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

April 30, 2014, 11:00 AM Time Eastern
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OPERATOR: Thank you for standing by. Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Mexichem's First Quarter 2014 Results Conference Call. We would like to inform you that this event is being recorded and all participants will be 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.

A replay of the call will be available approximately two hours after the end of the call. The replay can be accessed via Mexichem's website at www.mexichem.com.

Before proceeding, let me mention that forward-looking statements are based on the belief 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 Ms. Alina Hermosillo to open the call. Ms. Hermosillo, you may begin.

ALINA HERMOSILLO MILLAN: Thank you. Welcome to our conference call to review Mexichem's results for the first quarter 2014. We appreciate your time and participation in this conference call, which today is hosted by Mr. Antonio Carillo Rule, our Chief Executive Officer; Mr. Rodrigo Guzmán Perera, our Chief Financial and Administration Officer; and myself, Alina Hermosillo Millan, Mexichem's Investor Relations.

Before Antonio Carrillo walks us through Mexichem's first quarter remarks, I would like to highlight two factors. The first one is that the figures for PMV, the joint venture between Mexichem and Pemex, are consolidated in the first quarter results and retroactively to September 2013. Secondly, I would like to remind you that since the fourth quarter of 2013, we adopted the US dollar as a functional and reporting currency; therefore, all reference to figures are in US dollars unless mentioned otherwise.

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

ANTONIO CARRILLO RULE: Thank you, Alina. Good morning, everyone. Thank you for joining us today to review Mexichem's first quarter results and discuss our outlook for 2014.

As many of you know, I have spent a fair amount of time since our full-year results conference call meeting with investors and speaking with our covering analysts in order to clarify our strategy and outline a roadmap for profitable and sustainable growth. I am pleased to report that the results of 2014 first quarter were in line with our internal projections and that we are on track to deliver a year of progressive improvement in 2014. More on how we expect to get there in a moment.

First, let me say that our Integrated Solutions chain and our Cloro-Vinilo chain, which together accounted for the lion's share of our first quarter 2014 sales, performed very well, delivering a respectable 9% increase in total revenues and posting reasonable EBITDA results. These last points are especially noteworthy in light of the spike in natural gas prices that added substantially to our costs in the period. The primary reason for our lower EBITDA margin comparisons was product mix. When revenues increased in our resins and Wavin operations, we experienced an expected, but no less painful, fall off in our higher margins versus (ph 4:12) per volumes.

As anticipated and discussed on our last earnings call, the Fluorine chain continued to be a driver on our results and is not likely to recover until the second half of the year, but we can see the light at the end of the tunnel. Here is an update on the latest development in the Fluorine segment. Starting with the upstream part of the fluorspar business, which accounted for 80% of chain's EBITDA in 2013. In this first quarter, we finalized negotiations with our major fluorspar customers and the new contract pricing will be effective in the second half of 2014. Customers are still working down high inventory levels and that situation is likely to continue for most of 2014. However, in the second half of this year, we expect higher pricing to more than compensate for soft volumes and, therefore, are looking for our full-year 2014 EBITDA from this part of the chain to be a little higher than it was last year and in 2015, we should see the benefits of full volumes and full pricing.

The second part of the Fluorine chain is the downstream activity, our refrigerant gas business which, as you know, has been under extreme price pressure as a result of what we consider unfair trade practices by the Chinese. Consequently, our revenues on margins were down, with the only positive point being that profitability declined at a slower pace than prices and as a result of cost containment pressures implemented by this business unit. In 2013, Mexichem initiated two legal proceedings against the Chinese imports; one is to impose countervailing duties and the other one to impose antidumping duties. The US Department of Commerce notified us a few weeks ago of a preliminary ruling on countervailing duties of an average of 16% against Chinese imports, which was in line with our expectations. The Department's preliminary antidumping duty determination is scheduled for the second quarter and we are optimistic about the outcome.

Even with the Fluorine chain issues, results for the first quarter demonstrated the increased visibility Mexichem now has, thanks in large part to the greater scale of our operations, our expanded and more diversified geographic footprint and our shift towards specialty products. Also, the rightsizing of the Company that was implemented last year has resulted in a leaner, more flexible organization that is able to compete more effectively than ever before.

In our Cloro-Vinilo chain, a combination of organic and acquisition growth drove the strong year-over-year sales performance of our resins, compounds and derivative business in this year's first quarter. On the organic side, we benefited from the expanded capacity in Mexico which began ramping up at the end of last year. On the acquisition front, we have the contribution from the specialty resin business we acquired in May of 2013. Unfortunately, the profit contribution from our specialty business was lower than projections, due to the significant increase in energy costs in the US in the first quarter and the unusually harsh winter.

