MEXICHEM, S. A. B. DE C. V
"Second Quarter 2014 Results"

July 24, 2014, 11:00 AM Time Eastern
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OPERATOR: Good morning, ladies and gentlemen. At this time, we'd like to welcome everyone to Mexichem's Second Quarter 2014 Results Conference Call. Today with us we have Antonio Carrillo Rule, Chief Executive Officer; Mr. Rodrigo Guzmán Perera, Chief Financial Officer; and Mr. Juan Francisco Sanchez Kramer, Director of Investor Relations.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After Mexichem's remarks are completed there will be a question and answer session. At that time, further instructions will be given.

Please note that only participants dialed into the conference call may ask a question. Questions cannot be asked via the webcast. Should any participant need assistance during this call, please press star, zero to reach the Operator.

There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Mexichem's Management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Mexichem and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the call over to Mr. Juan Francisco Sanchez Kramer, who will start the presentation. Mr. Sanchez, you may begin the conference.

JUAN FRANCISCO SANCHEZ KRAMER: Thank you. Good morning to all and welcome to our conference call. As you know, this is to review the results for the second quarter and first half of 2014. We appreciate your time and participation in this conference call. Today it is hosted by Mr. Antonio Carrillo Rule, our Chief Executive Officer; Mr. Rodrigo Guzmán Perera, our Chief Financial Officer; and myself, Juan Francisco Sanchez Kramer.

Before Antonio walks us through Mexichem's second quarter remarks, I would like to highlight a couple of factors. The webcast is only audio and questions can only be done through the conference call. Secondly, I would like to remind you that all references to figures are in US dollars unless mentioned otherwise; and also according to the seasonality of our business, all comparisons are done with the same period of 2013.

Now, I would like to turn the call over to Antonio Carillo who will review the Company's performance and give an update on our strategy and outlook.

ANTONIO CARRILLO RULE: Thank you, Juan Francisco. Good morning, everyone, and thank you for joining us to review second quarter 2014 results and discuss our business outlook.

We are pleased to report that second quarter results were in line with our internal expectations and the guidance we provided to investors, which demonstrates the improved visibility that we now have on trends affecting each one of our business. We have estimated that Q2 would be approximately similar to Q1 and it came in slightly ahead in revenue terms, benefiting from both seasonal factors and the internal acquisition related initiatives we have executed over the past 12 months.

In the second quarter, we continued to see sales growth in our growing Vinyl chain and Integral Solutions business which more than offset the expected year-over-year decline in our Fluorine business where I am happy to say that there are improvements on the horizon. More on that a little later.

The major drivers of this quarter's 7% revenue growth were increased capacity in the resins, compounds and derivatives sub-segment of the Chlorine Vinyl chain which brought on—which we brought on in the first part of 2014, and two months of additional contribution from the Specialty Resin's business that we acquired last year and what's only consolidated for the month of June in 2013.

In the Integral Solutions, we achieved higher sales volumes from our European operations, resulting from improved market conditions in such countries as the UK, Germany and the Netherlands. Second quarter EBITDA came in a modest 0.8 ahead of last year when you exclude the 15 million one-time benefit we had in the 2013 period due to the reversal of an environmental provision in the Fluorine chain. The increase resulted from the improved profitability of our European operations and the stable performance of the Chlorine Vinyl chain, even in the face of higher costs. These results more than offset a 9% decline in the Fluorine chain's EBITDA after adjusting from the provision reversal I just mentioned.

I would say that the main obstacle we faced in the second quarter that cost a meaningful negative variation from plans was in the Chlorine Vinyl chain where we see the continuation of production shortages in VCM, which as you know is a key input for Mexichem. We have three main suppliers of VCM: one exercised the first major close last December due to a fire; the second is the PMV, which as you know is in the middle of a major plan to overhaul in the third quarter which run abnormal—I'm sorry—and the third supplier is OxyChem which ran abnormal production levels during the quarter.

The supplier-enforced major status did not resume production until July, forcing us to buy VCM in the spot market which increased our cost base in the second quarter. We will continue to experience VCM as supply pressure in the third quarter as PMV will shut down in August or September for equipment installations. Now our main supplier of VCM, Oxy, has delayed shipments to us as a result of the exercise of forced major close by an ethylene supplier. Therefore, in the third quarter we expect to see some pressure on margins due to higher VCM and ethylene costs; however, we still expect PVC resin volumes to rise year on year following capacity expansion. We are hopeful that the effect on this situation will be limited to this year's third quarter and the good news is that we have a strategy in place that will significantly enhance our vertical integration and reduce our dependence on outside sources of our key inputs.

