



# Methanex Investor Presentation

June 2016



A RESPONSIBLE CARE® COMPANY

# Forward-looking Statements & Non-GAAP Measures



Information contained in these materials or presented orally on the earnings conference call, either in prepared remarks or in response to questions, contains forward-looking statements. Actual results could differ materially from those contemplated by the forward-looking statements. For more information, we direct you to our 2015 Annual MD&A and our first quarter 2016 MD&A, as well as slide 31 of this presentation.

This presentation also contains certain non-GAAP financial measures that do not have any standardized meaning and therefore are unlikely to be comparable to similar measures presented by other companies. For more information regarding these non-GAAP measures, please see our 2015 Annual MD&A and our first quarter 2016 MD&A.

# Methanex - Investment Opportunity



## Global Methanol Leader

- Leading market share
- Competitive assets

## Strong Cash Flow Generation & Distributions

- Solid growth in cash generation capability
- ~47% of shares bought back since 2000
- Dividend raised 11 times since implemented 2002; \$1.10/share

## Positive Long-term Industry Outlook

- Healthy demand growth outlook
- Limited new supply

## Growth Potential

- Production: Chile
- Market: Demand growth into energy applications & MTO

## Value

- Trading at a significant discount to replacement cost

# Investment Opportunity: Upside Leverage, Downside Protection



## 60% capacity growth in 3 years

- Three million tonnes in capacity additions over last three years
- New capacity growth positioned in OECD countries, reducing risk

## Responsive cost structure

- Gas contract structure reduces costs at low methanol prices
- Shipping costs benefit from lower fuel prices
- Flexible global supply chain allows agility in serving customers

## Strong demand upside at higher methanol prices

- Approx. six million tonnes annualized latent demand in Q1, 2016.
- Estimated 7% CAGR over next four years with upside potential at higher methanol prices

## Methanol cost curve serves as floor

- Current China spot methanol pricing estimated to be consistent with marginal cash cost

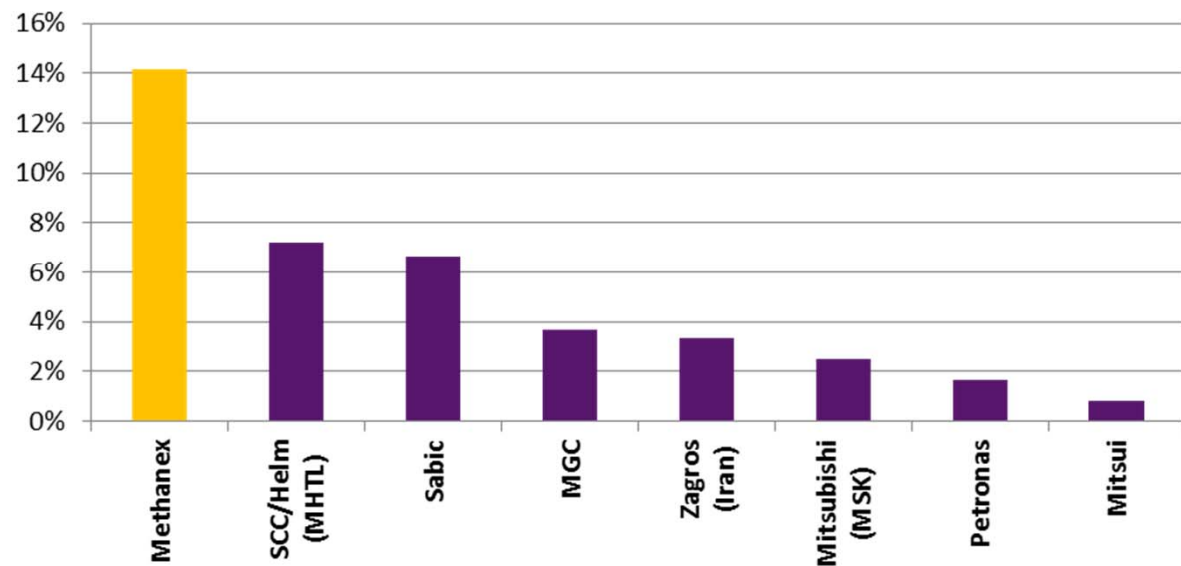
## Strong Liquidity Position

- Strong balance sheet
- Limited near-term commitments for cash
- Undrawn \$300 million credit facility

# Industry Overview

- ~62 million tonnes annual global demand<sup>1</sup>
- Top producers account for ~ half of global sales
- Next largest competitors are not materially expanding their methanol investments in the near term
- Methanex is the global leader
  - ~14% market share<sup>2</sup>
  - Unique global position with sales in all major regions

## 2015 Estimated Global Market Share



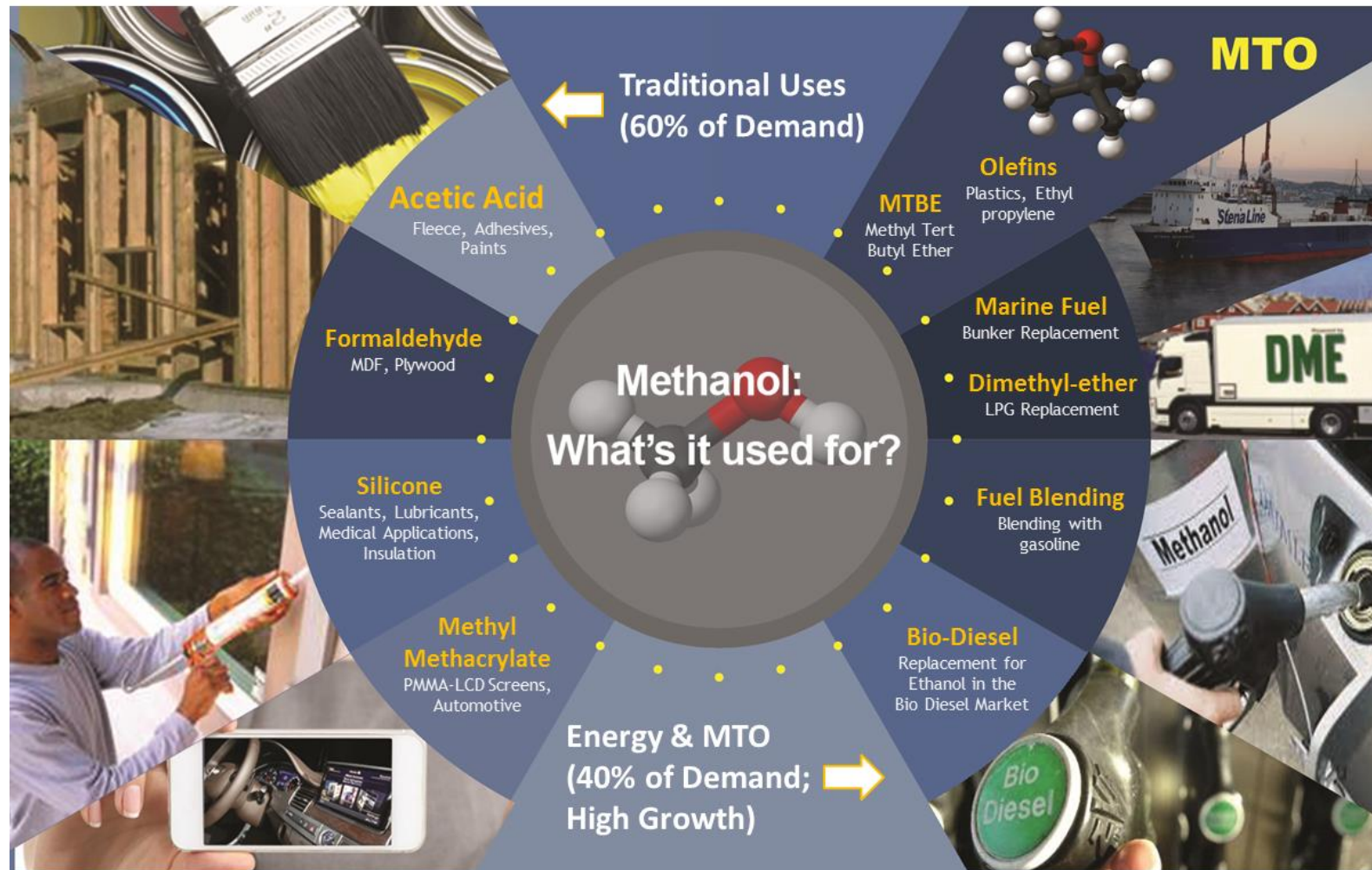
Source: Methanex

<sup>1</sup> Estimated annualized demand as at Q1, 2016 (excluding integrated methanol to olefins (MTO) demand). Source: Methanex