Capacity expansion at our Columbian facility began ramping up in April and should be at full capacity by the end of the fourth quarter. Plans call for another 10% capacity increase in 2015 and we are targeting 15% to 20% more capacity for 2016 and '17, which we believe can be efficiently added with minimal capital investments by utilizing new technology. We continue to work towards increasing the mix of specialty products in this chain through a combination of acquisitions and organic growth.

Now let me talk about Mexichem's two most transformational projects; the joint venture with OxyChem and Pemex. The most important project Mexichem has is the joint venture with OxyChem to build the ethylene cracker in Texas. I am pleased to report that this is proceeding as expected. All major equipment orders have been placed, the EPC contract has been signed and permitting is on schedule. We remain confident that the cracker will start operations in the first quarter of 2017. Based on all that that we have received and analyzed, we also believe that the margin fundamentals between ethane and ethylene will continue to be strong at the time the cracker starts, and that this cycle will last for several years after it becomes operational.

Finally, based on what we have seen, we think that the cracker will be ahead of the curve compared to many of the cracker projects that have been announced. It is important to remember that this cracker will be used to integrate VCM production upstream and that we are not building a cracker to speculate in polyethylene demand and export margins, like most of the other projects that have been announced. Once this cracker is completed, we expect Mexichem's cost structure to be extremely competitive and, therefore, this venture will provide the Company with tremendous long-term value.

With respect to our second transformational project, the joint venture with Pemex, we have warned the market about the likelihood of uneven, almost erratic results. We have been concerned about the production reliability of the old equipment at the plant, but this year's first quarter PMV's results were stable. Sales were up, thanks to ethylene and VCM sales. EBITDA was positive despite higher energy cost, high fixed costs and low productivity due to low utilization rates.

Increased operating efficiencies played an important role in the first quarter results of our Integral Solutions chain. We reported solid mid-digit increases in sales in—and EBITDA in the first quarter, reflecting stable demand in Latin America and very strong showing of our European business, where sales were up 13% and produced year-over-year EBITDA growth roughly four times that. This excellent performance was due to significant restructuring we implemented in 2013, as well as better economic conditions and a much milder winter in this year's first quarter versus 2013. While this rate of year-over-year EBITDA growth is not sustainable, we do expect to see positive margin comparisons in our European business throughout 2014 and '15. In our higher-margin Latin American operation, we anticipate positive momentum in the second half of the year.

To sum up, we knew this would be a tough quarter from a comparison standpoint and it was. We ended the field (ph 11:06) with positive operating momentum and a strong balance sheet.

Now, I would like to turn over the call to Rodrigo Guzmán, our CFO, to provide additional financial details for the quarter.

RODRIGO GUZMÁN PERERA: Thank you, Antonio. I will now take you through the first quarter 2014 figures in more detail. Net sales totaled $1.3 billion, an increase of 9% from the first quarter 2013. Our sales growth was driven primarily by organic initiatives, including increased capacity in the resins, compounds and derivatives part of our Chlorine segment; greater contribution from the Integral Solutions chain, especially in Europe, due to the restructuring efforts we implemented last year; improved economic conditions and better weather. Additionally, revenues included the results of our Pemex joint venture, PMV, which are now consolidated.

On the acquisitions side, revenues benefited from our purchase of a specialty resins business in May of last year.

Looking at the breakdown of sales by geography, in the first quarter, 36% of sales went to North America, which includes Mexico, Canada and USA, where our specialty resins business is located; 30% to South America, including the Caribbean; 31% to Europe; and 3% to the rest of the world. This represents a balanced geographical sales mix, with North American about 3% points higher than in last year's first quarter.

EBITDA totaled $198 million, down 10% from the first quarter in '13. As Antonio noted in his remarks, this decline mostly resulted from a shift in product mix caused by a 36% fall off in the foreign exchange EBITDA that reflected lower fluorspar volumes and pricing and lower refrigerant gas prices. The spike in natural gas prices increased our energy costs across all of our chains in the first quarter. Our inventory costs increased more than 60% to roughly $5.5 per million of BTU, and that impact was made more profound by the fact that our natural gas consumption this year's first quarter was 100% higher than the similar period of the last year due to PMV's ethylene and VCM plants. Prices have come down since and we are now looking at average—the natural gas prices for the second quarter of between $5.0 and $5.3 per million of BTU. This is still a high cost when compared to the average price in last year's second quarter of $4.5 per million of BTU, representing an increase of 18%, but it is 5% lower than first quarter 2014.