For example, when our PMV joint venture is fully ramped up to 400,000 tons at the end of 2015, we will be able to source about 30% of our VCM needs from that facility. This will put us in a much better competitive position and that's significant to our profitability. While the joint venture results in the third quarter will reflect the scheduled shutdown for new equipment installations which will begin in August and take about eight weeks, we should see some benefits from that investment beginning at the tail end of this year.

Also, when our ethylene cracker is operational at the beginning of 2017, we will be able to source a large portion of our ethylene supply from the Texas-based facility that we jointly own with OxyChem. Thus, in the medium-term, Mexichem will be much more in control of its own supply sources and this will significantly improve our cost basis and profitability.

Also, a near-term plus in the Chloride Vinyl chain is the increased capacity that we have recently brought on as part of our organic growth initiatives. At the end of June 2014, our capacity was 25% higher than it was on the comparable period last year, and if you add the impact of the Specialty Resin business capacity, it is up 30%. While this should lead to higher sales in the second half of 2014, unfortunately, at least in the third quarter we will not have sufficient raw material to run the expanded plants at full capacity.

Now to the Fluorine chain. Two important developments in our Fluorine chain will also begin to benefit our EBITDA comparisons in the second half of 2014 and continue to underpin our progress in 2015 and beyond. First, there is the highest Fluor sparked pricing following recent contract negotiations, which we expect to more than offset soft volumes during the remainder of 2014 as customers continue to work down high inventories. Here we should see modest benefits to the chain's EBITDA comparisons beginning in the third quarter of this year and continuing to ramp up until we experience the full benefit in the second quarter of 2015.

Second, is the recovery in refrigerant prices and volumes following the recent antidumping ruling against Chinese manufacturers that calls for an average compensating duty of 187% on top of an average contravening (phon) duty of 16%. The final ruling will not be made until October of this year and it is not expected to deviate substantially from the preliminary assessment.

From a timing perspective, we are forecasting improved pricing and demand to have limited positive impact in Q3 and Q4 of this year with year-on-year EBITDA comparison benefiting from both volume and price increases beginning in the first quarter of 2015 and accelerating throughout the year with the fuller affect expected in early 2016. The benefits of a turnaround in our Fluorine chain results will have a significant positive impact on Mexichem's results as this is the highest margin segment of our business.

Now, let's move to our Integral Solutions business which is expected to continue to progress in the second half of 2014 with greater operating leverage coming from our European operations thanks to the restructuring programs that we implemented in 2013 and ongoing operational efficiencies.

We continue to evaluate cost saving opportunities that could benefit results over the medium-term. Our Latin American operations was basically on-plan in the second quarter. In Latin America, in general, we continue to operate at full capacity with a few countries such as Mexico, Venezuela, Peru and Argentina being the exceptions. We expect to complete plant expansions in the third quarter in key countries such as Brazil and Colombia, and therefore expect volume revenue and EBITDA growth in Latin America for the second half the year. Of course, Venezuela remains a wildcard as it does for all regional players, but as it's only a modest contributor to our results, we believe the risks is relatively limited.

We have been speaking to investors for some time about the opportunities for Mexichem that will come about following Mexico's Energy Reform Legislation. Two weeks ago, we issued a release announcing that we are part of a consortium along with Enesa Energia and Invenergy Clean Power that has been awarded a cogeneration project from Pemex that will have a preliminary (inaudible) for our capacity of 500 megawatt of electricity.

The total cost of the plant, which is expected to be operational in the first half of 2018, is $650 million. It is important to understand that what Pemex awarded was the right to be a partner in this great project. The details of the project are still to be decided and Pemex will be a partner. The project—this project for Pemex is not related to the project we had announced to build a cogeneration facility inside PMV.

Maintaining a strong balance sheet is a key priority and we ended the second quarter with a net debt to EBITDA ratio of 1.3 times, substantially below the 2 times that is our internal target.

At this point, I would like to turn over the call to our CFO, Rodrigo Guzmán, who will review the financial details of our second quarter and first half results.

RODRIGO GUZMÁN PERERA: Thank you, Antonio. Good morning, everyone. First of all, I want to comment on the relevant event published yesterday related with the 2013 quarterly reports. We would like to stress that the Annual Report and other financial assessments previously published by the Company and released to the Mexichem both at the CMDB are 100% accurate.

Yesterday's relevant event does not change them at all. The quarterly change that was announced yesterday is for comparison purposes only. It applies only to the non-audited quarterly financial income statements for the second, third, and fourth quarters of 2013, and it had no impact on the balance sheet. Our objective is modifying them, want to be fully transparent with the street, and to allow all of you to draw for comparisons between year's quarterly reports and the ones for 2014.

