw in the US, how much of the spike was reflected in the VCM price. And was it that, as soon as ethylene spiked, you saw that increase or could we expect some sort of a lag between ethylene and VCM prices that could affect already the peak in September, could be, and maybe affecting October numbers as well?

Antonio Carrillio

Yes. Well, the prices for our VCM have certain formulas, depending on the supplier. As we have mentioned before, we have three different suppliers, one of them being PMV, which is a joint venture with Pemex, that have certain formula, Oxy which has a different one, and the third supplier which has a different one. I can tell you that we were unfortunately hit in this quarter by two different factors at the same time; one was ethylene prices going very high, the other one was PMV was shut down. And today, PMV could have supplied additional VCM for us during the quarter, but they were shut down.

On the pricing side, we do expect an impact in the fourth quarter, not necessarily from the peak prices of September, but just that the prices are still high, they have come down some from the peak in September, but they are still very, very high. So we do expect the fourth quarter to be relatively weak in our chlorovinyl business even though, and that's already included in our projection, that I mentioned where our fourth quarter is going to reflect significant double-digit growth for the whole of Mexichem. We are expecting on chlorovinyl a lower quarter.

Lillian Starke

Perfect. Thank you.

Operator

Our next question is from Gustavo Gattass with BTG Pactual. Please go ahead.

Gustavo Gattass

Hi, guys, I had two questions here, if I could. One, I was wondering whether we could talk about the outlook, maybe even beyond the quarter, for Integral Solutions and Europe in particular. We were still expecting to see a gradual improvement in margins over the course of the years as the Wavin acquisition was all, I'd say, integrated. I was just wondering, after the setback in Europe, should we be expecting a little bit more volatility on that or even have we actually reached all that we could see, excluding the acquisition impact. That would be the first question.

And the second one had to do a little bit more with the fluorine business. We've basically seen margins recover to a fairly high level from second and third quarter now, compared to the recent past. And I was just wondering, is it possible at all for you to give us an idea of just how much spare capacity the business has today for that potential pickup in volumes that may come with the antidumping rules?

Antonio Carrillio

Sure, let me start with the first one. So, I think you are absolutely right. We have since the beginning of the year and the forecast we have seen for our Integral Solutions called for two things. In Europe, we had expected a continuous improvement over the previous year, in margin and in EBITDA, absolute EBITDA, throughout 2014. And in Latin America,

as we have said, we expected a low, relatively flat first half and then strong second half of the year. Latin America is doing what we were expecting to do and Europe was doing it until the end of June. The third quarter was really very unexpected for us, and it evolved really, really fast.

What I can tell you about Europe is that there is also, let's say, different colors within the countries where we participate. We have countries that are doing fantastic. Our UK business is doing a fantastic job, even though in the numbers of the third quarter, there is a €5 million provision for a closure of a facility that we announced during the third quarter. So the UK business is doing fantastic and we still are restructuring it and we have announced another closure of a facility, to improve our footprint. We have countries such as the Netherlands that are doing very well, Hungary is doing fantastic and a few other countries that are doing very, very well.

However, we have two regions in Europe, the Nordic countries and specifically the countries that export to the Russia and Ukraine markets and Turkey, which had a lot of exports to Iraq, to Syria, to some of the countries in the region, that have been significantly affected by these geopolitical issues. As you stop exporting to some of these regions, the other players also start selling in the local markets and that increases the amount of products available in the regions of the market, and the margins, and that's what's happened in Europe.

We have since done a significant amount of analysis on this problem. We believe that the fourth quarter is going to be an improvement, and we believe 2015 will continue to show improvements over the previous years. I don't think you have seen the last or the best we can do with Wavin. Now, I think there is a lot of things we can still do in Wavin and our expectations is that the results in Wavin have to improve in 2015 and beyond. So we will work and we are sure that we can achieve much better things with Wavin in the future.

Your second question is on the fluorine side. On capacity, in the US, we don't have much spare capacity. We have a little bit and we have seen some volumes come back since the Chinese imports were basically eliminated in the second quarter. In Europe, we do have some capacity available for fluorinated gases, not specifically for this gas or for fluorinated gases. And the reason I mentioned fluorinated gas is that in Europe, the situation is a little different than in the US. In the US, our main product is only one gas which is the gas for cars, for air-conditioners in cars. And in Europe, we sell other gases, medical and some other.