Our EBITDA margin was 14.9%, down from 18% in the first quarter of '13, mainly due to the foreign exchange effect, which historically has had the highest margins among our segment. Thus, we posted higher revenues in the Chlorine-Vinyl and Integral Solutions chains, where historically the margins have been between 15% to 20%, while revenues came down significantly in the foreign exchange (inaudible 14:17) to 2013, the chain's products average margins well above 40.

Operating income for the quarter was $102 million, down 28% from the first quarter of '13, due to the factors I just mentioned with respect to EBITDA, as well as higher depreciation and amortization expenses in our Cloro-Vinilo chain related to last year's acquisition of the specialty resins business and the addition of the ethylene and VCM plants assets that are now our part of the joint venture with Pemex that was completed in September 2013.

Net financial costs were $29 million, down 54% from last year's first quarter when the Company incurred a foreign exchange loss of $31 million. Income taxes declined to $21 million from $27 million in the first quarter of '13. Net income for the period was $49.2 million for the 2014 first quarter, up from $42.6 million in last year's first quarter. Net income from continuing operations in this period was $51.4 million, similar to last year's.

Moving to the balance sheet, working capital moved up slightly to $857 million from $844 million at the end of last year's first quarter, due to the higher seasonal requirements of our growing European operations. We have been making significant progress in improving our cash conversion cycle, which declined to only 16 days at the end of this year's first quarter compared to 27 days at the end of the 2013 first quarter and 22 days at the end of last year.

Our gross financial debt at March 31, 2014, totaled $2.2 billion. Cash and cash equivalents were $1 billion, resulting in net financial debt of $1.3 billion. This represents an increase of 43% from a year earlier, which was mainly due to the purchase of the Company's specialty resins business for $250 million in May 2013 and capital expenditures related to the Company's joint ventures with Pemex and OxyChem.

Mexichem's foreign currency position was $628 million at the end of the period and was mostly denominated in euros. We ended the quarter with a net debt to EBITDA ratio of 1.3 times, slightly ahead of 1.2 times at the end of 2013 but still well within our internal limit of 2 times. Net interest coverage increased to 8.87 times from 8.2 times at the end of 2013, thanks to lower interest and tax payments. Operating cash flow before capital expenditures was negative $34 million, a negative variation of $33 million when compared with a negative $1 million a year ago due to our lower EBITDA figures and higher absolute dollars for working capital. CapEx for the quarter was $117 million, of which $60 million was allocated to the OxyChem's joint venture.

In terms of additional guidance based on our current portfolio of business, deposition expense is expected to remain at first quarter levels for the remainder of 2014. Also, our cash tax rate is likely to be in the range of 30% to 35% for full year 2014, but we are working very hard to reduce it.

To sum up, our financial position remains strong and we continue to implement programs designed to enhance efficiency and lower financial cost throughout the organization.

I'll now turn over the call to Antonio for closing comments.

ANTONIO CARRILLO RULE: Thank you, Rodrigo. As I mentioned earlier, we believe Mexichem is very well positioned to achieve improved financial results for 2014. Based on our current portfolio of businesses and our view of market conditions, we are looking ahead to a second quarter that is flat or slightly ahead of the same period in 2013, followed by a strong second half, enabling us to achieve organic EBITDA growth of 6% to 8% for the full year of 2014, excluding PMV and Venezuela. In Venezuela, there is no way to forecast how things will ultimately unfold. What I can say is that this year's first quarter, it continued to be a 5% contributor to the Company's wide EBITDA, which makes our exposure relatively limited.

Another unknown is the near-term performance of PMV. There remains a risk of erratic performance in PMV until our major shutdown is performed in August of this year, but so far, so good. The third is the price of natural gas, which has come down from the highs of the first quarter but remains at above average levels.

On the plus side, acquisitions remain the key part of our growth strategy and we continue to actively explore opportunities to strengthen our portfolio of specialty products, further our vertical integration and expand geographically. We believe Mexichem is well positioned to capture and build value in a consolidating industry.

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

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

The first question comes from Nicolas Lippman with Morgan Stanley. Please go ahead.