I will take you through the financial results for the quarter in more detail and discuss the key financial highlights. As Antonio said, net sales in the second quarter increased 7% to $1.5 billion, led by an increase in capacity and the consolidation of the Specialty Resin's business and the Resin compounds and derivatives subsector of the current Vinyl chain, and by Internal Solutions chains where we saw continued solid results from Europe.

As anticipated, revenue in our Fluorine chain fell 5% for the reasons we have discussed in the past, namely the lower contractual prices for (inaudible), which fortunately we recently renegotiated; and the dumping of refrigerant gases in the US market by Chinese manufacturers, which has revealed demand and pricing for our products; again, a situation that is currently reversing in our favor.

On a geographic basis, Mexichem's sales for the first half of 2014 show our global diversification and well-balanced customer base. North America, including

Mexico, Europe and South America, each represent more than 30% of our total sales, accounting for 36, 33 and 30% respectively. Compared with the first half of 2013, North America and Europe have both increased as a proportion of the total while South America has declined slightly. However, it is worth emphasizing that our total revenue base is growing including our South American business.

EBITDA for the quarter was $257 million, stable compared to the prior year, excluding the second quarter of 2013 reversal of our environmental provision of $50 million. The issue is in the Fluorine chain which has traditionally been our most profitable, continue to drive on EBITDA. This was partially offset by the performance of Internal Solutions particularly in Europe where EBITDA benefited from relatively stable economic conditions as well as an improved cost base in local currency following restructuring efforts carried out in 2013.

Total and final EBITDA was little (phon) change from a year earlier at $80 million with Resin's compounds and derivatives performing well, but high natural gas prices and high VCM prices affected the profitability of PVC production.

Second quarter operating income was $158 million, down 18% from 75.8 million from a year earlier. Too many factors caused that decline. First, depreciation and amortization increased $23.1 million as compared with the second quarter in '13. Approximately 75% of this consolidated increase is related to the current Vinyl chain. The main factors affecting that chain were the acquisitions of ethylene and VCM plants related to PMV in December 2013, the acquisition in May 2013 of the Specialty Resin's business and the capacity increase in our Altamira (phon) facility.

Second, the reversal in the second quarter in '13 of the 15 million environmental provisions in Fluoride chain (phon) caused a high base of comparison. Financial interest and foreign exchange expenses represented an expense of 4 million in the second quarter of '14 compared with an expense of 16 million in the second quarter of '13. The difference in the expenses between the second quarter of '14 and the second quarter of '13 have two main compounds. First, there was a 33 million loss from currency operations in Venezuela related to the reconsolidation between different exchange rates used to exchange value added for dollars in that country.

Secondly, the strengthening of the Mexican peso from 13.08 per dollar to 13.03 per dollar in the quarter applied on the balance of cash and cash equivalents and that denominated in Mexican pesos, created an expense of 0.6 million in the second quarter of '14. In the second quarter of '13, on the other hand, the peso weakened from 12.35 per dollar to 13.02, generating income of 33 million.

And third, net interest and gains of investments in the second quarter in '13 was an expensive 41 million while in the second quarter in '14, the expense was only 32 million.

Income tax expense was significantly lower than in the second quarter in '13, falling 50% to $32.8 million, reflecting mainly the reduction in operating income. The second tax rate in the second quarter of '14 was slightly higher than in the second quarter of '13 at 38% compared with 37.2 respectively.

For the full year, we see the effective tax rate at approximately 34%. Networking capital was also significantly higher, rising to $955 million at the end of June 2014, up from $893 million at the end of June 2015, very much in line with increasing volumes and revenues of our European operations where we typically see a buildup of inventory in the first half of the year due to the seasonality.

We expect to see working capital turning downwards in the third and fourth quarters of this year. Capital expenditures in the quarter were up significant as a result of our investments in our joint ventures with OxyChem and Pemex, which accounted for 20 million and 12 million of the total 74 million cap ex in the quarter respectively. This more than offset a 5 million decline in our organic capitals.

As Antonio has already mentioned, current market conditions highlight the importance of both of our JVs and both are proceeding as planned. Mexichem ended the quarter in a strong financial position. Our net debt to EBITDA ratio was 1 3 times at the end of June, well within our internal limit of 2 times.

At the start of July, we announced that we had signed an agreement to increase our revolving facility to $1.5 billion from 1 billion and extended the term to five years from three years. Our revolver has been completed with a syndicate comprised of 10 of the world's most highly regarded financial institutions. The attractive terms of this facility and the procedures institutions involved demonstrates the company that the market has in Mexichem performance and its outlook for future growth and progress.

