

Mexichem

Mexichem First Quarter 2016 Earnings
Conference Call

Thursday, April 28, 2016, 11:00 A.M.
Eastern

CORPORATE PARTICIPANTS

Juan Pablo del Valle – Chairman of the Board

Antonio Carillo Rule - Chief Executive Officer

Rodrigo Guzman – Chief Financial Officer

Berenice Munoz – Direct of Investor Relations

PRESENTATION

Operator

Good morning, everyone, and welcome to the Mexichem First Quarter 2016 Results Conference Call. Your speakers today will be Mr. Juan Pablo del Valle, Chairman of the Board; Mr. Antonio Carillo Rule, CEO; Mr. Rodrigo Guzman, CFO; and Ms. Berenice Munoz, Director of Investor Relations. Following today's presentation there will be a question and answer session.

During this conference call management will make forward-looking statements to assist you in understanding its expectations for future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially. Please refer to the company's filings with Bolsa Mexicana de Volares 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 that today's call cannot be reproduced in whole or in part without the explicit consent of Mexichem. Please note also this event is being recorded. I will now turn the call over to Ms. Berenice Munoz, Director of Investment Relations.

Berenice Munoz

Thank you, operator. Good morning and welcome to our conference call. We are pleased to be here today and share with you our First Quarter 2016 results. We appreciate your time and participation in this conference call. I will now turn the call over to Juan Pablo del Valle for opening comments.

Juan Pablo del Valle

Good morning, everyone. As Chairman of the Board of Mexichem, I want to express my sadness for the loss of [indiscernible] people and the injuries of many more that occurred following last week's explosion at the Pajaritos [indiscernible] plant in Coatzacoalcos. In addition, I want to affirm my personal commitment to continue to move forward with drive, professionalism, and compassion in dealing with every aspect of this tragedy.

From the moment we were notified Antonio Carillo, CEO of Mexichem, Carlo Manrique, president of Vinyl Business, Enrique Ortega, CEO of TMB, and other Mexichem personnel and I went directly to the scene of the accident to assist with the onsite emergency measures. The same was the case with Pemex CEO, Jose Antonio Gonzalez, and his team. Since then, both Mexichem and Pemex have been working together to address every aspect of the incident.

Our priorities have been the following. First, comforting the families of those who passed away and supporting the 22 individuals who are being treated at local and national hospitals, all of whom are direct and indirect employees of our contractor, ICA Fluor. Second, reestablishing security and controlled conditions which was achieved within hours of this tragic event. Third, determining the cause of this terrible accident.

Today, eight days later, we continue to work around the clock to assist those who have lost loved ones and ensure that the workers who remain hospitalized receive the best care available. Also, we are engaging a team of international experts to work with us and the Mexican authorities to investigate the cause of the accident. We are allocating considerable human and technical resources to support this effort as well as to estimate the total damage.

On behalf of the Mexichem team I want to express my appreciation for the support that we have received from everyone. Please note that we are committed to keeping you informed. I will continue to be personally involved to make sure this very serious incident is resolved in the best possible way. Antonio will explain the impact of this event on our near term performance and answer your questions as fully as he can today. Now, I will turn over the call to Antonio for his comments.

Antonio Carillo Rule

Thank you Juan Pablo and thank you all for joining us today. As you know the last days have been very difficult for all of us at Mexichem and before I review the company's first quarter performance I want to say how devastated we are by the loss of life and the injuries that occurred last week at our Mexichem-Pemex Petrochemical joint venture facility in Pajaritos. We are committed to helping the families of those affected. Juan Pablo and I spent time on site visiting with people effected and promising our support. Also, we are participating in a very organized and efficient way with our partners and the authorities to determine the cause of this tragic accident. I will discuss more about the likely impact on Mexichem later in this call. It is important to mention that we will deal with multiple fronts of the accident. We have created a team of senior people in the company that will be working full time on this. Having this team as a dedicated resource will allow our business leaders to continue to focus on delivering results.