NICOLAS LIPPMAN: Hi, thank you for taking my question. Thanks for the call. I just have one question related to fluoride; I see Honeywell has closed down some North American capacity. So I was just wondering how we should think about the volume, and one thing is the pricing. I think we are monitoring that, but in terms of that, in terms of North American volume, do you think that we are looking at a structural decline in volume, or should we think that volume in fluoride could sort of pick up any time soon? That's it.

ANTONIO CARILLO RULE: Yes, this is Antonio, Nicolas. Yes, some of our customers, including Honeywell, they shut down their operations in Canada. As you know, we do not disclose how much of our sales go to each customer, but what we are seeing and based on the contracts we have signed with higher prices with some of our customers and the volumes we have in those contracts already embedded, we see relatively stable volumes compared to last—to 2013. As I said, 2014 will be unusual in the low volumes. We see volumes more on the stable side in—similar to 2013, for the 2015 period, so this year is going to be low and then 2015 will be more comparable to 2013 in volume terms.

NICOLAS LIPPMAN: Okay. Thank you very much.

OPERATOR: The next question is from Caio Carvalhal. Please go ahead.

CAIO CARVALHAL: Oh hi; good morning. I have a question that's more—I have two questions. It's more a perspective on the qualitative terms. We can note that despite the improvement in your top line in the Chlorine-Vinyl chain, we had slightly decreasing margins year-over-year, most likely related to the beginning of operations in the—with the PMV. I would like to understand when do—when should we expect—I know that we're going to have a major shutdown by August. I'd like to know a little bit about this shutdown and if we could expect the margins improvement before the shutdown or only after the shutdown and after the implementation of the new equipment? That's the first question.

The second question is related to the PVC tube sales in Latin America, the (inaudible 22:21) decision. I think that it was likely disappointing, the fact that it remained stable in the first quarter, as we were expecting—not expecting but we were believing there could be some improvement on the PVC tube sales in Latin America. So my question would be, have we seen already the improvement in sales in the second quarter or not yet, and if that's the case, when can we expect some increase in the PVC tube sales in LATAM? Those are my questions. Thank you very much.

ANTONIO CARILLO RULE: Thank you. Let me start with the first question about the margins in the Chlorine business. I'm going to split it in two, first to explain a little more about the Chlorine—what we saw in the Chlorine side, on the—PVC Chlorine, the whole chain. So, as I mentioned, we have several issues happening in the first quarter. First, we are ramping up production in our expanded plant in the northern Mexico and when you are expanding capacity, you are going through higher cost curves than normal, so that should stabilize in that facility in the next few months and we are going to start in – we just started in April ramping up in Columbia – so you also will see some extra costs during the ramp up.

The second thing that happened in the Chlorine chain, while you didn't see such a jump in the margins, was our specialty resins business, as I mentioned in my script. We had a significant reduction compared to our forecast in North America, basically for two reasons. One, very harsh winter which slowed down—we have shut down operations, some of our customers had to shut down operations. It was a relatively slow period. The second was the cost of energy, which had a significant impact, both in our Mexico and our US facility.

On the PMV, as you mentioned, the shutdown is in August. We expect a shutdown of somewhere between 45 and 60 days, and we—what we—we shouldn't expect an increase in margin from that operation from here to August. We should start seeing more stable production at a higher rate after September, let's say, and once it starts ramping up and as we ramp up, the large fixed costs at that facility have—has, should start being absorbed by more production and we should see improved profitability. But it's basically a 2015 project when we will start really seeing a significant capacity increase.

On the Latin American question, I—yes, what happened in Latin America is our volumes are relatively stable. If you look at country-by-country, that's not the case. We have countries where things are going very well, and we have countries where things are not going that well. So specifically Mexico, Peru had a first quarter – and those are two large countries in our portfolio – which was very slow. In Mexico, as you might know, the government has already said there's going to be a significant outflow of cash for new projects, et cetera, but we have not seen that happening. We see a lot of bids, we see a lot of projects but they have not materialized. We do expect them to happen, or start happening, in the second part of the year.

Same thing has happened in Peru. If you look at the construction GDP in Peru, it has dropped significantly, and it's in a slow period. We just opened another facility in Peru because we were at full capacity, and we expect those volumes to start picking up. Finally, overall in Latin America, we could not see a bigger increase in volume because in many of our facilities in many countries, we were operating at full capacity. The reason I have mentioned that in the second half we expect bigger volumes is not only because of some recovery in some countries, but also because we see our capacity increasing from investments we've done in the last year or so, where you will see some capacity being brought online and volumes should start picking up in the second half.

OPERATOR: The next question is from Mauricio Serma with Santander. Please go ahead.