To sum up, we had a solid quarterly financial lead and we ensure the second half of the year with a strong balance sheet and significant financial resources at our disposals to drive our growth.

I will now turn back the call to Antonio.

ANTONIO CARRILLO RULE: Thank you, Rodrigo. To summarize our second quarter performance, we were satisfied with the results in that they were in line with our expectations and internal forecast. We are looking ahead to 2014 EBITDA that shows solid single digit growth over last year, excluding Venezuela operations and PMV joint venture, both of which are hard to forecast. This performance will be driven by strong positive year-on-year EBITDA comparisons in each of the third and fourth quarters of 2014.

With that, Operator, I would like to turn the call open for questions. Thank you.

OPERATOR: We will now begin the question-and-answer session. Only participants dialed to the call may ask a question. If you're logged into the webcast and have a question, please dial directly into the call. To ask a question, you may press star, then one on your touchtone telephone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, and then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Frank McGann from Bank of America Merrill Lynch. Please go ahead.

FRANK MCGANN: Okay. Good morning. I just—two questions if I might. One is on the European operations—seem to be showing a bit better momentum. I was just wondering if you could comment a little bit how much you're seeing in terms of real volume growth in Europe and how you believe that business is positioned over the next 12 months to potentially continue to grow if that seems like it's accelerating or not and are there any particular countries that are standing out in terms of a turnaround? And then secondly, just in terms of price trends, I was wondering if you could provide more detail on the individual segments in terms of the overall price trends that you saw in the quarter.

ANTONIO CARRILLO RULE: Sure. This is Antonio. Thank you, Frank. Let me start with the first question on Europe. If you remember at the—when we had the conference call and after the first quarter, we have a very solid first-quarter and our concern was how much of the growth that came in the first quarter came from weather conditions. As I mentioned at that time, the first quarter we had a very, very nice weather. Let's say very soft winter compared to last year, and we had some concern of how much of the demand was coming just from that.

We saw a second quarter also with strong growth in revenue, in volumes, and in EBITDA. Not as strong as a first quarter, so there was some component in the first quarter of weather, but we saw very, very healthy growth in the second quarter in all terms, no, in margins, in revenue and in volumes. We believe, and our plan calls for continued growth throughout this year in every quarter, and our strategic plan calls for continued growth for 2015 also, not only based on just market growth, which is very good, but also new products, new strategies we're implementing, and as I mentioned we continue always to look for additional ways to reduce our cost base.

To your second question on pricing, starting with—let's start with integral solutions where it's the European and Latin America. It is—we did not see, let's say, any indication of weakness or very strong pricing in either one of the regions. I think it is hard to say. As we move more into specialties and if you look at the Wavin (phon) portfolio, we have a significant amount of products that differ from basic pipe, let's say. It's hard to determine specifically or compare specific pricing month per month. So, we're not seeing either a weakness or very strong market in either one of them for price—in pricing terms.

On the Fluorine chain, we mentioned both the antidumping, the contravening duty and the contract negotiations. At the end of second quarter, we saw already some pickup in pricing. We expect a little pickup in the third and the fourth quarter with full impacts on the Fluorine chain—on the Fluor's part coming early in 2015 because we will have full volumes and full pricing, and on the refrigerant gases, as we mentioned, some pickup in the third and fourth quarter, but bigger impacts in 2015 and the full impact in '16.

Finally on the Chlorine chain, we mentioned all these issues that we have with the VCM lack of supply. You saw volumes increase, but the VCM prices were up. Since this is a regional problem—we have a regional problem in North America with shortages of ethylene and VCM—that increased our cost base and we are not able to transfer that cost base into the—our markets internationally. As I mentioned before, about 70% of our Resin production cost goes to the export market so that's why I mentioned that we might see some margin contraction in the third quarter based on increasing in costs and pricing being international pricing. So, however, we still see growth for the third quarter and fourth quarter in Resin.

FRANK MCGANN: Okay. Great. If I could just follow up maybe on the first question, are there any countries or parts of Europe that are stronger or weaker than others? Any…

ANTONIO CARRILLO RULE: Yes. Sorry. I forgot to mention that. So, the biggest country we have in Europe is the UK by a lot and it's also the one that is doing extremely, extremely well. They have done a fantastic turnaround. When we acquired the company, that business was losing money and today it's one of our most profitable, so the turnaround has been very significant.

We have Germany, the Netherlands, which last year had a very rough first half of the year that are growing in a very significant way. Poland is growing very nicely this year. The weaknesses that we have seen this year are in the Scandinavian countries. Norway, Sweden, Denmark are probably the ones that we see a little weaker. Then we have—of course, in Russia, which is a very small country for us, we have some weakness, and also in Turkey.