Regarding our financial results for the first quarter of 2016 I am pleased to report that this was a good quarter for us, in line with our expectations. We demonstrated how our diversified operating model and the restructuring programs we have implemented over the past several years enabled Mexichem to post improved profitability under very difficult market conditions. Thus, on volume growth could not upset lower pricing and despite the exchange rate impacting many areas of our business, we were able to report a 1% increase in EBITDA which is equivalent to a 16% increase on our constant currency basis. Importantly, we achieved significant EBITDA margin expansion in Vinyl and Fluent. They are two business groups that accounted for 89% of our revenues.

The Fluor Group, which accounted for 11% of first quarter revenues, was able to maintain its EBITDA margin of 35% similar to prior year. Average [indiscernible] pricing in our Vinyl Group declined by more than 10% compared to last year's first quarter, although we were able to compensate for some of that shortfall with higher volumes and the last couple of quarters we were able to offset the impact of declining prices thanks to lower input costs and lower electricity costs. But we had some benefit from lower raw material costs in the first quarter. The primary reason for our ability to report double digit increasing EBITDA and a 320 basis point improvement in EBITDA margin was Vestolit, whose [indiscernible] chemicals become more competitive in an environment of declining oil prices and, therefore, provide Mexichem with a natural hedge against lower oil prices. It was also a good quarter for PMV who [indiscernible] from a slight negative EBITDA position to an \$11 million EBITDA contribution, despite having a long scheduled maintenance shutdown during the quarter.

Our Fluent business performed as expected experiencing year-on-year declines in both volume and pricing in the first quarter. Despite double digit declines in sales and EBITDA, there were some bright spots here. First, the group was able to maintain its EBITDA margin of 35% which is noteworthy in light of the revenue fall off. Second, our initial steps to diversify our [indiscernible] customer base are starting to pay off. As you know we have been targeting the cement industry primarily in Latin America. Today we have reached the sampling stage with 21 facilities and have been accepted for trial planning in seven of those so far, which involves working directly inside the plant. This should result in additional sales in the fourth quarter of this year. As you know, Mexichem is part of a coalition claiming anti-dumping action against China relating to the imports of refrigerant gas R1348. Related news is that the U.S. International Trade Commission unanimously voted that we have a case and now the U.S. Department of Commerce will conduct an investigation.

The most favorable year-on-year EBITDA margin comparisons in the first quarter came from our Fluent Business Group, which also operated under difficult market conditions due to several factors, including a weak economic situation in Brazil, lower demand from energy customers in the U.S., and the devaluation of Latin American currencies against the U.S. dollar. These factors caused a double digit drop in reported sales which even on a constant currency basis would have been approximately flat with last year's first quarter. However, the group was able to report a 5% increase in EBITDA equivalent to a 41% jump on a constant currency basis and the EBITDA margin expanded considerably.

These were due in large part to three factors. First, and most important, the operating performance of European operations improved substantially at the result of restructuring programs put in place over the last 12-18 months. Also, we eliminated most low or no margin [indiscernible] sales. Second, we have more favorable sales mix thanks to greater sales of [indiscernible]. And third, the group benefited from lower raw material costs compared to last year's first quarter. In addition to performing well from an operating standpoint, Mexichem continued to exercise financial discipline in the first quarter. After achieving a \$507 million reduction in the working capital requirements over the past two years, we were able to further manage our working capital cycle to achieve a swing of positive operating cash flow before capital expenditures of \$77 million.

As of the end of the first quarter, we have based 79% of our capital commitment on our largest single project, the ethylene cracker joint venture in Texas, which is scheduled to start testing in the fourth quarter of this year and wrap up early in the first quarter of 2017. For the first quarter of 2016, we reported a net majority income of \$51 million, more than 2-1/2 times our reported net majority income from last year's first quarter. There were restructuring charges included in last year's number but even on an apples-to-apples basis, these represented double digit year-on-year growth.

At this point, I would like to ask our CFO, Rodrigo Guzman, to review the financial details of the first quarter.