LUIS MIRANDA: Yes. Hi, good morning. This is Luis Miranda. Antonio, a couple of questions. The first one is—and I think Rodrigo—sorry if I missed the explanation (ph 26:59), but how can we see or expect about working capital? You mentioned the seasonality on the first quarter, but it was an unusual amount. How should we see that through the year?

The second point, Antonio, with regards to the expansion, I don't know if you can be a little bit more specific for 2016/'17; where should we see the PVC capacity reaching close to 1.5, 1.6 million tons? Is that a (inaudible 27:25) to you? Thanks.

ANTONIO CARILLO RULE: So, starting with the working capital, Luis, one thing that you will see in Mexichem results going forward is that our European business has a much more pronounced seasonality than our Latin American business in our Integral Solutions chain, and that will drive some significant increases in working capital during the first/second quarter and then, by the end of the third quarter, you will start seeing it come down. What—the way we are measuring that is that what we have to make sure is that we are better compared to last year, so the seasonality, yes, we increased working capital in a significant way, but we increased it in much—let's say in a lesser amount than we did last year. Every year, we should get better at this and that's a focus for the whole organization, the working capital management, especially in this seasonal business. So, what you should see is an increase this first quarter and second quarter, by the third quarter, a reverse of that, and then at the fourth quarter, as you saw in 2013, a significant comeback in the cash that we invested during the year.

On the capacity increase, yes, by the end of the year, we should get to about 1.3 or 1.35 million tons in capacity, and then for 2016—'15, be a full capacity of those running at that full capacity, and then 2016 and '17, as I mentioned, we are working on a project to increase our capacity another 10% to 20% based on changes in technology. So, you should see that once we finalize it and we confirm that it's possible, you should—we will communicate it and you should take that into account once we confirm it, no?

LUIS MIRANDA: Thank you, Antonio. Thanks a lot.

OPERATOR: The next question is from Frank McGann with Bank of America. Please go ahead.

FRANK MCGANN: Okay, good morning. Just two things. One, just a follow up on the last question on the Integral Solutions trends in Latin America. Perhaps you could look at some of the other countries that you're seeing, particularly Brazil, Argentina, Chile; many others that you see as being very important and what kinds of volume trends you expect, or you saw in the first quarter and could see later in the year?

Then secondly, I was wondering if you could quantify more the types of benefits you're expecting in pricing? Now, as you go into the second half when some of these contracts come into force, what type of an increase are you expecting? What level of pricing do you think you can get to on those contracts versus what they have currently, just to help us to better estimate the kind of uplift you can get in earnings later this year and into 2015?

ANTONIO CARILLO RULE: Sure. So, let me start with the first question on Latin America. By a lot, our biggest country in Latin America is Brazil. It represents about 30% of our volume in Latin America. We saw good volume in Brazil in the first quarter compared to last year. We had a record year in 2013 in Brazil. We expect increases in Brazil in volumes in the second half of the year, especially on our infrastructure business which we have not attended very well because we have focused all our capacity on the housing market, but we expect some increases in volume in Brazil, especially in the second half. We have seen a relatively good first quarter in Brazil, with no major surprises. I have mentioned before and something that's important for you to realize is that we have already covered our costs in raw materials for the Brazilian business so that we don't get an impact, especially in the second half, in case there is a devaluation of the real, and that's our biggest focus in—is Brazil, simply because of the size of business.

Our Argentina business has been—it's a very small portion of our portfolio, very, very small. It's somewhere between 2% and 3%, and it is a business that has been severely hit by the situation in Argentina, even though we continue to be profitable and a relatively good profitability coming out of it, but it's still a business that's small and it's being affected by the situation.

Our Columbian business has been doing very well. It's growing this year and we expect more growth in the second half. Our Ecuadorian business is doing very well this year; growing and we expect more in the second half; and all of Central America is doing relatively well, some countries very well, and we expect to continue growing it.

As I have mentioned, we are opening facilities. We opened a facility in Peru a few weeks ago. We are opening Guatemala beginning of June and late May, and we are ramping up capacity in three facilities in Columbia and investing in Brazil. So, that's the situation in Mexico.

On the contracts, on fluorspar contracts, I cannot disclose the—specifically, each contract or what's happening specifically in them, but what I can say is that some of those contracts have prices that are more than double what they were paying. Some of them are, let's say, 50% more than what they were paying, so the price increases are significant and you should see a significant price increase in the second half of the year as we move on. Those contracts will also have those prices into 2015 and forward.