<sup>2</sup> Global market share is Methanex's share of total methanol sales excluding methanol consumed by integrated MTO producers. Source: Methanex

# Industry Overview

## Methanol End Uses

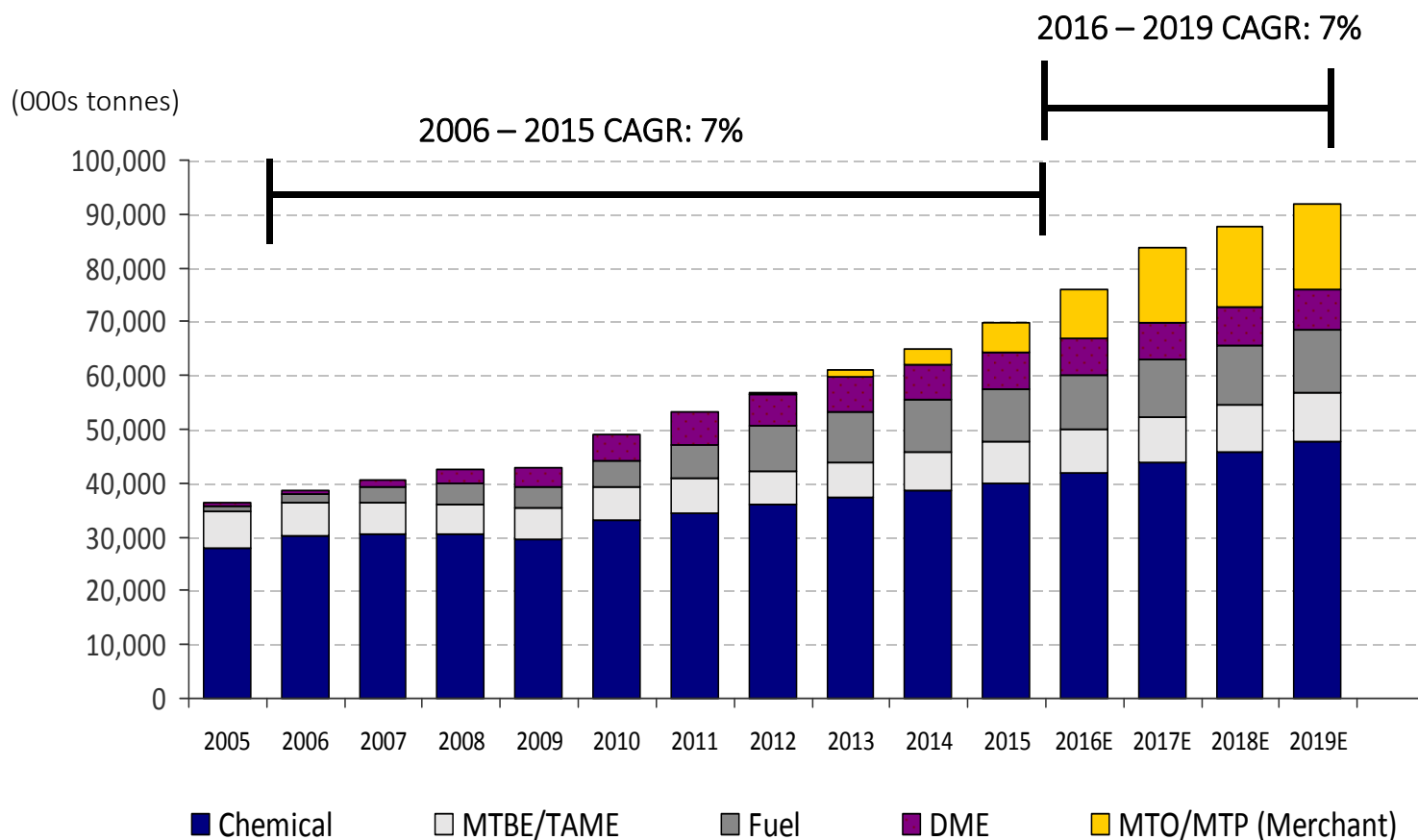


# Industry Overview

## Strong Demand Growth



- Projected 7% CAGR (20 million tonnes over four years), led by MTO

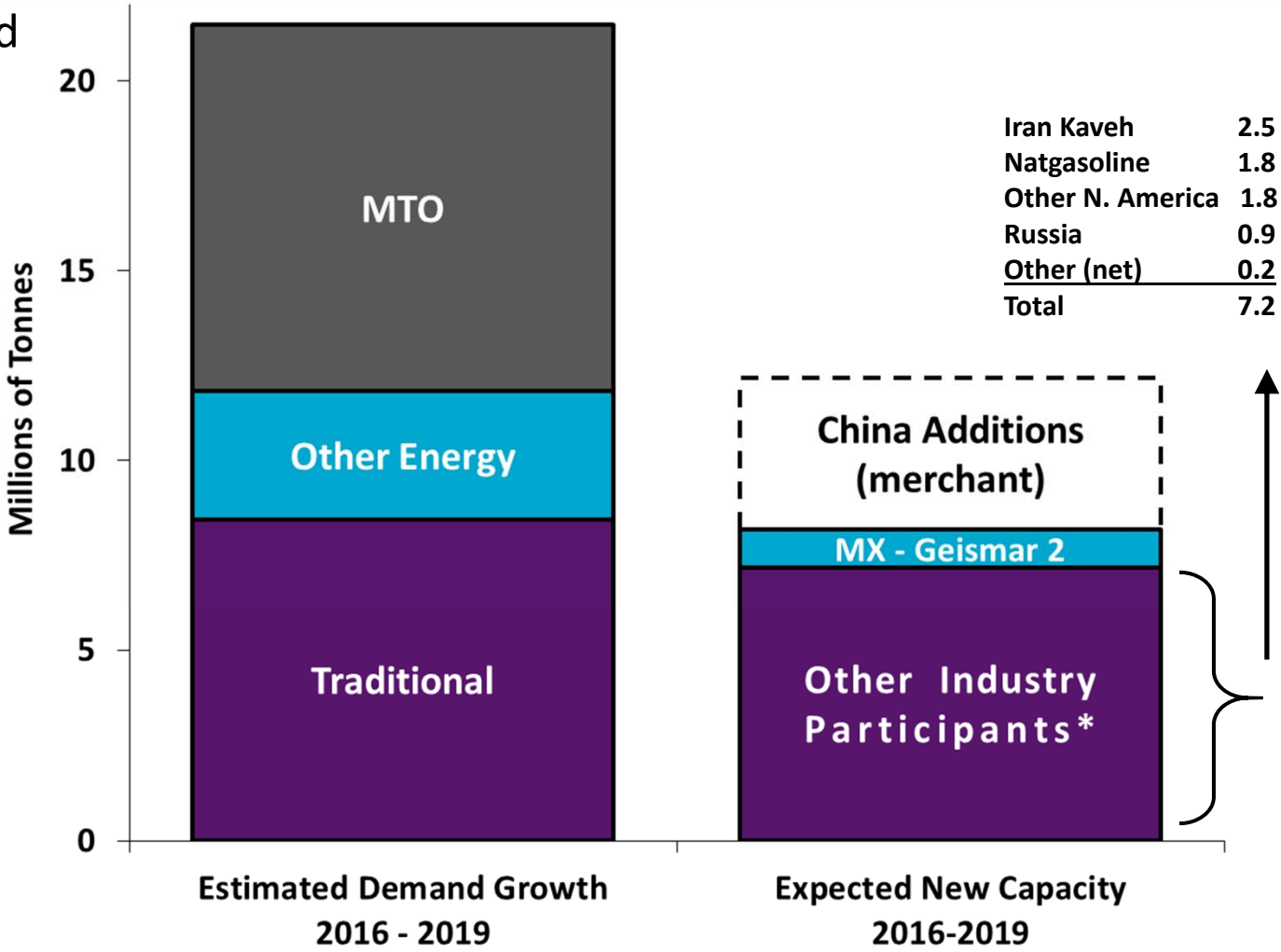


Source: IHS Chemical, Chemical Supply and Demand Balance 2016. Excludes integrated methanol demand for methanol to olefins and propylene.

# Industry Overview

## Demand / Supply Balance

- Demand expected to outpace new supply
- Expect MTO operating rates will depend on methanol affordability
- Supply gap expected to be closed through higher operating rates for existing higher cost China plants, or lower demand



Sources: Demand - IHS Chemical, "Chemical Supply and Demand Balance Update 2016". Excludes demand from upstream integrated coal-to-olefins plants.  