Rodrigo Guzman

Thank you, Antonio. I echo Antonio's words about the accident at Pajaritos and have my condolences to those expressed.

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Now, I will discuss our first quarter 2016 results in greater detail. As Antonio noted, the first quarter is an excellent indication that our business model is working and that we are executing on our strategy to grow organically and improve profitability at both the EBITDA and the income level. In 2016 we faced pricing pressures across most of our product portfolio that reduced revenue performance, but in spite of these challenges we were able to achieve higher year-on-year profitability. Additionally, we experienced [indiscernible] headwinds compared to last year's first quarter. This impact alone reduced our imported consolidated revenues by \$123 million. It was particularly not worth it, but we were able to report first quarter 2016 EBITDA of 1% to \$200 million and a consolidated EBITDA margin expansion of 214 basis points to 15.9%.

First quarter 2016 reported revenues declined by 12% to \$1.26 billion. On a constant currency basis, revenues will have declined only 4% year-on-year, primarily resulting from the price, particularly in PVC resins, and with demand for metallurgic and acid grade fluorspar. In terms of revenue by business worked in Vinyls, we report an 8% decline in sales to \$499 million, inclusive of 4% volume growth. This is due to lower selling prices of PVC resins, compounds, and [indiscernible]. Also, the Vinyl business [indiscernible] revenues were reduced by nearly \$5 million as a result of the acquisition of the U.S. dollar. I want to make you aware that the [indiscernible] will result in a massive [indiscernible] charge in the second quarter. The amount of which has not yet been determined as we are waiting for a full assessment of the damage to the facility. Insurance payment is collectable and will offset all or part of this charge, but given the extent of the investigation, we will not expect this to happen until later this year.

The Fluent business report total expense of 1.39 million. Down 15% year-on-year. The decline in sales was mostly related to the 3% decline in volume and pricing. In Fluorspar [indiscernible], we continue to make progress in diversifying our customer base, which leads us to expect a better second half. Our Fluent business worked revenues for the first quarter of 2016 a total of \$667 million, representing a decline of 15%. Mainly the results of the appreciation of the U.S. dollar that reduced sales by \$100 million in LatAm, \$13 million in Europe, and \$4 million in Asia, the Middle East, and Africa. Weaker economic conditions in Brazil continues to pressure [indiscernible] and LatAm sales. On a constant currency basis, total sales would have been \$783 million and or approximately flat with a year ago. Lower sales in Fluent U.S. resulted from a decrease in pressure pipe sales, which serve the energy industry due to fewer [indiscernible] currently operating in the U.S. We continue to improve our sales mix with higher margin products, which together with low raw material cost yielded higher spreads and improved EBITDA.

North America accounted for 37% of first quarter 2016 revenues with the U.S. representing 16% of the company's total sales for the period. Europe increased to 37% from 34% in the first quarter of 2015 with the UK and Germany accounting for 9% and 13%, respectively. South America represented 22% with Brazil accounting for 5% of total sales and 4% of EBITDA. Also related to EBITDA increased to \$200 million or 1% from a year ago. EBITDA margin expanded 214 basis points to 15.9% from 13.7%. This improvement was driven by improved EBITDA performance in our two largest business groups.

In Vinyl EBITDA margin expanded 320 basis points to 15.8%, driven by lower raw material cost, lower [indiscernible] prices for PVC production, and improved performance from Vestolit and PMV. Remember that when we acquired Vestolit we said that this company will act as a natural

hedge because in Europe [indiscernible] is produced based on oil, and as oil prices decline, Vestolit's products will become more competitive. In Fluent EBITDA margin expanded 239 basis points to 12.3%, and on a constant currency basis, consolidated EBITDA will have increased 16% to \$229 million.

Operating income for the first quarter of 2016 increased 21% to \$109 million and operating margin expanded 240 basis points to 8.7%. This was a result of the factors I had mentioned earlier as well as lower depreciation and amortization expenses tied to the trend of the U.S. dollar.