FRANK MCGANN: Okay. Thank you very much. Very helpful.

ANTONIO CARRILLO RULE: Thank you, Frank.

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

LUIS MIRANDA: Yes. Hi, guys. Good morning. Thanks for taking my questions. Antonio, the first one, just a clarification on the outcome for the third quarter in the VCM in the supply of, well, ethylene VCM. So, I just want to understand if it's going to be the impact mainly on higher prices or you're also expecting some short (inaudible) so you would have to stop production on the site in Mexico. The second point is in refrigerants. Have you seen any reaction in prices a bit modestly in the US regarding the antidumping—anticipating the antidumping resolution? Thank you.

ANTONIO CARRILLO RULE: Thank you, Luis. First, the first question on the VCM, what we expect in the third quarter is some increase in VCM prices due to shortages—shortage of supply—and at the same time, not having enough volume to run the plants at full capacity. What I mean by full capacity, as I mentioned, we have increased our capacity significantly. So, you will see growth in volumes compared to last year. This is an important clarification. You will not see a drop in volumes compared to last year. You will see growth in volumes, but some margin pressure due to an increase in VCM prices. So, you will see growth, and the fourth quarter we expect to see growth again, a significant growth in Resin production based on the expansion.

Now going to your second question, we have seen already strong price increases, specifically, as you know, the ruling came out in—preliminary ruling came out in May, and in June we already saw volumes and a little price improvement. We hadn't—there has not been any imports of Chinese product to the US since the ruling, so the market is shutdown for Chinese at the moment, and that also helps us because we also saw volume increase.

To give you a sense, normally this time of the year, the third—the last part of the second quarter and the third quarter are the weakest parts of the demand curve for us, specifically in the aftermarket, which is about 50% of our revenue in refrigerant gases, so we are right now at the weakest part, and part of the reason why we're saying that we will not see huge impact this quarter is not because the prices will not grow significantly or to some extent, but that we are in the weakest portion of the year. So, but we have seen increase in prices in the month of June, and we expect in the third and fourth quarter some growth in prices and also volumes.

LUIS MIRANDA: Thank you, Antonio. That was very useful. Thanks.

OPERATOR: The next question comes from Felipe Santos from JP Morgan. Please go ahead.

FELIPE SANTOS: Hi, Antonio. Hi, everybody, and good morning. Just a couple of questions on the new power plant; actually three questions on this topic. I wondered if the plant should be ready for operations, and how much of the (inaudible) produced will be for self-consumption? The last question is how do you see the advantage and cost price and (inaudible) environment going forward for this that will be suitable for this plant? Thank you.

ANTONIO CARRILLO RULE: So, let me start with the first question and let me talk about—as I mentioned, we have two plants that we have announced. The first one is a cogeneration facility that we will build that would basically be built to supply the PMV. The PMV is the biggest consumer of electricity in Mexichem. That plant is—right now we have issued all the paperwork for permitting. The permitting, it takes very, very long time in Mexico so it's a—these are long-term projects. These are three to four-year projects, so that's also a 500 megawatt facility. About 35% of the usage of that facility will be used by Mexichem and the rest will be used by third-parties of which we already have, let's say, conceptual agreements with other parties to take the rest of the capacity. So, that's plant number one.

The second plant is the one that we announced last—a couple of weeks ago, and that is—as I mentioned in my remarks, what really Pemex announced was that the Mexichem and the consortium with Enesa and Invenergy have won the right to be our partners. So what Pemex awarded them was—what they said what they were going to work this consortium to develop a plan for the capital complex in southern Mexico. That's also a very large plant that will start around 2018, and in that case Pemex would be a large user of energy for that facility, but there will still be some capacity left. But as I mentioned, the details of that facility are yet to be determined.

Your second question about the cost of raw material, I'm assuming you're talking about natural gas, so natural gas is one of the permits we are applying for and asking for supply of natural gas before that region for these two projects and it's part of the paperwork we're doing. By that time, we expect that Mexico should have enough natural gas to supply these cogeneration facilities.

On the energy prices that as you know Mexico has very expensive electricity, more than twice the US prices, so that is what makes this project so appealing and so—and the returns so nice in cogeneration, simply because there is a significant amount of cost difference.

If you could repeat your third question, Felipe.

FELIPE SANTOS: Yes. I guess I'm pretty much done. It was just, like, to see how you people think of all (phon) the balance of the self consumption for the second plant.

ANTONIO CARRILLO RULE: Okay. So, okay. Perfect. Thank you.

FELIPE SANTOS: Thank you.