 Capacity - Methanex. "Other" is net of expected shut-ins outside China of approximately 0.6 million tonnes.



# Industry Review

## Reinvestment Economics



### Estimated Nominal IRR at Alternative Methanol and Gas Prices

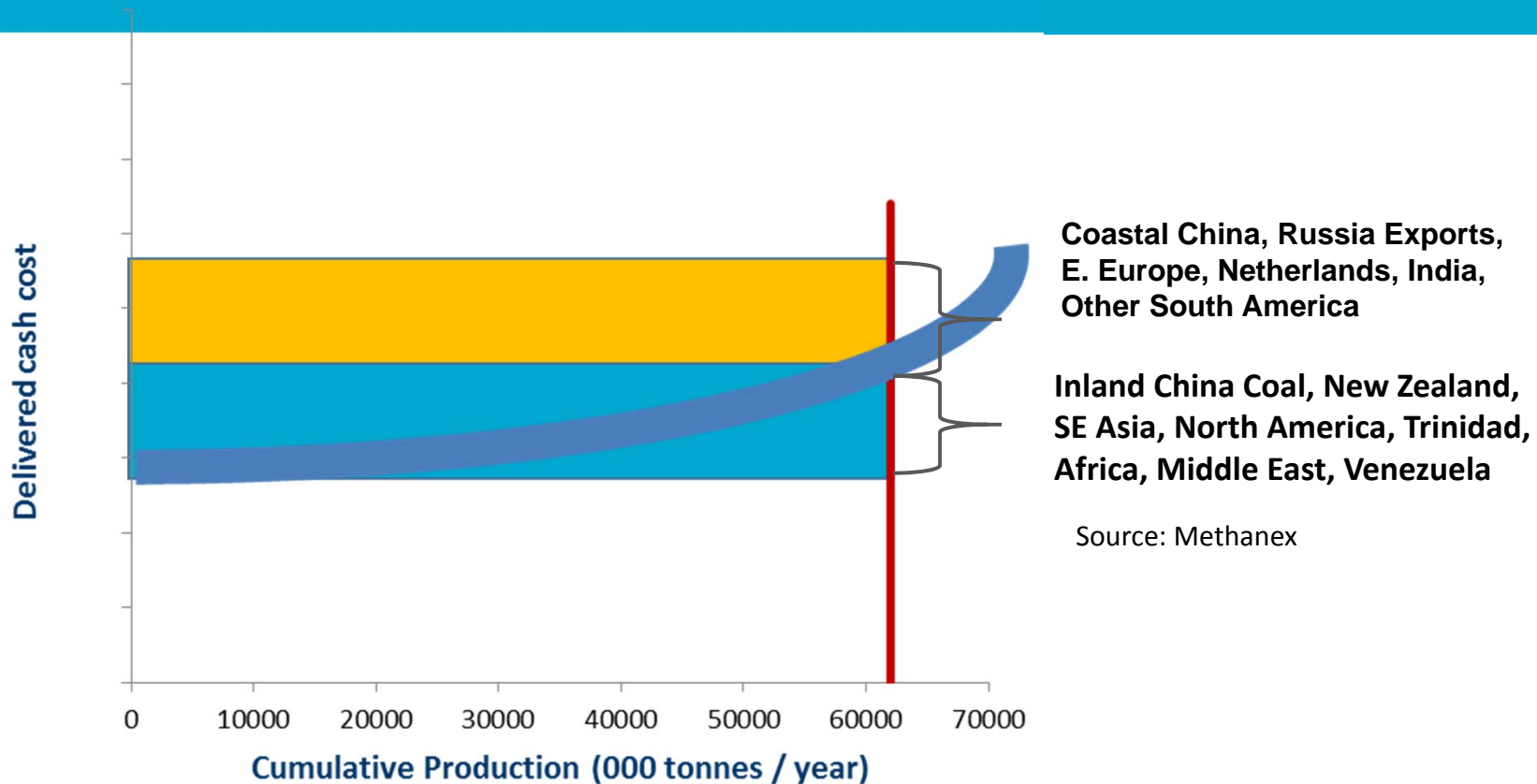
Natural gas \$/mmbtu	Realized Methanol Price - \$/tonne			
	300	350	400	450
5.0		2%	8%	12%
4.0	0%	6%	11%	14%
3.0	5%	9%	13%	15%
2.0	8%	12%	14%	17%

Key Assumptions: Replacement cost of \$1,100/tonne based on published estimates for the OCI 1.75 million MT Natgasoline project and G2X Lake Charles 1.4 million MT plant. Maintenance capital \$10 million/yr, freight \$80/tonne (US to Asia), 30% tax rate, 2% inflation

Source: Methanex

- Today new North America supply additions are challenged by:
  - Methanol price outlook vs return requirements
  - Capital cost pressure and uncertainty
  - Increased economic risk on key variables (capital, gas)
- Several projects under discussion, but limited committed capital