Financial costs declined \$24.5 million to \$43 million. This was mainly due to a \$20 million decline in the exchange rate loss related to intercompany euro-denominated loans between the holding company, which uses the dollar as its functional currency, and Fluent Europe and Vestolit where the functional currency is the Euro. In first quarter 2015 the Euro depreciated 11% against the dollar resulting in an exchange rate loss for the holding company.

Our effective tax rate in the first quarter declined by 110 basis points to 26% from 37%. Our cash tax rate declined to 60% from 170%, as a result of fewer long generating subsidiaries in the first quarter of 2016. For the first quarter of 2016, Mexichem reported net majority income of \$51 million, up 167% from \$19 million the same quarter last year. This was the result of the factors I just mentioned and lower taxes. I would like to point out our ROE has more than doubled since the first quarter of 2015, up to 4.6% from 2.2%, and our ROIC is up 130 basis points to 6.2% from 4.9%. According to our balance sheet, our financial position continues to benefit from financial discipline and efficient capital management.

We improved our trade working capital to positive \$72 million from a negative \$148 million in the same quarter last year. Operating cash flow before Capex improved from negative \$34 million in the first quarter of 2015 to positive \$43 million this quarter, the \$77 million swing that Antonio mentioned earlier. Our capital expenditures for the quarter totaled \$110 million, \$44 million of which was invested in the ethylene cracker, \$16 million in PMV, and \$50 million in [indiscernible] projects. As of March 31, 2016, our total liquidity investment in the ethylene cracker reached \$569 million or 79% of the total liquidity investment by Mexichem. Net debt to EBITDA was 1.95 times, significantly better than the 2.3 times we reported at the same time last year. Interest coverage was 4.4 times. I will now turn the call back to Antonio for his comments and closing remarks.

Antonio Carillo Rule

Thank you, Rodrigo. Now, I will do my best to give you our current thinking on operating and financial impact on Mexichem from the project accident that took place in Pajaritos last week.

First, PMV is divided into two facilities. In one we have the chlorine and caustic soda production. In the other the production of VCM and ethylene. There was no damage to the chlorine plant and it is operating today while at reduced capacity. The ethylene plant appears to be only slight affected but it is still being evaluated. It was the VCM plant that sustained most of the damage so the major economic impact will be the shutdown of PMV's VCM operation.

The effect on PVC resins will be mostly apparent in the second quarter. In total we had expected PMV to produce about 235,000 tons of VCM this year which represents about 13% of

our global needs. Thanks to the quick actions of our team, we are already in the process of securing supplies for the second half of the year. Given this outlook and the projections for our Fluor and Fluent businesses, we believe that our operating EBITDA for full year 2016, exclusive of any insurance benefits, will be around \$900 million, similar to our 2015 number. It is important to note that Mexichem regularly conducts thorough risk analogies and abates asset values across the company to determine adequate coverage for general liability, property, and business interruption insurance. We are very grateful of the support of those who have received from our customers, suppliers, and partners, whose cooperation is critical.

Also, I want to especially recognize Mexichem and PMV's team that were involved from the beginning of the accident. The strength, fortitude, and dedication they demonstrated in very difficult environments was extraordinary. I could not be more proud of my team. Mexichem is a strong and vibrant company with diversified operations around the world. We are pleased that this was recognized by both Standard & Poor's and Fitch, who reaffirmed our bond rating post-accident. Our more than 18,000 employees are producing products using a broad range of markets which gives us the confidence of Mexichem's prospects for continued success. At this point, operator, I would like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question and answer session. To ask a question, you may press star (*) then one (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 star (*) then two (2). At this time, we will pause momentarily to assemble our roster. Our first question comes from Frank McGann of Bank of America. Please go ahead.