In Europe, we have already been allocated a significant amount of fluorinated gas capacity for next year; there is an allocation that's happening now. And we expect volumes to increase significantly for Mexichem in 2015, 2016, and 2017; the allocation is for three years. In the US, we do not see a huge increase in capacity, more we expect if the ITC comes back with a positive outcome for our case, that we will see positive impact coming from prices mainly.

Gustavo Gattass

Okay, perfect. Thank you.

Operator

Our next question is from Federico Robinson with Activer. Please go ahead.

Federico Robinson

Hi, thank you for the call. I have three questions, but we can start with the first one. My question is regarding the Integral Solution business. In which countries do you face weakness in Europe, you already say that UK, Netherlands, Hungary there the performance was very positive, but I would like to double click into the countries that they didn't go well?

Antonio Carrillio

Okay. So in general, the countries that didn't go well, we had France that is not performing well, and then the countries that export to, let's say, to Russia, Ukraine and to the Middle East. So Poland did not have a good quarter, even though in the year it's doing very well. The Czech Republic did not have a good quarter, even though in the year it's doing well. Turkey did not have a good quarter; it had a very bad quarter, in the year it's doing very bad. I can tell you that in general, the countries that did not do well in the quarter are doing better than last year, in general all the countries. And then we have some issues in the Nordic, so Sweden and Norway are two of the countries where we are also seeing some weakness, especially in pricing. On the German side, our volumes are still strong, but pricing is an issue and also Germany, also exports to those countries that I mentioned. So that's more or less the picture.

Federico Robinson

Okay, perfect. Thank you. And the second one, within the Integral Solutions business, you attend three sectors, construction, infrastructure and agriculture. I would like to know which sector was the most affected of the three.

Antonio Carrillio

In Europe, you mean.

Federico Robinson

Yes.

Antonio Carrillio

Okay. In Europe, in general, the one that was most affected is construction. In construction, even though in Europe our business is mainly an infrastructure business, the one that had the biggest decline was construction. Infrastructure held out relatively well, but it has lower margins, but construction was the one that was the most affected.

Federico Robinson

Okay, thank you, and the third one, I would like to know if you have plans to raise more capital in the future in the markets?

Antonio Carrillio

At the moment, we don't have any plans.

Federico Robinson

Okay, perfect. Thank you.

Operator

Our next question is from Fernando Perez with GBM. Please go ahead.

Fernando Perez

Good morning. Thank you for the call. I have just one brief question, regarding the Pajaritos context, I was wondering at what capacities you are working and how should it behave during your next three shutdowns that you just announced? And the second one is regarding VESTOLIT, how are the markets behaving where it has operations? So should we be seeing similar results as well, or its completely different? Thank you.

Antonio Carrillio

Sure. So let me start with VESTOLIT first. VESTOLIT, as you know, we have not taken it over, so I don't have all the visibility that I have with Wavin. We have some idea of what's happening in Europe and understand the market well. So if I can tell you the color of what's going on. VESTOLIT is an integrated producer, what that means is, it produces salt, chlorine, caustic soda, all the VCM and then PVC. What has happened in Europe, specifically in Germany, this is a German producer, when the economy slows down and there has been a, let's say, reduction in demand for PVC in Europe, the amount of Chlorine produced, since there is less PVC production, the amount of Chlorine produced is reduced and therefore there is a scarcity on caustic soda. So prices of caustic soda has come back up in Europe some, and they have compensated some of the reduction in PVC.

So, from what I understand, the third quarter was relatively a quarter that was, let's say, on target, and let's see where the fourth quarter comes at. But from my understanding, the balance in the chain has made VESTOLIT, let's say, be able to withstand the situation in Europe. And again, I mentioned VESTOLIT has a significant exposure to specialty markets, which are much more resilient than the traditional PVC. VESTOLIT does not sell a single pound of PVC to pipe producers. Their main markets are window profiles, a lot of automotive applications, medical applications and other applications which are let's say more resilient than the traditional pipe producers. Can you repeat your second question?

Fernando Perez

The capacity of PMV?

Antonio Carrillio

The capacity of PMV, as I mentioned in my speech, now that it's ramping up we expect it to be running for the rest of the quarter at about 60% capacity, which means that it will be at double the capacity that it's been running at the moment, and double the capacity of what it ran last year. What that should do, it should start getting us into a situation where we have better absorption of fixed costs. We can increase our capacity of chlorine and caustic soda and simply get into a positive or virtuous cycle, rather than a negative cycle, that we were in. That should take us all the way up to April, when we have the next shutdown and we should take it up and then in June. So we are optimistic that this is going to make it not only better performing economically, but also more stable.