# Methanol Industry Cost Curve



Source: Methanex

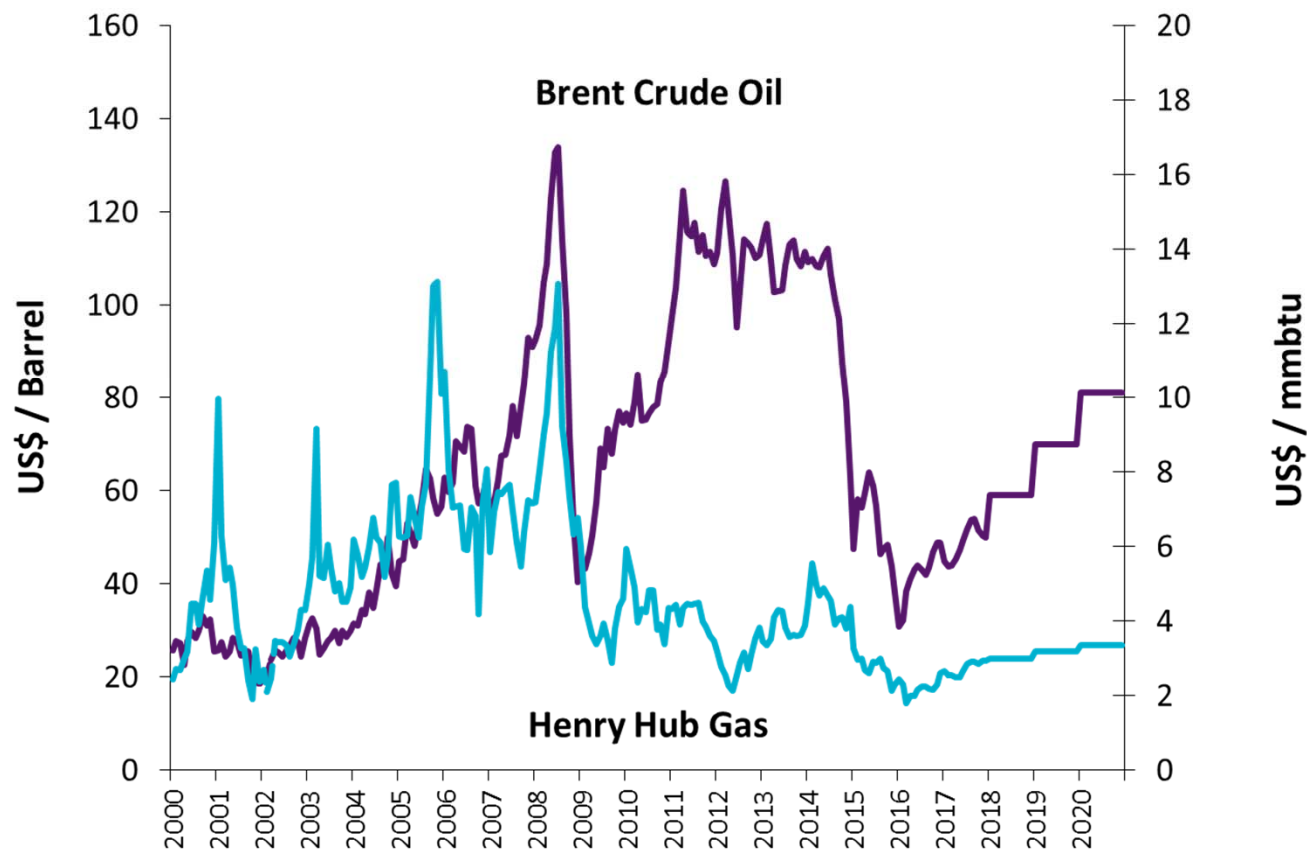
- Cost curve remains steep at the high end, but has flattened in the mid-range in the current lower energy price environment
- High-end set today primarily by China coal based production, some natural gas

# Energy Applications

## Methanol value proposition

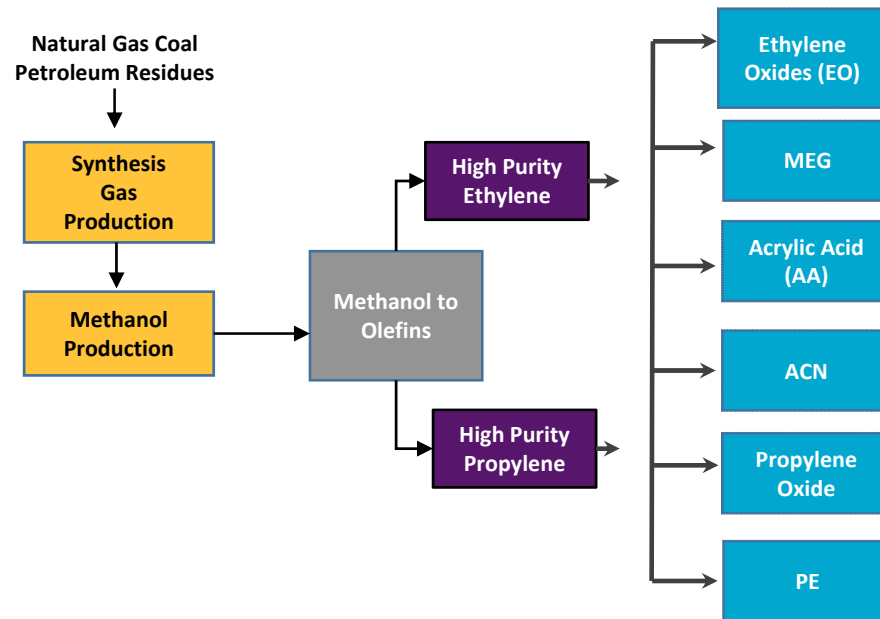


- Methanol is primarily made from natural gas, and is a liquid fuel and oil product alternative
- High priced oil versus natural gas creates substitution incentive
- Energy applications emerged post 2008 when the ratio of oil \$/bbl and natural gas \$/mmbtu prices exceeded 15:1



Source: Historical annual data and forecast from IHS Chemical, May, 2016

# Methanol-to-Olefins (MTO) / Methanol-to-Propylene (MTP)



*Ningbo Skyford's 1.8 MMT merchant methanol to 0.6 MMT olefins plant*

- MTO an alternative process to Naptha cracking for olefins production (plastics)
- Two main pathways
  - Upstream Integrated (CTO) – olefins produced directly from coal, methanol an intermediate step
  - Merchant (MTO/MTP) – methanol purchased from external suppliers
- China merchant MTO capacity is well established and still growing strongly

# MTO Demand Leading Growth



Estimated Start-up	Number of Plants	Methanol Demand Capacity* (million MT)
Completed	13	12.6
2016	4	6.6
<b>Total</b>	<b>17</b>	<b>19.2</b>