Frank McGann – Bank of America

Good day. I was wondering if we could focus a little bit on the improvements that you saw in the quarter, particularly in Europe, and some of the other markets from the efforts that you've been working on over the last 12-18 months, in terms of over 2 years perhaps on restructuring the European operation, cutting costs, generally focusing the product line. Clearly you saw some good effects in the quarter that helped offset some of the other negative trends. I was wondering as you look out over the next couple of quarters, excluding, of course, the effects of the tragic accident, how do you see that affecting your ability to – or how much additional effects could you see from the types of acts that you've been taking?

Antonio Carillo Rule

Frank, thanks. This is Antonio. Let me talk a little bit. If I have to describe the first quarter operations, I would say that I am very proud to say that for the first time I can tell you it was a European quarter. The Vinyl business that we acquired in 2014 and our Wavin business that we acquired in 2012 performed extraordinarily well.

Both for different reasons. Let me start with the Vinyls. As I mentioned the Vinyl business was acquired for several reasons but the two most important ones were the quality of their products and the specialty product line that they have that we did not have somewhere else and their technology, and second because they provide a hedge against all the prices coming down because their product line is made with [indiscernible].

I think you will see throughout the next few quarters that there is going to be a balancing out between our North American business and the European business that will continue to sustain our margins in Vinyl, I think, as I mentioned in my closing remarks, you will see the second quarter some impact from the lack of VCM, especially in May. I think by June we should be okay, but overall I think we can sustain the combination of those margins between Europe and North America.

There is also, as you know, as mentioned, that in Europe we are carrying out an expansion of LatAm. We are expanding it by about 10% to capacity and that should come in line in the first quarter of 2017, so we are carrying on and moving on with that, and we continue to, with integration of the product line, we have defined a new business called Specialty Resins that is managed from Germany and they control all the specialty business. Part of what you see is also those synergies that we are creating.

Let me know focus on the pipe business in Europe. Wavin, the margins were significantly up for the first time in their history that we have been able to track, they had a positive net income in the first quarter which is seasonally a very low quarter for them, so I think we broke through a milestone there and that is why you see some of the net income improvements across Mexichem because we are getting ready to turn some of the business that had negative net income into positive ones. I think the restructuring is sustainable and I think we should be able to continue to see margin expansion in our European business, as long as the market stays where it is right now, which we are feeling also some positive moves in the market.

Frank McGann – Bank of America

Okay. Thank you very much.

Antonio Carillo Rule

Thank you, Frank.

Operator

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

Vanessa Quiroga – Credit Suisse

Hi. Thank you. Antonio and Rodrigo [indiscernible] for the call. My questions are regarding first on the pricing in the Fluent business. Did you perceive that your ability to pass through the prices in dollars, despite currency depreciation in the markets, is that weakening or do you think that your ability to pass through pricing in dollars remains solid and what would be your outlook there? And maybe a related question is if you can provide color on specific performance in terms of volumes and prices and any integration of Duoline and Vestolit. Thanks

Antonio Carillo Rule

Let me start with your first question. I would say there is a range of scenarios here. We have different countries and different programs that behave a little different. First, our European business is mainly Euro driven, both on raw materials and final products, so we have no issue there on passing through raw material prices in dollar terms. Latin America is different. We have countries where is much simpler to pass it through. Colombia for example has done an extraordinary job in doing it. Our Peruvian operation has done great. All of Central America,

which has not had significant currency issues, is doing very good. Brazil is probably also getting ahead of the curve right now. Last year, during the second quarter, it was very difficult and I think right now we are catching up and we continue to keep our margins. We have been able to maintain our margins in Brazil even though the size of the business has shrunk. Probably, on the most low end of the curve is Mexico where it is much more difficult to pass through the prices because of the market structure here in Mexico, but overall I would say 90% of our Latin America we have been able to pass it through relatively well. And then, of course, our U.S. operations which are all in dollars. Could you give me a little color in what you're looking for for your second question in integration of Vestolit and Duoline?

Vanessa Quiroga – Credit Suisse

Well, that would be margins. How have margins performed for these operations?