Fernando Perez

Okay, thank you. And what's the impact do you expect to have with shutdown in April, so regarding revenues and profitability, so...

Antonio Carrillio

The shutdown will be a little shorter than this, so it will not be as long as this one. And as you see in our numbers, we do have some sales during the quarter, during the third

quarter, which come from inventory that we have built up. And you can build up some inventory, but not a lot. But hopefully for the shutdown in April, we will be able to withstand it much better, because we have a shorter period and inventories we build can withstand a part of that shutdown.

Fernando Perez

Okay. Thank you very much.

Operator

The next question is from Philippe Santos with JP Morgan. Please go ahead.

Philippe Santos

Hi Antonio, good afternoon. Just a quick follow-up, on the Integral Solutions in Europe, how should we see the performance for this, at the end of this year and the next? There is a slowdown and well, do you think that this should come back or it was just an isolated situation this quarter and then we should have better performance going forward?

Antonio Carrillio

Our expectation for the fourth quarter, as I mentioned is first of all, good going, Philippe. The expectation is to see a relatively flat quarter compared to last year. So let's say to reduce the volatility we saw in the third quarter, and that's what we are seeing. We already see a better performance during this month. And our expectation for next year is to grow compared to this year in EBITDA terms and EBITDA margin. That continues to be our forecast and that's what we are working towards.

To be honest, there is a significant amount of uncertainty, especially given the quarter we had, there is still a lot of uncertainty of how much of it we are going to be able to compensate and how much of it is going to be a longer term. My biggest uncertainty continues to be the geopolitical issues and how much that's going to continue to affect our exports. So we are expecting a better quarter, but there is still a significant amount of uncertainty for the fourth quarter and for 2015, even though our expectations are for a flat quarter and a growth in 2015.

I can also tell you that there is still a lot of things we can do. I mean, we still have a significant amount of projects going on to improve our margins. We have now deployed a team of people from our Latin American operations to help us understand where we have slack and where we still have opportunities, and we have found good opportunities. Our European team is working very hard and very well on finding these new opportunities and finding ways to increase our margins. So there is still a lot of things we can do. And so, as I mentioned before, we have in absolutely no way shape or form giving up on Wavin. We are absolutely confident we can increase our margins there.

Philippe Santos

Okay, and just one follow-up, if I may. Do you still maintain your guidance for this year and the next? And the second thing is, do you expect any more shutdowns in capacity in the fourth quarter in the next year?

Antonio Carrillio

Well, I mentioned it in my speech. What we expect now, given the third quarter that we have, is to come back to more or less what the fourth quarter we had expected, with the exception of our chlorovinyl business, which will still have an impact. And we expect

significant growth for the whole of Mexichem in this quarter, so a strong double-digit growth in the fourth quarter which will take us to a flat EBITDA year without PMV and Venezuela for the whole year. For next year, we do expect growth. Where do we see the growth coming? The growth will come from fluorine, the growth will come from our Integral Solutions in Latin America, and the growth will come from PMV in the second half of next year. So we do not expect big shutdowns next year for PMV. And we expect growth from the two acquisitions we did from a full year of VESTOLIT and Dura-Line. So we are confident you will see growth for 2015. And if I mention also from Wavin, today we are expecting growth from Wavin.

Philippe Santos

Okay. Thanks so much Antonio.

Antonio Carrillio

Thank you, Philippe.

Operator

Our next question is from Luis Miranda with Santander. Please go ahead.

Luis Miranda

Yes, hi Antonio, Rodrigo, good morning. Just a couple of follow-ups. The first one is regarding Europe. Antonio, as you mentioned with the slowdown, with the situation you are seeing and the integration, of the businesses, do you foresee any risk of additional charges on restructure in the European operations? That would be the first question. And the second, if you could help me a little bit to understand, is there any potential upside for price increases, either in the chlorine vinyl or in the PVC business due to increase of prices of ethylene, or it is limited because of contracts? Thank you.

Antonio Carrillio

Let me start with restructuring. As I said, the numbers for the third quarter include €5 million restructuring charge in the UK. And I can tell you that if and when we find an opportunity to improve our resource in Europe, that require some restructuring, and based on the numbers in the third quarter, it's apparent that we need additional restructuring in some areas.