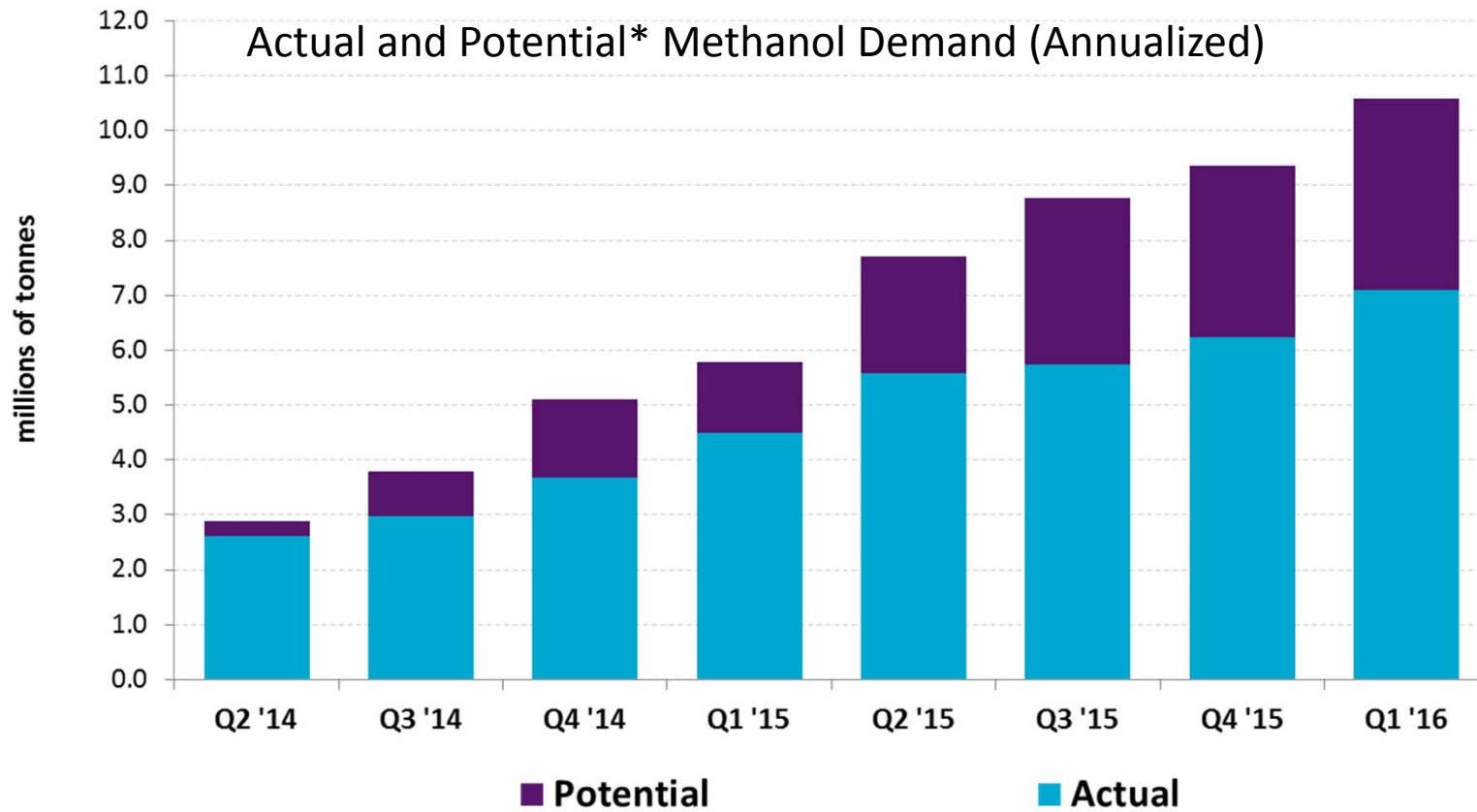
*Nanjing Wison’s 0.8 MMT merchant methanol to 0.3 MMT olefins plant*

*\*Capacity at 100% operating rates*

- 13 merchant plants today, potential methanol demand over 12 million MT
- 4 more plants under construction expected to start up in 2016, incremental demand potential over 6.5 million MT
- 2015 combined MTO/MTP operating rate approximately 60%, or 70% excl. MTP

Source: Methanex

# Sustaining Methanol Demand Growth into MTO

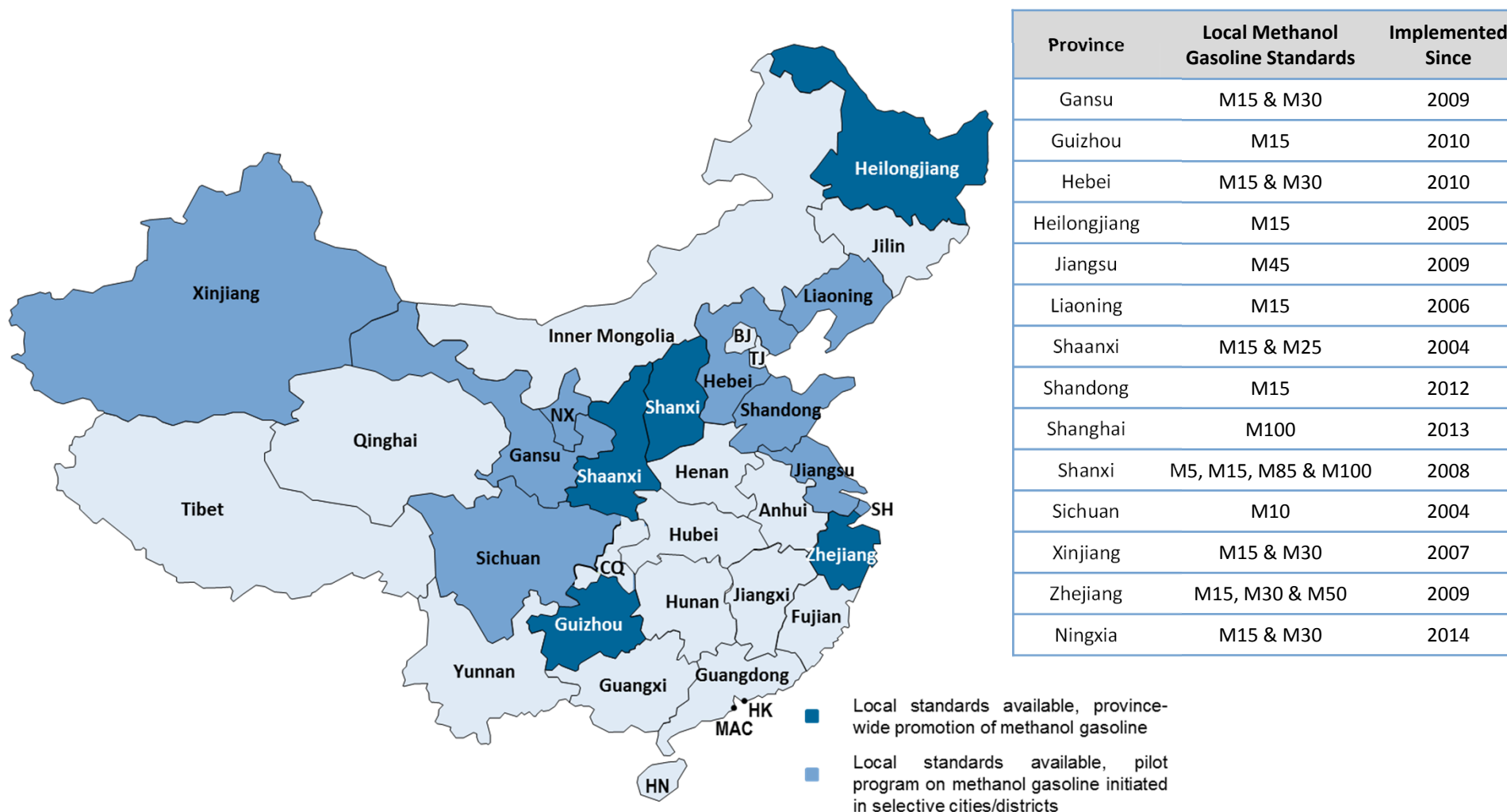


- MTO leading methanol demand growth with upside potential based on installed capacity
- Methanol demand from MTO is poised to grow upon olefin price recovery

\* Potential demand based on assumption of a 90% operating rate for MTO and 70% for MTP

# Energy Applications

## China Fuel Demand Growth Expected to Continue



# Emerging Markets



## Marine Fuel Industry Transitioning to Cleaner Fuels

- 100,000+ commercial vessels in the world today operating on Heavy Fuel Oil (HFO)\*, which is high in sulphur. Methanol is sulphur free.
- N. Europe and N. America reduced allowable limited sulphur emissions to 0.1% starting January 2015 which precludes HFO.
- IMO targeting all marine fuels to be less than 0.5% sulphur globally by 2020.
- 40 MMTPA methanol equivalent market in Northern Europe Sulphur Emissions Control Area alone.