OPERATOR: The next question comes from Nikolai Lippmann from Morgan Stanley. Please go ahead.

NIKOLAI LIPPMANN: Thank you. Hi, gentlemen. Hi, everyone, and congratulations. So, there are two questions for me. First, I got a little confused about the PVC volumes. So, you have the Pemex JV, the PMV up 13%; PVC looks like it's up 17 and you reported 2% for the division. Would that mean that Fluoride is down significant? Also, we looked at the local (inaudible) report where we saw that Mexichem volumes were down significantly. Could you clarify little bit on that? So, that's the first question. The second question is just if you could give us any sort of updates on the strategic thinking around the refrigerant gas situation, if there's anything you could say there. Thank you.

ANTONIO CARRILLO RULE: Sure. Let me—first, could you clarify your second question about Mexichem volume being down in (inaudible).

NIKOLAI LIPPMANN: So, yes. Well, we looked at the use—we looked at the local report and maybe we just understood it wrong, but it looked like your PVs, your—I mean, I'm not sure exactly what all (phon) the PVC and Mexichem volumes that were down—I think was 33%, but I could be wrong on that number, but very significantly.

ANTONIO CARRILLO RULE: Okay. Let me then clarify the volumes. So, yes, you—I think you understand correctly. So, when we reported to the whole Chlorine Vinyl chain, it includes the PMV. Let me explain the two business because the PMV has changed significantly since last year. So, the Chlorine Vinyl chain, the reason you see growth in volumes is simply because of the capacity expansion that we have brought in right—now in three facilities I have mentioned it's changing technology that has increased our capacity significantly.

We have not yet run the capacity at full capacity for two reasons: first, we have a shortage in the first half of VCM; and second, the Colombia facility and the second Mexichem facility just came in line recently, so we will continue to ramp up capacity as the year goes by.

The PMV is a different concept. The reason you see volumes so high and revenue so high in PMV compared to last year is not because the volumes have dropped significant—have increased significantly. It's because we're selling something different. The numbers for PMV last year reflect our sales of chlorine and caustic soda. A lot of those sales of chlorine were going into Pemex. Since we acquired that facility into this joint venture, those sales are now internal costs and we stopped selling. Now what we are selling is VCM and ethylene. During the first and second quarter, the reasons the results were so nice for PMV compared to the situation we went through is because we exported a lot of ethylene and ethylene prices are very high. So, it's really a comparison that's not completely accurate in the sense that we are selling different things and that's why you see revenues up so much.

NIKOLAI LIPPMANN: It makes sense. Thanks. In terms of the strategic initiatives on a go forward (phon) in relationship to refrigerant gases, is there anything you can say about, you know, your thinking and what you're doing?

ANTONIO CARRILLO RULE: Yes. Well, as you know, in the short-term, I think you're clear on what we're doing. I think the short-term initiatives are clear and they're working. What we have done to fix the short-term situation is fine. For the long-term, I don't think there's much changed since the last time we had the conference and the last time we discussed this. Basically, as you know 2017 is the year where, especially within Europe, there's a reduction in the current refrigerant gas for automotive use.

As you know, there's only a couple of companies that have the technology to sell this new gas and there's still conversations on how that's going to turn out. As I mentioned the last time, my perception is there needs to be more than those two companies to be able to supply the market and to give comfort to the auto OEMs, but there's still a lot of discussions that have to happen to fix that situation and to give more clarity.

At the same time, something that is happening, let's say, in the medium-term also in Europe is with implementation of the (inaudible) protocol. There's some significant changes happening in 2015, '16 and '17 on the way the market will—on the way the European Union will allocate volumes for the different producers of Fluor gasses, which we also expect some benefit from that in 2015, '16 and '17. We are still working through the details and understanding how that's going to impact us. That's why we don't mention a lot of that, but there's going to be some impact—some benefit based on higher volumes that we will be allocated as a Company for the next three years.

NIKOLAI LIPPMANN: Thank you very much.

ANTONIO CARRILLO RULE: Thank you.

OPERATOR: Next question from Vanessa Quiroga, Credit Suisse. Please go ahead.

VANESSA QUIROGA: Hi. Thank you, Antonio, Rodrigo, Juan. My question is regarding if you could provide us more details on how large you can see your energy subsidiary getting in the future, I mean, depending on the analysis that you're making on that potential opportunities; and whether you would allocate a different Management Team or a Specialized Management Team for those kind of opportunities. The second question would be regarding M&A. If you can provide us an update on the kind of targets as you're looking at right now and how you are seeing evaluations moving for these potential targets. Thanks.