We will make the right decision for the company even if we have to take a charge, that's temporary. I do believe there are opportunities, and as I mentioned, we deployed some people to help us identify additional opportunities. So I wouldn't rule out any restructuring charges in the future. And if they provide a significant improvement to our results and a good strategic fit for Mexichem, you should expect some restructuring charges in Europe.

But I think that's just a business practice that you should expect from Mexichem in not only in Europe but throughout the whole business that we operate, whenever we find any business that's not operating to par, we need to find ways of doing it better. And your second question on price increases, can you be more specific, are you referring to price increase of resin or chlorine or caustic?

Luis Miranda

No, I mean with the limited supply of ethylene and the cash margins there, that there could be some way to offset that, and you could see some higher price on PVC, resin in some markets, I don't know if that's feasible or it's limited by contracts?

Antonio Carrillio

Historically, as I mentioned, 70% of our exports of PVCs, resin, is exported outside of North America. So where we are today is, we are having a regional impact on raw material, on ethylene, which is not happening in the rest of the world. And so, in the rest of the world, ethylene prices which historically have been higher in Europe than in the US simply because their ethylene is coming from naphtha crackers instead of ethylene crackers, historically that's a much more expensive proposition. And that's why we are doing the cracker in the US because when this situation normalizes, the impact of North American shale gas will make all the sense in the world and we will be the most competitive company in the world. And that's what you are seeing with integrated suppliers in North America.

The problem we have now is a regional impact on ethylene, which we cannot reflect in pricing in the export market. But the reason I said it, we think it's unfeasible for this to continue for a long period of time, as you cannot have ethylene being more cheaper in Europe coming out of oil than ethylene in the US coming out of ethane for a long period of time, even though today oil prices are coming down and that's an additional variable to take into account. But to answer your question shortly, we don't see a lot of feasibility of reflecting in export markets additional price increase. What we do see, we have been doing, it's growing in some of the markets where we do have some pricing leverage, and we have been focused over the last few months on growing our share in those markets where we have some pricing leverage, so that's what you should see. And that's why we are reducing the volume. Part of the impact in the third quarter, and you will see in the fourth quarter, is that we have reduced our volume to try to compensate. When I say reduce the volume, it's not versus last year. I say versus what we were expecting with the increased capacity. And what we are doing is focusing on places where we can make some margin rather than just pure volume.

Luis Miranda

Thank you, Antonio. That was very clear. Thanks.

Operator

Our next question is from Juan Lopez with BTG. Please go ahead.

Juan Lopez

Hi, good morning. Thank you for the conference call. I have several questions. The first one is on the chlorovinyl chain, if you could disclose a dollar amount impact of just the higher ethylene cost, so as to see the kind of normalized levels the chain will have if ethylene prices will be, let's say, like in the first half of the year and what's your likely impact in the fourth quarter of this year. And also in Pemex, what was the dollar amount of additional expense related to maintenance costs?

Antonio Carrillio

Okay, Juan. We don't disclose the specific amount of ethylene. What I can tell you is, we expect a similar margin in our chlorovinyls business for the fourth quarter as the third quarter. And a normalized margin for that chain is more aligned to what you saw in 2013 and the first quarter of 2014 rather than what you are seeing right now as ethylene price has normalized. That's more or less what I can tell you.

On the maintenance costs that you referred to, the loss that we incurred in PMV does not have to do anything with the maintenance cost or refurbishing cost. Those refurbishing costs that we are incurring are capitalized and are not reflected in our results for the quarter. So these are just basically the fixed expenses of running the facilities at no capacity, what you saw in the results of PMV.

Juan Lopez

We saw that in 2012 and 2013 in the margins, I mean in 2011 and 2012, the margins in the 4Q in the chloro division was 22% and the last year you mentioned that the margin was lower because of that major shutdown also, so where should we see margins in the 4Q?