- Existing Emissions Control Area
- Potential future Emissions Control Area

Source: FCBI Energy Report on 'Methanol as a Marine Fuel'  
See <http://www.methanol.org/Marine.aspx>



# Positive Marine Fuel Developments

- Waterfront Shipping launching seven new 50,000 dwt vessels with methanol dual-fuel MAN 2-stroke engines
- First three vessels delivered in April '16, next four to be delivered over next few months

 Mitsui O.S.K. Lines

 MARINVEST



One of Waterfront's first methanol powered vessels

- Stena Line converted Germanica ferry to run on methanol in 2015
- Germanica is using Wartsila – 4 stroke engines



Stena Line's first methanol powered ferry

# Methanex Production Capacity

	<u>Year Built</u>	<u>Annual Production Capacity</u> (000 tonnes)
Chile I, IV	1988 / 2005	1,720
Louisiana, USA		
Geismar 1	2015	1,000
Geismar 2	2015	1,000
Egypt (50%)	2011	630
Medicine Hat, Alberta	1981	600
New Zealand		
Motunui 1 <sup>1</sup>	1985	950
Motunui 2 <sup>1</sup>	1985	950
Waitara Valley	1983	530
Trinidad		
Titan	2000	875
Atlas (63%)	2004	1,125
<b>TOTAL</b>		<b>9,380</b>



Chile



USA (Geismar)\*



New Zealand



Trinidad



Canada (Medicine Hat)



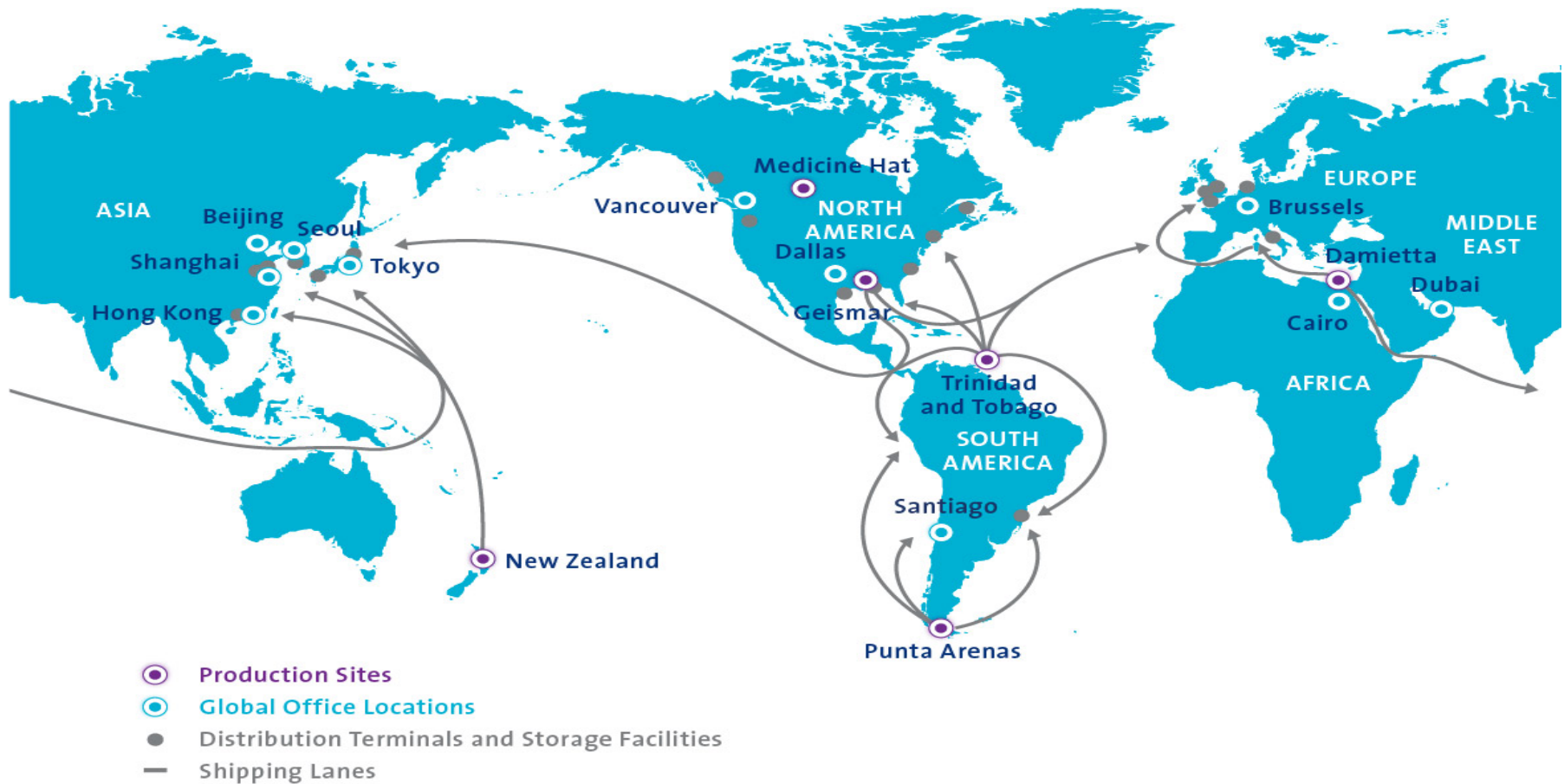
Egypt

<sup>1</sup> Potential total capacity for Motunui plants is 1.7 to 1.9 million tonnes depending on natural gas composition