FRANK MCGANN: What portion of your business will those new prices affect? What percentage, say, of sales in the fluorine chain?

ANTONIO CARILLO RULE: I would say that the contracts we have renegotiated should cover about 50% of our sales on the upstream part of the fluorine chain.

FRANK MCGANN: Okay. Thank you very much.

OPERATOR: The next question is from Vanessa Quiroga with Credit Suisse. Please go ahead.

VANESSA QUIROGA: Hi, good morning. Thank you for taking my questions. Regarding the—your purchases of VCM in the meantime that the assets of—under the Pemex JV are fully operational or stable, are you currently keeping your contract with Oxy Chemicals? And regarding the 20% of your needs that Pemex used to provide, where are you sourcing those raw materials currently? Thanks.

ANTONIO CARILLO RULE: Yes. So, we have—the contract with Oxy, when we announced the cracker—first, good morning, Vanessa. Regarding the VCM contracts, when we announced the cracker, we announced also signing of a new agreement with Oxy, a 20-year agreement on VCM supplies from their plant in Ingleside, Texas, where the cracker is being built, so the cracker project has attached to it a contract supply VCM. As of today, we are currently, let's say, getting our VCM from Oxy and it's running normally. The rest of the VCM is coming in some portion from Pemex, not as much as we would like, of course, but in a certain portion from Pemex.

We have another contract in the US with another supplier, and when another supplier of ours announced that it had a fire at the end of last year, we did buy some spot market. But in general, with our three contracts, I'd say, the two US and the Pemex, we feel confident that we have enough supply, let's say, for the foreseeable future.

VANESSA QUIROGA: So, you are having to buy very little in—on the spot market currently.

ANTONIO CARILLO RULE: Yes. Very, very little.

VANESSA QUIROGA: Okay. Then another question on the Integrated Solutions position. In local currency, were you able to increase prices in the Latin American markets sequentially in the pipe?

ANTONIO CARILLO RULE: Yes, I think that's a very good question, Vanessa. We have—if you measure it in local currency, in the big countries we have—so in Brazil, in Mexico, in Columbia, in all of the countries that really are significant in our structure, in all of them, we had a significant impact this quarter compared to last quarter—to the first quarter of 2013. So, you do see a significant impact and I'm glad you mentioned because we did not mention it, but it's—in local currency, we have seen increases in prices and in revenues and in EBITDA in some countries that when we translated to dollars, you do not see that. So, there is an impact there that is important.

VANESSA QUIROGA: Okay. Okay, that's great. So, I mean, you were—I mean, in a nutshell, you would attribute the lower—or the lack of more operational leverage, let's say, the lack of improvement in year-over-year margins for the division to currency fluctuations mainly?

ANTONIO CARILLO RULE: I would say a large portion of it is currency fluctuations; that's right.

VANESSA QUIROGA: Okay, that's great. Thanks…

ANTONIO CARILLO RULE: In Latin America—Vanessa, in Latin America, we have that. In Europe, we also have a small portion in Turkey, in Poland and in some of the Nordic countries, but it's a smaller portion.

VANESSA QUIROGA: Okay, that's very useful, Antonio, thanks.

OPERATOR: As a reminder, to ask a question, please press star, and one. The next question is from Fernando Perez with GBM. Please go ahead.

FERNANDO PEREZ: Hi, good morning. Thank you for the call. Just one brief question. I was wondering if you can, well, tell me which one was—what was EBITDA margin and how do you expect it to behave during the year? Furthermore, I was wondering how did PMV operate during the first month of—or of the second quarter. Thank you.

ANTONIO CARILLO RULE: So, on the first question, the margin, we—as you know, we do not split the operations in two, but what I can tell you is that the revenue increased at a slower pace than EBITDA. So, we are seeing operating leverage in Europe as our volumes went up in the first quarter significantly, and we attribute it to really three things. One is the restructuring we did last year, so we have a much better cost position, less number of plants, and we are still going through restructuring. We have not finished, so in our numbers, you still see a portion of the restructuring embedded in them. The second is just better economic conditions in some of the countries, specifically western European countries; Germany, the UK where we are very large, that are a large portion of our operations and the last one, which I honestly cannot quantify, is how much of the weather impact had; 2013, the weather was very, very harsh in Europe, especially in western Europe, while in 2014, it improved significantly.

So, I think in the second quarter, we should see a more comparable quarter-over-quarter, but what I can tell you is that we are pleased with the results, the margins are getting better. We expect margin improvement every quarter this year compared to 2013, and Wavin to become an even bigger contributor to our EBITDA in 2015.