Antonio Carrillio

So that's an important clarification I think. In the previous years, before 2013, before the fourth quarter of 2013, our chlorovinyl business included the results of our derivatives business, which are chlorine business, which had significant margins and it was mainly selling to the Pemex and to the local markets in Mexico. Starting in the fourth quarter of 2013, that became PMV, and now it's carrying, let's say, the high cost of the Pajaritos facility that is our joint venture. So what I am mentioning about having similar margins, I am mentioning about the chlorovinyl business without PMV. So the resin compounds and derivatives business that we will report today separately, that you see in the report, is the one that I am mentioning that we expect similar margins in the fourth quarter as in the third quarter. But, of course, they will be lower than in 2011 and 2012, because they do not include the chlorine business that we used to have in the past. That business is PMV today, it's changed completely, and we don't sell chlorine anymore. We use the chlorine to produce VCM and it will get better to those levels and the total margins will improve, as we improve the capacity of PMV which will be in the second half of 2015. I want to make sure I am clear on this, please let me know if that was clear.

Juan Lopez

No, that's very clear. Thank you. And then the next question is on Venezuela, you mentioned that the contribution of Venezuela was \$7.2 million, I wondered if you can comment what was that amount in the 4Q last year and in the 3Q last year?

Antonio Carrillio

Okay. So last year Venezuela was \$14 million in the third quarter and in the fourth quarter; hold on one second, we will give you the number. Venezuela, it's here. We can send it back to you, we don't have the figures here. It should be very close to the number we had in the third quarter. So we will send you the number. What we do expect from Venezuela in the fourth quarter is to be profitable and for 2015 for the business to continue to be profitable.

Juan Lopez

Okay, that's fine. Thank you. Just to clarify the Integral Solutions chain included the charge of €5 million in the operating results?

Antonio Carrillio

Yes, indeed. Yes, it did.

Juan Lopez

Okay. Thank you very much.

Operator

Our next question is from Pedro Mediros with CitiGroup. Please go ahead.

Pedro Mediros

Yes, thanks for taking the question. So I actually have three questions. And I am starting with first, did you make a comment how fluorspar pricing conditions compare between the quarter and with the levels that you captured in September and October? Comment on your report, as having benefited from new contracts and shipments at the new pricing levels, how representative are those new contracts, and were they effective for the whole quarter?

Antonio Carrillio

Yes, the fluorspar, we have mentioned since the beginning of the year, we expected a very slow first half of the year with volumes being very low. And then in the second half, we still have some customers that have high inventories that were purchased with lower price. So for the third quarter, we saw still volumes that were below our normal volumes, but we started getting volume increases since the month of July with the new pricing. So we did not get the full quarter for these new contracts, but they are significant contracts in our portfolio. So specifically on acid grade fluorspar and HF, they are significant percentage of our revenue and the pricing was captured for a large portion of the quarter, but not all the quarter. So we still have some upside to capture in the fourth quarter. And then in 2015, we will not see bigger pricing, but we do have some volume pickup that we can achieve.

Pedro Mediros

Okay. And just as a follow-up to that, I understand you are going through, because of this customer, high inventory situation, you are going through an inventory adjustment of your own fluorspar production, has your capacity utilization already stabilized back to previous levels or...

Antonio Carrillio

We continued during the quarter and the beginning of the fourth quarter, we continued to be adjusting our capacity to do two things. First, as we have mentioned and you saw the result in the cash flow, we are focusing on working capital. And in all of our businesses, we have significant opportunities to reduce working capital. So we have adjusted our capacity to reduce working capital and to current market conditions. We have a very flexible mine and a very flexible hydrofluoric acid plant. So we can increase the capacity relatively easy. Today we are working towards improving our cash flow and reducing our working capital, that's why we have reduced the capacity.

Pedro Mediros

Okay, and just to be clear on that, was the main improvement on your working capital coming from your fluorspar inventory?

Rodrigo Guzman

No. The working capital, I am Rodrigo; there was basically no impact from the fluorine business in the third quarter. Most of the impact came from our chlorovinyls business and

from the Integral Solutions, specifically in Latin America. Those were the two big contributors to the improvement in working capital. For the fourth quarter, we do expect significant improvement coming from Europe.

Pedro Mediros

Okay, perfect. And just one last question, if I may? Can you elaborate on the strategy behind investment on power co-generation, the potential implied rate of return you are expecting to achieve from the contract with Pemex, and if you see similar bids ahead for that business?

Antonio Carrillio

Yes. As you know, the internal rate of return depends on achieving the purchase power agreements with the people that we are negotiating with. So I would not like to comment on any internal rate of return at this time until we have achieved on the contracts we are working towards. But I can tell you that the rates of return today with Mexichem electricity prices are very, very good.