Antonio Carillo Rule

So, the margins have continued to expand. To give you a point of reference on Vestolit, Vestolit grew their EBITDA from first quarter of last year to this quarter about 60%, so significant growth in Vestolit which offset part of the downside from contraction margins in the U.S. because ethylene prices go up while PVC prices have not behaved the same way, so it was an incredible counter measure with Europe compared to the U.S. It was a very good performance for my German operation. And, as I said in Wavin, I'm sorry Duoline, the margins when we bought the company were somewhere around 8% and this quarter they closed about 12%.

Vanessa Quiroga – Credit Suisse

Okay, okay. That's very good. Thank you. For Duoline, sorry, what is the growth of the EBITDA? Do you have that information too, year-over-year?

Antonio Carillo Rule

It's in the press release on page 12.

Vanessa Quiroga – Credit Suisse

Ah, sorry. Okay.

Operator

Our next question comes from Felipe Santos of JP Morgan. Please go ahead.

Felipe Santos – JP Morgan

Good morning everyone. Good morning Antonio. I have two questions basically. The first one, We, as a nation, I mean the U.S. market has been pressured by strong raw [indiscernible] costs and if you look back like six months, we see that this improvement in the margins has been really volatile the prices have been really volatile. How do feel that should be the positioning of Mexichem in this scenario with this volatility we are seeing in the market and what is the strategy to adopt here? This would be the first question. The second question is on the Fluor business, we are consistently seeing revenues going a little bit down, I believe that should be because of the pricing in – because of the China impacts, etc., but margins are kind of resilient. Could you give a guidance or a color on how you think about this business going forward? Thanks so much.

Antonio Carillo Rule

Okay. Start firstly on volatility and if I understand your question correctly, so on the volatility side each business is managing the volatility a little different. I think overall in Mexichem what you're seeing is that with all this volatility we have been able to move let's say our profitability from area to area down the pipeline or up the pipeline, depending on the situation of the different markets. I can tell you that the goal of every business is to be able to pass through the volatility to the market and in some cases we do it better than others, but overall I think what you see when margins expand is that when two of the different businesses are able to do it, then we capture both sides of the volatility side. I think that with the actions we've been taking on diversifying our product line in terms of, on the upstream, on the PVC, with focusing on specialty, which is not a significant portion of our portfolio and the European footprint, I think the volatility should be reduced in our Vinyl business compared to where we were a few years ago.

Once our cracker comes in, which is scheduled to start in early 2017, we should also reduce the volatility or be able to capture part of that volatility in the North American market, which today we are only expectators of what happens in the ethylene market, so you will see some more volatility but also some upside from the margins happening there. On the pipe side, on the pipe side is different, so we have two different cycles going on. On the PVC side our pipe business is benefiting from low PVC prices, which hurt us on the upstream, but on the other side I think my expectation on the pipe side is that you should see margin expansion over the next few years, simply because we are living through a very high cycle of polyethylene and polypropylene. Polypropylene we are a small user but polyethylene we are a big user and polyethylene has been going through a very strong cycle from the raw material point of view, which pressures the margins on pipe. As all these crackers come in, with polyethylene plants behind them and there is more polyethylene available, we should be able to capture some of that reduction in pricing, in terms of margin on our pipe side. Today, about 40% of what we use in terms of raw materials of polyethylene, so we have significant exposure of polyethylene which is going through a big cycle. So I'm not sure if I gave you enough information to get ourselves on that side.

Now, let me now go to your other question. Okay. On the Fluor side, as you are right, the [unintelligible] have been coming down, our volumes have been coming down. There is some seasonality, more than seasonality I would say almost cyclicity. If you look at our first quarter results from 2016 and you compare it to 2015, of course you see a significant down about \$10 million, but if you compare it to 2014, they are about the same, so there is some cyclicity happening here from some very large customers that we have contracts that require a large amount of shipment. Sometimes it is one shipment a year and sometimes it is two, so you have some of that going on in our numbers that is difficult to express in that detail but you have some of that. The biggest impact continues to be the steel industry and the metallurgical tools part. The volumes continue to come down. As I mentioned, I am very excited about what our team is doing on the cement side and we should start seeing some volume pick up in the last part of the year. The reason we have been able to maintain margins is because of product mix and customer mix, so we have different customers that have different contracts and it helps us maintain some of the margins. Prices have been coming down, still coming down from China, but we still have good contracts and we have let's say some contracts that protect us from some of the price declines. They will not protect us for long but we do have some protection and we are focusing on increasing our volumes.