The second question was about the PMV, how it started in the second quarter. It's still erratic. It—I can tell you that it was—it's been even a little more erratic in April than it was in the first quarter. But as we invest more and more, as we improve our maintenance and spend time on the—let's say on the facility and we've spent significant time investing in all sorts of things, I think you will see the viability or the erraticity of the facility improve as we approach August and then after August, we should see a more stable operation.

FERNANDO PEREZ: Thank you.

OPERATOR: The next question is from Pedro Medeiros with Citigroup. Please go ahead.

PEDRO MEDEIROS: Good morning. Thank you so much for taking the question and I actually have two questions. First, I wanted to understand on the Vinyl Chlorine business, when we look at the first quarter results and compare that to the fourth quarter results in terms of prices, we have a combination of falling volumes but a significant premium to average realized prices. Can you comment or elaborate on the sustainability of that premium price? Is that a result of a mix of regional sales or a product mix, and is that going to keep up going forward as you pick up your volume, your sales volumes?

My second question is can you elaborate or comment on the progress for the dying (ph 42:10) of an upcoming cogeneration power project in Mexico?

ANTONIO CARILLO RULE: Sure. So, let me go to the first question. PVC prices behave differently regionally and over the last few years, our exports to Europe have increased significantly. Our—so our mix has been changing over the years. Today, a very large portion of our production is an export market and it has different regional, let's say, elements moving along. So, you see some variations based on where we ship every quarter and we ship to the places where we can get the better pricing or the better margins.

But the second thing that's important to realize is that PVC prices are also impacted by the cost of VCM, which is the main raw material, which is impacted also by the cost of ethylene. If you see the prices of VCM during the first quarter, they were—they have been climbing significantly through—from the fourth quarter. That's why many times you see – and you saw it in the first quarter – you saw an increase in prices but you also see an increase in cost that's related to the VCM and why the margins didn't increase so much. The best scenario is when you have VCM prices going up and you can continue to increase your prices, which did not happen in this quarter.

The third—so you have one thing is the regional aspect, the second one is the VCM versus PVC margin, let's say, and the third one, which is I think very important, is the product mix. When we say we sell one—our capacity is 1.3 million tons of PVC; within that capacity there is different types of PVC, so you have suspension and you have dispersion and other types of PVC, and the mix changes and that creates also a change in your average price. Finally, the specialty resins business, which even though it did not have as good a quarter as we would have liked it, we did not have it in our numbers last year and specialty resins also have a much higher price than standard resin, and that also has a variation—creates a variation in our numbers.

The second question on the cogeneration facility, I think we're moving along very well. At the moment, what we are—with the basic engineering on the cogeneration facilities finished, and we are in the process of, let's say, negotiating and, let's say, going through the process of getting transmission permits outside of the region where we will build this facility so that we can get going. So, where we're right now, is in detail engineering. We have already created a company that's going to be the special purpose vehicle for this, and we are in the process of developing the detailed work plan for this. We should have something in the next three to six months to announce the formal investment.

PEDRO MEDEIROS: Okay. Thank you.

OPERATOR: The next question is from Ricardo Paranhos with ITAU BBA. Please go ahead. Mr. Paranhos just dropped. Our next question is from Vanessa Quiroga with Credit Suisse. Please go ahead.

VANESSA QUIROGA: Hi, thank you. Yes, it's a follow-up on, actually the question that you just answered. Why weren't you able to increase resin prices as much as your cost increases, specifically for the quarter?

ANTONIO CARILLO RULE: Vanessa, hello. So, what happens with—the question was more related on average prices, so the average prices went up and why have the average prices grown from the first quarter to the fourth quarter, no? We did increase prices in the first quarter, but we did include—increase our cost of VCM also. So, what happens sometimes in specific quarters – and it happened in the first quarter also – you have regional prices of resin that behave differently than the original prices of VCM. In the case of VCM specifically, prices went up much faster in North America than in the rest of the world because of specific issues that happened to suppliers of VCM. You had a fire in one facility, you have another shutdown in a different one, so prices regionally in North America behave differently than world prices of resin. Since then, they have—that has stabilized and you should see something more normal going forward. But in specific times – and it happened in the first quarter – you have specific issues that happen in a region that you cannot translate to the PVC markets in the rest of the world.

VANESSA QUIROGA: Okay. Okay, thank you. That's very useful. Going back to the margins in Integrated Solutions, can you provide what was the EBITDA margin for the European operations in the first quarter?