And what we are trying to achieve there is two things, one is to, of course, get a rate of return, and second, to reduce our electricity costs which are very, very high today. At the moment, we do not have any additional projects, and the two we have announced, that we expect to announce in the near future, we are focusing on these two. And the reason for that is, these are two big projects and we want to make sure that we are successful with them. And second, there is a significant shortage of transmission lines in Mexico and we are working towards trying to speed up the process of the approval of those transmission lines that we can start working on the co-generation facility.

Pedro Mediros

Okay. Well, thank very much.

Antonio Carrillio

Just to answer the question on Venezuela. The EBITDA for 2013 was \$13.1 million, so as I mentioned, very close to what we achieved this quarter. So for the fourth quarter of 2013, \$13.1 million and what we expect for the fourth quarter is \$2.4 million, so a significant drop and that big drop is included in our forecast of double-digit growth in EBITDA.

Operator

Our next question is from Chelsea Konsko with PIAA. Please go ahead.

Chelsea Konsko

Hi, you had mentioned that you had strong growth in Integral Solutions in all of your Latin American markets except for Ecuador, I believe. So I was just wondering what's going on in that country and what percentage of your revenues or EBITDA does Ecuador represent?

Antonio Carrillio

Sure. Well, Ecuador, as I mentioned, it's not growing. We did not grow in the quarter; it came down just a little bit. It's an important country for us because we have a very important market share. It's a country where we have significant presence, and the country for us is doing very well. So for the year it's flat, it did not have a good quarter, but

for the year, it's a flat country in terms of EBITDA. In terms of volumes, it's also relatively flat.

So it's not that's its going bad, it's a country that represents for us a kind of a, it's like a test tube for us. We introduced significant amount of products in that country because of the presence and the brand we have there. So you will see in Ecuador less than a flat upward trend, you will see more of a step-trend where we introduce new products, open new lines of products and then they continue to grow. And I think at the moment, we have just one of those times when you have a flat time, while we are introduce new products, we were just there a few week ago. And so the new product line is coming out. So we are very excited about the future of Ecuador, it's just that we grow with new products, I think that takes a little more time for them to grow. So there is nothing wrong going with Ecuador of course.

Chelsea Konsko

So, it's not as much a reflection of the economy as it's just your own product launches?

Antonio Carrillio

Exactly, it's a reflection of our business model there where, because it's a small country, to be able to grow we cannot grow more in pipes. So we are growing in many other product lines that use the same distribution channels and it's more a step curve then just a flat line.

Chelsea Konsko

Understood, thanks.

Operator

Our next question is from Ricardo Fernandez with Explora Investments. Please go ahead.

Ricardo Fernandez

Yes, sir. Hi, good afternoon. Just a follow-up question on the cost pressures, ethylene cost pressures and so forth. Do you see this continuing in the first half of 2015; you gave us a bit of guidance for the chlorovinyl margins in the fourth quarter. Would you expect similar or substantially pressured margins vis-à-vis 2014 first half year in '15, until your Pajaritos plant comes online and perhaps ethylene prices subside even more in the second half of 2015?

Antonio Carrillio

So Pajaritos should help us in starting now that it's starting to come online. It will not be providing such a huge amount yet, but it's going to provide at least a portion of our needs for next year. And it's going to be growing throughout the year. Ethylene prices have already started coming down, they have come down significantly from the peak in September. So we expect some normalization of that, and at least our initial view is that they should come back to the levels that we saw in the first half of the year. So as I said, it's very, very difficult today to predict, but our best prediction, that's why we said, it's likely to persist in the fourth quarter. But we are still not completely able to predict the first half of next year, even through we do expect price of ethylene to come down. What I can tell you is that the focus is going to be on using more of Pajaritos, focusing our sales on the areas and the countries where we have the most pricing leverage, and we can get some additional and we are not going to be focusing on volumes, so trying to focus on margins rather than volumes. We do have some tools and abilities to do that. So that's where the focus is going to be.

Ricardo Fernandez

Okay. And then, the follow-up on this is that the Dura-Line and the other one VESTOLIT that you are close to acquire, if they come in, be consolidated now and obviously in 2015, are they also susceptible and impacted by the situation in ethylene prices? Are they also perhaps seeing or will see cost pressure as well and margin pressure?