ANTONIO CARRILLO RULE: Yes. Thank you, Vanessa. Well, the first question on how large—well let me go to a bigger picture. As I've mentioned, you know, the end of the reform we believe that will bring Mexichem huge opportunities. We think we are very well-positioned and we think that there's going to be opportunities that today we're still not seeing; and it's going to take some time.

So, before I go into more details, I think your second question is very important. Yes, we are bringing in a Management Team. The Head of that Team will join Mexichem on August 18th so we will have a Management Team. The first focus that the Management Team will have more than specifying how big we're going to be or specific numbers is determining a business plan and a strategic plan for this Mexichem energy, and that will take some time. That will take a few was to determine where we fit, where we can add value, where Mexichem can really bring something to the table, and where we want to focus. So—and that will determine how big this business will be.

Today, we have these two very nice projects. We believe there are—these are great opportunities and we want to tackle them, but at the same time, there's other opportunities that will feed Mexichem and I'd like to come back to you and in a few months once we have this Team fully going and we identify the opportunities and tell all of our investors exactly what we plan to do and give you a very clear picture of where we're going, no.

On your second question on M&A targets, you know, Mexichem is a Company that has always grown through acquisitions and we have some targets and we're looking at some things. At this point, I'd like to be very general about them in terms of we have some targets, we're looking at them, but I don't want to go into more details of what we're seeing. But, we are working on some things, no. On pricing—on relative multiples, again, there is different areas in the world where we're looking, but in general I can tell you that there is increased appetite for companies in our sector in general, and I think the multiples are moving up in general.

VANESSA QUIROGA: Okay. Okay. That's very useful. Probably if you could talk a little bit about the ethylene cracker with OxyChem; if you are seeing any challenges there, and how advanced are you in the process compared to other ethylene crackers that are under construction right now in the US? Thanks.

ANTONIO CARRILLO RULE: Sure. We're very, very happy with the progress in the ethylene cracker. We announced a few weeks ago that we have received a permit. This is only the second permit in the US to build a cracker and so we are—we have broke ground. We are moving earth. We're laying foundations. The thing is moving. If you see some pictures and maybe for the next conference call we can send all — or publish some pictures so that you can see them. We're very happy with the progress. Everything seems to be on target. We have not seen any deviation from plan. We have a very detailed plan. Engineering is on time; all the rights of way for pipelines are on time. So, in general everything seems to be going well and we see no deviations from our original plan of 2017 to be already working in the first quarter.

Compared to the other projects, as I mentioned, this is only the second permit. On anything we're seeing from the suppliers—just to expand on the concept, we have ordered—100% of the equipment is already on order and has allocation from the suppliers on timing, et cetera. Our contract with our EPC contractor is a lump sum so we have a lot of protection on costs which is one of the biggest concerns for all the crackers that are being built and all the petrochemical plants that are being built in the Gulf region. So, we are very comfortable with that. So in general, we're very happy.

VANESSA QUIROGA: Okay. Great. Thanks.

ANTONIO CARRILLO RULE: Thank you.

OPERATOR: Next question is from Fernando Pérez with JBM. Please go ahead.

FERNANDO PÉREZ: Good morning. Thank you for the call. I was just wondering; how do you see Integrated Solution to be behave in Latin America, especially in Mexico? Do you see an increase in infrastructure spending, well, here in Mexico? Thank you.

ANTONIO CARRILLO RULE: Sure. I mentioned Mexico is one of the countries where we're not operating at full capacity. We continue to see relatively a weak Mexican market. We have not seen the big pickup we have expected and we were expecting in the second quarter. So, in general I see the, let's say, the Mexican situation kind of a dull situation. We see it as just going along; not nothing very exciting about it.

We have been seeing a lot of announced projects and I'm sure the government is going to start injecting more and more resources into the market. So today, we have nothing very exciting to say about the Mexican market, but eventually it's going to get fixed. As you know, our Mexican market is one of the few where we are very concerned in infrastructure, so infrastructure spending is what really drives our Mexican market and that needs to start happening very soon.

FERNANDO PÉREZ Okay. Thank you. Just one more brief question; what percentage do you expect to have in the consortium regarding the Cactus Cogeneration plant?

ANTONIO CARRILLO RULE: No. The Cactus Cogeneration plant, those will not be sales to Mexichem. At the moment, we don't have a, let's say, a contract with that project. As I mentioned, the project is still in development. We still have to define all the details so I don't want to give you a number that will most likely change, so let us define the project and then we can go out and give you a little more detail.

FERNANDO PEREZ: Okay. Thank you.

ANTONIO CARRILLO RULE: Thank you.

OPERATOR: The next question comes from Luis Caldalla from HSBC. Please go ahead.