ANTONIO CARILLO RULE: Well, as I mentioned before, we normally do not disclose this information, but I—and I said the first quarter was, I think, a very nice margin compared to last year, significant increases in EBITDA, more than sales. Some of them were impacted by weather, better conditions and the restructuring, but you should see margin improvements for the rest of the year, and you should see that improvement over the rest of the year, no?

VANESSA QUIROGA: Okay, and EBITDA margin of the European operations in this quarter, first Q, is still lower than what you obtained for the full year 2013, right? Because first Q is still a weaker…

ANTONIO CARILLO RULE: Yes, that is correct, yes.

VANESSA QUIROGA: Okay.

ANTONIO CARILLO RULE: Yes. As I mentioned, it's a seasonal—it's a very seasonal market and even though, yes, the margins are much better than last year, the—what—you will see big margins in our European operations in the second and third quarter and that's why the average margin for '13 is still a little better, not much but a little better than what we had in the first quarter, but the first quarter, I think, was not a normal quarter you should expect for the first quarter of our European operations.

VANESSA QUIROGA: Okay. Okay, that's great. Then the last question on that fluorine chain regarding the destocking that you are seeing from customers, what is that related to? Because we had already seen volumes coming down in the second half of last year, so we were a bit surprised for this to—for the trend to go even lower in the first Q. So, can you provide more color on what's happening and why you are confident that in 2015 it will normalize?

ANTONIO CARILLO RULE: Yes. I think, when you think about our fluorine business on the fluorspar side, the upstream side, many times you will see—and you all saw it in this quarter, you will see variations that have to do with shipping timing. To give you an example, when we ship to Asia, it's very large ships with 50,000 tons and when one of those ships hits in a certain quarter, you will see a spike or not. During 2013, part of the reduction in volumes came from some customers; part of it also came from timing of shipments that have happened in 2012 and compared to 2013.

Based on what we can see today, there's two things happening. In some customers in our metallurgical business, some of the reduction has come because they have significant inventories in certain parts of the country, specifically Europe and some of—specifically on some of the steel producers that have significant inventories and compared to the fourth quarter, we saw a reduction in this quarter. On the other type of fluorspar, which is the acid grade, we did not see such a big reduction. Most of the reduction in this quarter came from the metallurgical fluorspar, not from the acid grade fluorspar. In the second quarter, we are seeing some of our customers of acid grade fluorspar with significant inventories, and we see that in the second and third quarter, so it's specific situations with certain countries. Finally, there were some additional imports of Chinese product last year which they accumulated and we should see those go down in the near future.

OPERATOR: Our next question is from Ricardo Paranhos with ITAU BBA. Please go ahead.

RICARDO PARANHOS: Good morning, all. Sorry, my line dropped before my previous call—my previous question. My questions relate to your outlook for the fluorine chain going forward. My first question will be if there has been any progress in the negotiations with automakers for the adoption of your standard of refrigerant gas?

My second question would be about when would you expect to start converting current capacity for one of the new compounds? How do you believe that could affect average realization prices going forward? Thank you.

ANTONIO CARILLO RULE: Well, as you know, the situation in the new refrigerant prices, which, as a background, for every one start happen—they should start—it should start happening in 2017. Some of the regulations force new platforms of cars to start converting in 2017 and that—so at that time, you will start seeing a drop in the, let's say the old type of refrigerant gas called 134 and the drop should start increasing as more and more models come through. It's a gradual process that will take several years. So, there is, right at the moment, several alternatives to substitute the old refrigerant. One of them is patented by two of our competitors; the other one has been developed by us.

There is a big argument going on which one is going to be the best one. Some automakers have said they will only use one that's—let's say that's not our competitors. Some others are aligned with us, et cetera. But in general, what's happening in the industry is that it's a relatively convoluted process because there is not enough capacity being built to support the industry in 2017 and that should get solved in the next, let's say the next six to—six months to a year we should get some resolution on how the industry is going to start looking going forward.

I cannot tell you exactly a date when and if we're going to start converting how it will look because we have to go through a series of patent issues that we need to solve before I can give you specific answers on how that's going to evolve.

RICARDO PARANHOS: Okay, that's perfect. Thank you.

OPERATOR: That concludes the question and answer session. I would like now—I would like to turn the conference back to Management for any closing remarks.

ANTONIO CARILLO RULE: Thank you very much to everyone for attending the call, and hope to see you soon and talk to you soon in the next conference call.

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