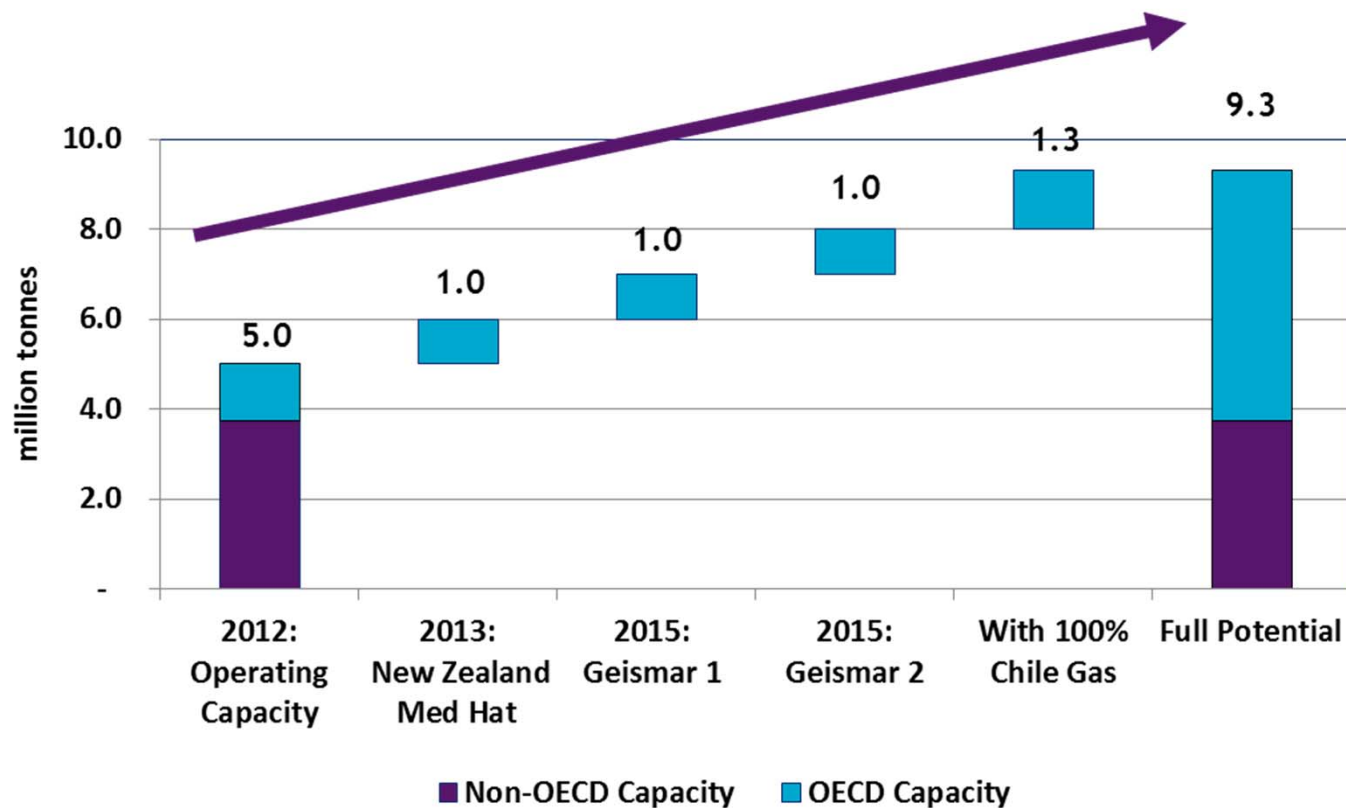
\* Photo courtesy of Aerophoto

# Methanex

## Global Supply Chain



# Methanex Operating Capacity Growth 2012-2015



- Methanex added three million tonnes of operating capacity over three years
- New growth concentrated in OECD countries, reducing risk profile of asset portfolio
- Future potential from Chile with additional gas and modest capital investment

# Growth

## Geismar Project Complete



- Both Geismar 1 and Gesimar 2 producing 3,000 tonnes /day
- Final spend on Geismar project \$18 million below budget of \$1,400 million
- Committed gas feedstock & transport
- Capital and schedule savings versus greenfield projects
- Potential to optimize site with third plant using oxygen technology



Completed Geismar 2 plant in operation\*



Geismar 1 and 2 twin plants and storage terminal\*

\* Photos courtesy of Aerophoto

# Growth

## Chile – Potential Sources of Upside

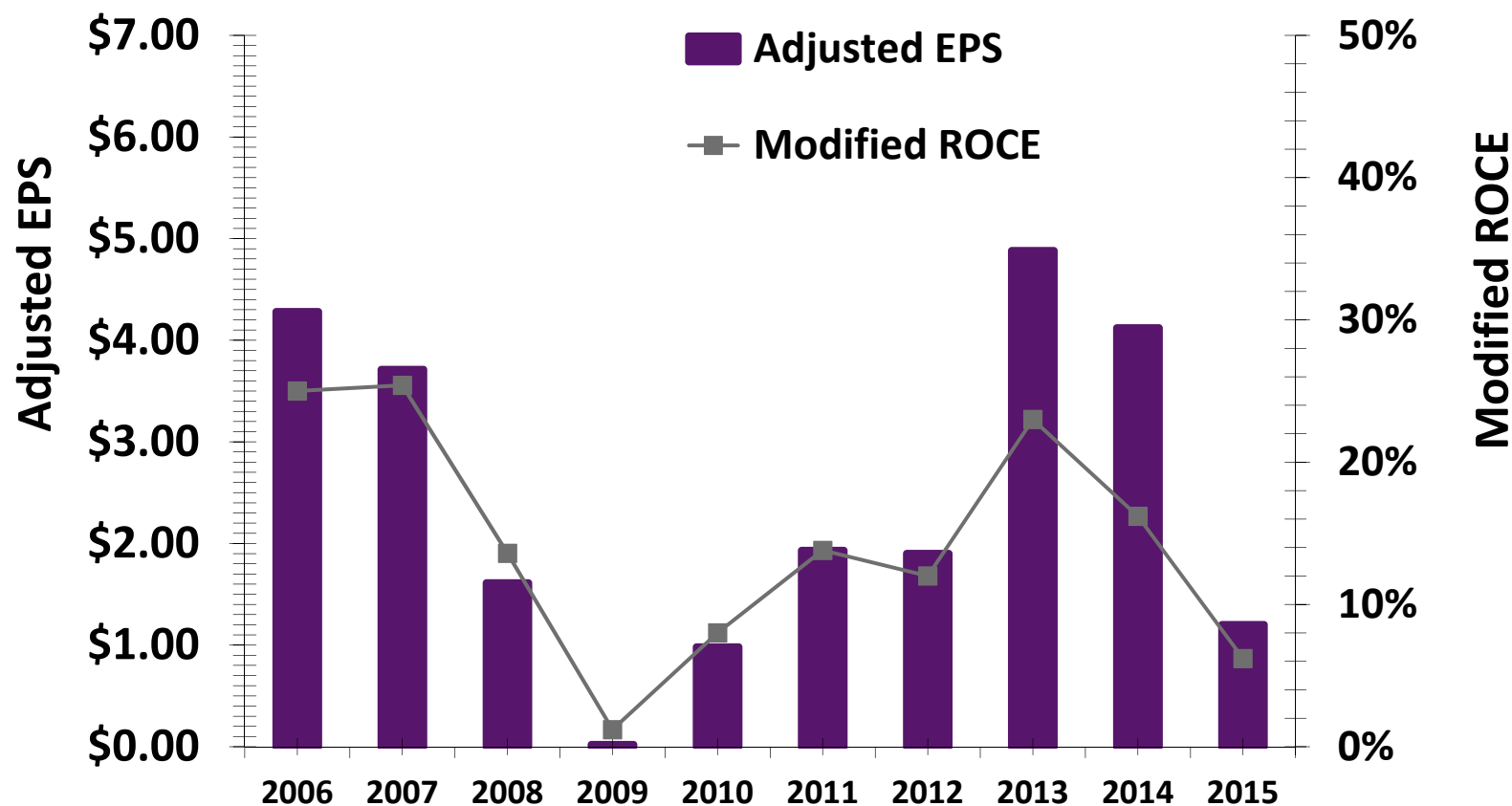


- Goal of two-plant operation in Chile, supported by
  - Chile gas:
    - Ongoing unconventional gas exploration and development in Chile
    - US Geological survey estimates of regional gas resources increased to 8.3 TCF
    - ENAP making good progress reducing production cost
  - Argentina gas
    - Argentina shale gas (EIA estimates over 500 tcf in the country)
    - November '15 election of business friendly Mauricio Macri, a strong supporter of upstream
- Legal disputes related to gas contracts
  - Arbitration underway with one supplier for non-delivery of Argentine gas
  - Reached settlement in May 2014 with Total Austral for \$42 million to settle all claims as well as to terminate the gas supply agreement

# Financial Results



- Average Modified ROCE of 14% from 2006-2015



1) Adjusted EPS = Adjusted net income per common share attributable to Methanex shareholders (excludes the after-tax mark-to-market impact of share-based compensation the impact of certain items associated with specific identified events)

2) Modified ROCE = Adjusted net income before finance costs (after-tax) divided by average productive capital employed. Average productive capital employed is the sum of average total assets (excluding plants under construction) less the average of current non-interest-bearing liabilities.