Felipe Santos – JP Morgan

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Okay. That's excellent. Thanks so much.

Operator

Our next question comes from Fernando Peres of GBM. Please go ahead.

Fernando Peres – GBM

Hi. Good Morning Antonio and Rodrigo. I just have one brief question. What's your expected benefit of the U.S. International Trade Commission resolution of [unintelligible] and do you have like a timeframe where we could start to see some of the new things taking effect? Thank you.

Antonio Carillo Rule

I don't want to speculate on an amount, but I will tell you more related to the process and then a little bit of what we saw happen in 2014 as we were going through the same process and we saw some benefit. So the process goes like this more or less, first we have to – the good news today is that we have a coalition. We're not doing it alone. We have all the industry behind this case. So the first stage was to present the case to the ITC. They come back and tell us whether or not there is a case and, as I mentioned in my remarks, they unanimously said that we have a case and it goes to the Department of Commerce and it takes several months – five to six months for them to come back with a recommendation and that goes back to the ITC for a final ruling, so this is something that will happen somewhere in the first year. Our volumes on this product are about 34,000 tons a year and you can speculate how much the pricing goes up or down. I don't want to give you any guidance on that, but any significant [unintelligible] applied to this has significant benefits for our business.

Fernando Peres – GBM

Okay. Thank you.

Operator

Our next question comes from Diego Mendes of Itau. Please go ahead.

Diego Mendes – Itau

Good morning, Antonio, Rodrigo, and Berenice. My first question is actually to just quickly clarify, you mentioned \$900 million of EBITDA for 2016. Sorry, but my line was cutting when you mentioned that so if you could just confirm. Second, if you could tell us a little bit, when do you expect the areas of the PMV that were not affected to actually resume operations, and also if indicated of the insurance, if it covers only the asset, per se, or if there is a provision for profit to losses. And my other question is actually related to the Fluor segment. If you could tell us a little bit how the process related to the new refrigerant gas is evolving, the patents, and when should we expect investments in the production of the new refrigerant gas? Thank you.

Antonio Carillo Rule

So let me start, first. Yes, I mentioned that based on the current projections I have for Fluor and for our Fluor business and for our Vinyl business, we expect about \$900 million for the total year without any benefits coming from insurance. So, as you know, the insurance process is a complex process because it takes time to do the investigation and by the time – and so there is a mismatch between the time you have to recognize some of the impact and the time you start getting the benefits from the insurance. I am going to tie this up to your third question which was insurance. We have property insurance, we have liability insurance, and we also have loss

of business insurance or profitability insurance. We have the three of them. We have done a very recent analysis on risk and evaluation of the assets so the insurance is well taken care of and well defined and well structured. That does not mean that we're going to get paid, because we have to go through the whole process and it is a complex process, but the structure of this insurance - it is very well structured.

Now going to your second question on the areas of PMV that were affected, what I mentioned in my remarks, the chlorine and caustic soda are already working. They are working on a reduced capacity. Our team was able, and we are grateful to our customers that were grateful enough to immediately assign some orders to us, so we are running in that company as we speak at a reduced capacity, and we are working to increase capacity throughout the year. The ethylene plant, as I mentioned, does not seem to be affected but we are going to do a thorough evaluation of all the sites. As I mentioned, this plant is in the site of the VCM plant, so we have to do a thorough evaluation of not only the plant itself but all the service equipment, etc. It is going to take us a few months to know exactly when we will start it. We believe it could be in the short term, but we have to discuss that internally. The VCM plant, of course, is not starting anytime soon.