Antonio Carrillio

Well, let's start with each one. VESTOLIT is buying ethylene in Europe. And today, ethylene prices in Europe are more related to oil than to issues happening with capacity of ethylene in the US. And also today ethylene prices in Europe are falling, and today, they are below as I mentioned below the US and during the third quarter, they were the same way. So VESTOLIT should have some benefit from the reduction in ethylene prices, reduction in ethylene prices coming from reduction in oil prices. And the question is going to be how much they can keep their pricing up on PVC. At the same time, if you see a pressure coming from PVC prices in Europe because of ethylene coming down, then the company that should benefit from that is our Wavin operation because they should be able to buy PVC at a lower price. So I think we are very well covered in Europe with the two business models that we have there.

On the Dura-Line line, they have different product lines; they have some product lines that are more likely to be impacted by ethylene. So Dura-Line is mainly a polyethylene producer, which ethylene is a very large portion of their costs. On their basic products, the more commodity oriented products, which is a large volume that they have especially in the US, they are more susceptible and you have seen that in their numbers already. So already in this year, in their numbers for those very commodity products they have low margins. On their higher specialty products, they have much more capacity to transfer pricing of raw materials to their customer. So we expect them to be relatively able to navigate through this, through this tough ethylene prices. So I hope I answered your question.

Ricardo Fernandez

Yes, and so that's pretty good. And then the last question is on the exchange rates in Venezuela, what level are you using, or what level do you think you need to continue to use?

Antonio Carrillio

Well, the numbers that we have used always and that's the reason we started disclosing is we believe that the numbers at the 6.30 exchange rate, which is still what we are using are not realistic and that's why we started splitting them. So today, we still use 6.30. As we mentioned in the second quarter, we took a significant hit in our net income coming from a significant amount of transactions we executed to be able to get some cash out of Venezuela. We still have some, but much reduced, so we have now a very small amount compared to what we have. The operation is not requiring cash, we do not have any debt. The company is absolutely self sufficient and we don't expect any issues, except that for reporting purposes we are still using 6.30.

Ricardo Fernandez

Okay. So if you were to use the 25 or the 50 that's depending on....

Antonio Carrillio

Yes or 100.

Ricardo Fernandez

Or a 100, or whatever the number is, and essentially Venezuela is irrelevant.

Antonio Carrillio

It's irrelevant.

Rodrigo Guzman

It's 5% of our total EBITDA last year.

Ricardo Fernandez

Okay, thank you very much.

Antonio Carrillio

Thank you.

Operator

Our next question is from Andres Portilla with GBM. Please go ahead.

Andres Portilla

Hi, Antonio, hi Rodrigo, thank you for the call. I have two questions. One is, if you have an update on the joint venture with Cactus. And the other one is, do you expect the resolution from the ITC in November, do you expect it to be positive or negative? Thank you.

Antonio Carrillio

Yes, let's start with Cactus. Cactus, as we announced, it's a joint venture between really four companies, Mexichem, Invenergy a US technology company, Enesa the Mexican developer and Pemex. Cactus is, as I mentioned before, what we are waiting for is for the transmission line approvals and definition on how that's going to work. For the rest, we are already working on the detailed analysis of the engineering, and the project is going as planned. But slow, because we cannot get moving really and to be honest, it's hard to commit a significant amount of cash and money from the partners until we have clarity on the transmission line. So the key point there is to move on the transmission lines, we have had good meetings and everything is moving along, it just takes time. So we are very optimistic with this Cactus facility.

On your second question which was the ITC, it's very difficult for me to tell you that we expect to win. I have been very optimistic about this case from the beginning. As you saw, the Department of Commerce came back with a significant increase in the duties a few weeks ago, so they went up from 200% to 300%, if you combine the dumping and the countervailing duties. These are the people who do the investigation. These are the people who went to China, who investigated their suppliers, who investigated the cost structure of the Chinese. So the Department of Commerce has already done a significant amount of homework and came back with a recommendation to increase the duties. So there have been cases in the past where the ITC reverses that, very few cases, but there have been some, that's my understanding. But we are very optimistic that that will not be the case for us, now I cannot promise anything as I am not there. So we are just optimistic and hopeful that it will come out because we believe it is the right thing to do.

Andres Portilla

Okay. Thank you very much.

Operator

This concludes our question and answer session. I would like to turn the conference back to Mr. Carrillio for any closing remarks.

CONCLUSION**Antonio Carrillio**

I just want to thank everyone for being present at the conference call and we hope to see you soon in the next conference call. Thank you.

Operator

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