LUIS CALDALLA: Antonio, good morning. Just two questions here. The first one is you mentioned about the antidumping and basically do you see higher (phon) volumes and projects (phon) by the end of the year. Is there any way that you're working to try to quantify the pack in 2015 and on what—so, the duties are in place that we haven't seen yet to the high prices yet, so how can we see in terms of, you know, more I'd say less qualitative data and more quantitative on, I'd say, this picture looking forward? The second one, which are the impacts you expect from the VCM plant to be closed for maintenance in August, by (inaudible) and, let's say, and third and full quarter just to have an idea in one, I'd say, continuous (phon) way as well. Thank you.

ANTONIO CARRILLO RULE: Of course. So, first on the antidumping, as I explained about 50% of our revenue in—of our volume in refrigerant prices comes from either car companies or companies large use institutional users, no. I'm talking right now about North America where the antidumping is going to have them. North America is about 70% of the business of Mexichem on the refrigerant gas. So, of this 70%, about 50% is institutional users, OEMs and other users that use it for other things. On those—in those cases we have contracts with them. Most of them are one-year contracts but we do have a few that go beyond one year and that's why we said that the full impact will be seen when all the contracts have expired early '16, but most of them expire sometime in the second quarter, third quarter and fourth quarter of '15.

So, on that 50% of the volume, we will see modest impact until the contracts are expiring, so you will see some but it will be later in 2015 and early '16. The other 50% is aftermarket which is mainly a spot market, maybe short-term contracts of one month or a quarter the maximum. So, you will see in that 50% a much faster reaction to this price. Where can we expect to see these? I would say that what's important is wait for October for the final ruling to see what's going to be the final dumping rates, but—however you measure it, there's going to be a nice impact in the Mexichem numbers just simply based on fixing a market that was absolutely destroyed by the behavior of these companies that created this problem for us, no.

So, I'm sorry I cannot give you quantitative numbers because it's very hard to say, but if you look at our prices—first of all, one thing that's important, I'm not expecting to go back to 2011 prices. Those prices have other things in them that were affecting them, but I would say that we can get close to whatever the dumping duties are whenever they get published in their final version.

LUIS CALDALLA: Very clear. Very clear. Thank you. What about (inaudible) VCM plant?

ANTONIO CARRILLO RULE: Yes. On the VCM plant, as we've said, this is a critical maintenance and everything is ready for the plant to be shut down, so we are not planning to delay it. We—as I mentioned on the VCM, of course the PMV is going to not look—the numbers are not going to be pretty for this quarter because it's going to be shut down, so we have significant costs there; but on the other hand I mentioned we have three suppliers of VCM. The first one that was a forced major last year since December has already announced in July that they're at full capacity, so we expect that supplier to come back and they owe us some volumes so they will help us clear this top quarter.

The second one, which is the one that got forced major from the Resin supplier, they have not put us on force major; they have just delayed shipments. So, we're working through the details of how we can minimize the impact. As I said, even with all of this we expect growth in volumes in the Resin business which should help us clear the quarter, and we do not expect in any of our scenarios to have a quarter that's worse than last year.

LUIS CALDALLA: That's great. Okay. Thank you.

ANTONIO CARRILLO RULE: Thank you.

OPERATOR: The last question for today comes from Ana Sepulveda with Invex. Please go ahead.

ANA SEPULVEDA: Thank you. Good morning, gentlemen. My question is regarding Wavin's performance. Can you give us a little bit more information on how much the performance can be attributed to belowground and how much could be attributed to aboveground? Lastly, if you can give us a little bit of guidance for this year.

ANTONIO CARRILLO RULE: So in Wavin—Wavin is mainly—well, about 70% of Wavin is belowground business. It's an infrastructure business. It's not where we're growing the most in terms of new products, but it's right now where we are in general. In general, it's a belowground business. And if you look at the results for the year, where the main growth has come is in the belowground business. The aboveground is also growing, but belowground has been growing very, very strongly. But both of them are growing.

In terms of the guidance for this year, last year Wavin, as we mentioned, had a year of significant restructuring so we had a year where a lot of the costs of restructuring were embedded in last year's results. This year we're looking at growth quarter-after-quarter in third and fourth quarter also, and we have a nice plan to grow it for next year, so we see growth in Wavin in the next few quarters and also in 2015.

ANA SEPULVEDA: Okay. Thank you very much.

ANTONIO CARRILLO RULE: Well, with that…

OPERATOR: That was the last question.

ANTONIO CARRILLO RULE: Okay. With that, we conclude the conference call for today. Thank you again for being here. That's it.

OPERATOR: This concludes our question-and-answer session. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.