And your final question on the refrigerant gases, there is a lot of changes happening on the patent side. We have won many cases and we are still fighting many others. I do not think you should expect any big news from us over the next 6 months, but we are still working on different strategies to be able to capture part of this market. What I can tell you is that demand for our product continues to hold. There have been some customers that have changed, but the demand continues to hold strong in the U.S. Our volumes, we are running at full capacity, and in Europe we have, let's say, more sales than capacity at the time. We are importing product to Europe, so at the moment we are not seeing a significant drop in any demand, and just to remember, a large portion of this product in the U.S. is not used in automotive use, it is used in other applications which continue to grow for us.

Diego Mendes – Itau

Okay. Thank you very much.

Operator

Our next question comes from Lillian Stark of Morgan Stanley. Please go ahead.

Lillian Stark – Morgan Stanley

Hi. Good morning. I thank you for taking my call. Yes, my first question is related to whether you had seen any pressure on demand from the new generation gases as the phase out is approaching and then my second question is if you could provide some color in terms of what were the operations that you now categorize as discontinued. What sort of business lines were the ones that you allocated there in the Fluor division and if there are any other sort of restructuring strategies that you have for this division beyond what you have already done?

Antonio Carillo Rule

Yes, so, the first question I think I answered. We are seeing some customers [unintelligible] but it is not significant yet. The second question on the discontinued operations, we are not disclosing exactly the problems for some technical reasons, because we are still working on some [unintelligible], but there were some operations in the UK that really we had analyzed the

future of them and we saw no way of turning them around. They were not making money and we did not feel any expectations of turning them around, so they are shut down at the moment. Some of them are still delivering the last pieces of product that they have to deliver. The third question, we don't have any more assets that we expect to be discontinued. At the moment we have no other assets that I can think of.

Lillian Stark – Morgan Stanley

And if I can add a follow-up question. In terms of the cracker that you have at the PMV facility, was that affected in any case or not by the accident?

Antonio Carillo Rule

Thank you, Lillian. No, as I mentioned, it does not seem that it was affected. As I mentioned it was in the same site as the VCM plant, so they share electricity, they share compressions, they share just a basic support system for the plant, so we have to do a big analysis on that before we can tell you when it would start, but it is possible that it can start, and as you know and I have mentioned over the last few years, a significant portion of the profitability of PMV in 2015 came from selling ethylene, so it is something we are going to be looking at to see how we can do that in the near future.

Lillian Stark – Morgan Stanley

Okay. Thank you very much and our condolences.

Antonio Carillo Rule

Just to be clear, we don't have any ethylene considered in the projection I gave of the \$900 million.

Operator

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

Jean Bruny – BBVA

Hi there. Thank you very much for your time and I want to share with you the message of condolences of BBVA and all the team working with me. I just have one quick question on the ethylene cracker in Texas. You are saying that you deployed about 80% of the Capex for the project. I think you are ahead of time. I just want to make sure that you still expect to start up in 2017 or can we probably expect something sooner, like at the end of this year, or is there any changes in the schedule? Thank you very much.

Antonio Carillo Rule

Well, our position with our partner has been that we continue to say the first quarter of 2017. We are, the team there that Oxy has deployed is doing extremely well over there. They have an extraordinary team doing this, the project management, but we still have to – there are a lot of things that have to be done and there are a lot of systems that are not coming in line and the tests are going to be happening in the second half of the year, so things can go very well and we could be a little early, but we are still saying the first quarter of 2017 because you never know what can happen there, but we are very happy that the project is going very well and we still are convinced it is going to start for sure by the first quarter of 2017.

Jean Bruny – BBVA

Perfect. Thank you very much.

Operator

This concludes our question and answer session. I would now like to turn the call back to Ms. Munoz for closing remarks.

Berenice Munoz

Thank you so much for taking the call with us. If you have any questions, please do not hesitate to contact us. Have a great day.

Operator

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