3) Adjusted net income, Adjusted EPS and Modified ROCE are non-GAAP measures - for more information regarding this non-GAAP measure, please see our 2015 annual MD&A

# Valuation Considerations



- Methanex is trading at a significant discount to replacement cost

<i>millions of tonnes</i> <sup>1</sup>	Operating Capacity
USA (Geismar)	2.0
Canada (Medicine Hat)	0.6
New Zealand	2.4
Trinidad	2.0
Chile	0.4
Egypt	0.6
<b>Total Capacity</b>	<b>8.0</b>
<b>Enterprise Value (\$billions)</b> <sup>2</sup>	<b>4.2</b>
<b>Enterprise Value/Tonne</b> <sup>3</sup>	<b>530</b>

Some perspective on current enterprise value...			
<i>"What if Geismar and Medicine Hat were valued at estimated replacement cost<sup>4</sup> of \$1,100/tonne?"</i>			
	<b>Capacity</b>	<b>Enterprise Value</b>	
	millions of tonnes	\$billions	\$/tonne
North America Assets	2.6	\$2.9	\$1,100
<b>Other Jurisdictions</b>	<b>5.4</b>	<b>\$1.4</b>	<b>\$260</b>
<b>Total Enterprise Value:</b>	<b>8.0</b>	<b>\$4.2</b>	<b>\$530</b>
<i>"Implies the market is paying no more than \$260 per tonne for the remaining 5.4 million tonnes of operating capacity"</i>			

<sup>1</sup> Methanex ownership interest

<sup>2</sup> Based on share price of US\$35 and net debt adjusted for 50% interest in Egypt Project and 63.1% interest in Atlas project

<sup>3</sup> Figures do not give any value for: idle Chile capacity, Waterfront Shipping and Marketing/Franchise

<sup>4</sup> Replacement cost of \$1,100 based on recently published estimates from the OCI Natgasoline project (1.8 million MT plant) and G2X Lake Charles (1.4 million MT plant)



# Valuation Considerations



- Strong cash generation capability at a range of methanol prices

	With Egypt & Trinidad Restrictions <sup>2</sup>	Full Operating Capacity <sup>3</sup>	Full Potential (Chile 100%)
<b>Annual Operating Capacity</b> <sup>1</sup> <i>(millions of tonnes)</i>	7.4	8.0	9.3
<b>Avg Realized Price (\$/MT)</b>	<b>Adjusted EBITDA Capability (\$ billions)<sup>4</sup></b>		
\$300	0.6	0.7	0.7
\$350	0.8	0.9	1.0
\$400	1.0	1.1	1.3
	<b>Free Cash Flow Capability (\$ billions)<sup>5</sup></b>		
\$300	0.3	0.4	0.4
\$350	0.5	0.6	0.7
\$400	0.7	0.8	0.9
	<b>Free Cash Flow Yield Capability %<sup>6</sup></b>		
\$300	9%	12%	13%
\$350	16%	20%	22%
\$400	22%	26%	29%

<sup>1</sup> Methanex ownership interest (63.1% Atlas, 50% Egypt)

<sup>2</sup> Assumed operating rate 100% except Trinidad (85%), Egypt (50%), and Chile (40% of one plant). We cannot predict actual gas restrictions at these plants.

<sup>3</sup> Includes full nameplate capacity except Chile (40% of one plant).

<sup>4</sup> Adjusted EBITDA reflects Methanex's proportionate ownership interest and assumes plants operate at full production rates except where indicated

<sup>5</sup> After cash interest, maintenance capital of approximately \$80 million, cash taxes, debt service and other cash payments

<sup>6</sup> Based on 90 million weighted average diluted shares for Q1, 2016 and share price of US\$35/share

# EBITDA and Cash Flow Capability Sensitivities

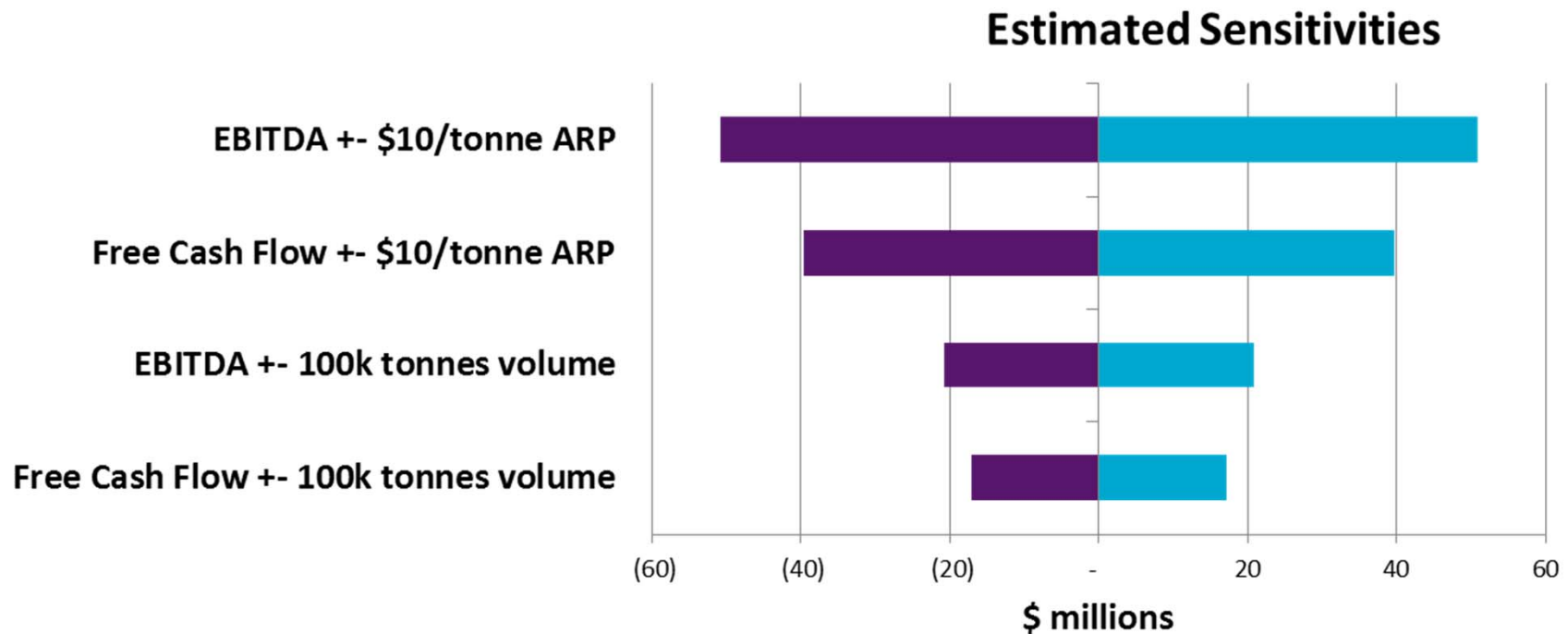


## Assumptions:

- Price: \$350/tonne ARP
- Volume: 8.0 million tonnes

## Capability:

- EBITDA: \$0.9 Billion
- Free Cash Flow: \$600 million



# Liquidity & Capex Outlook



- Strong financial and liquidity position

<b>Debt &amp; Liquidity at March 31, 2016<sup>1</sup></b>	
<i>(US\$ millions)</i>	
Liquidity	
Cash (MX Share)	<b>256</b>
Undrawn Operator (Dec '19)	<b>300</b>
	<b>556</b>
Remaining 2016 Capital Expenditures	<b>30</b>
Net Liquidity	<b>526</b>
Total Debt	<b>1,355</b>
Total Debt / Capitalization	<b>45%</b>
Net Debt / Capitalization	<b>40%</b>
Net Debt / Enterprise Value <sup>2</sup>	<b>33%</b>

<sup>1</sup> Includes Methanex share of debt and cash for joint ventures

<sup>2</sup> Based on stock price of US\$35/share

# Capital Allocation

## Balanced Approach



### Essential

Debt Service

- \$85 million annual interest expense
- \$20 million principal (share of Egypt)
- Next \$350 MM bond matures end 2019
- \$80 million annual maintenance capex

Maintenance

### Priority

Meaningful,  
Sustainable,  
Growing  
Dividend

- Dividend \$1.10/share annually
- Approx. \$100 million per annum
- Yield ~3.0% at US\$35 share price
- “Meaningful” range of 1.5%-2.5%

### Discretionary

Share  
Buybacks

- Excess cash expected to be limited at current methanol pricing
- Investment in value accretive projects with strict return targets

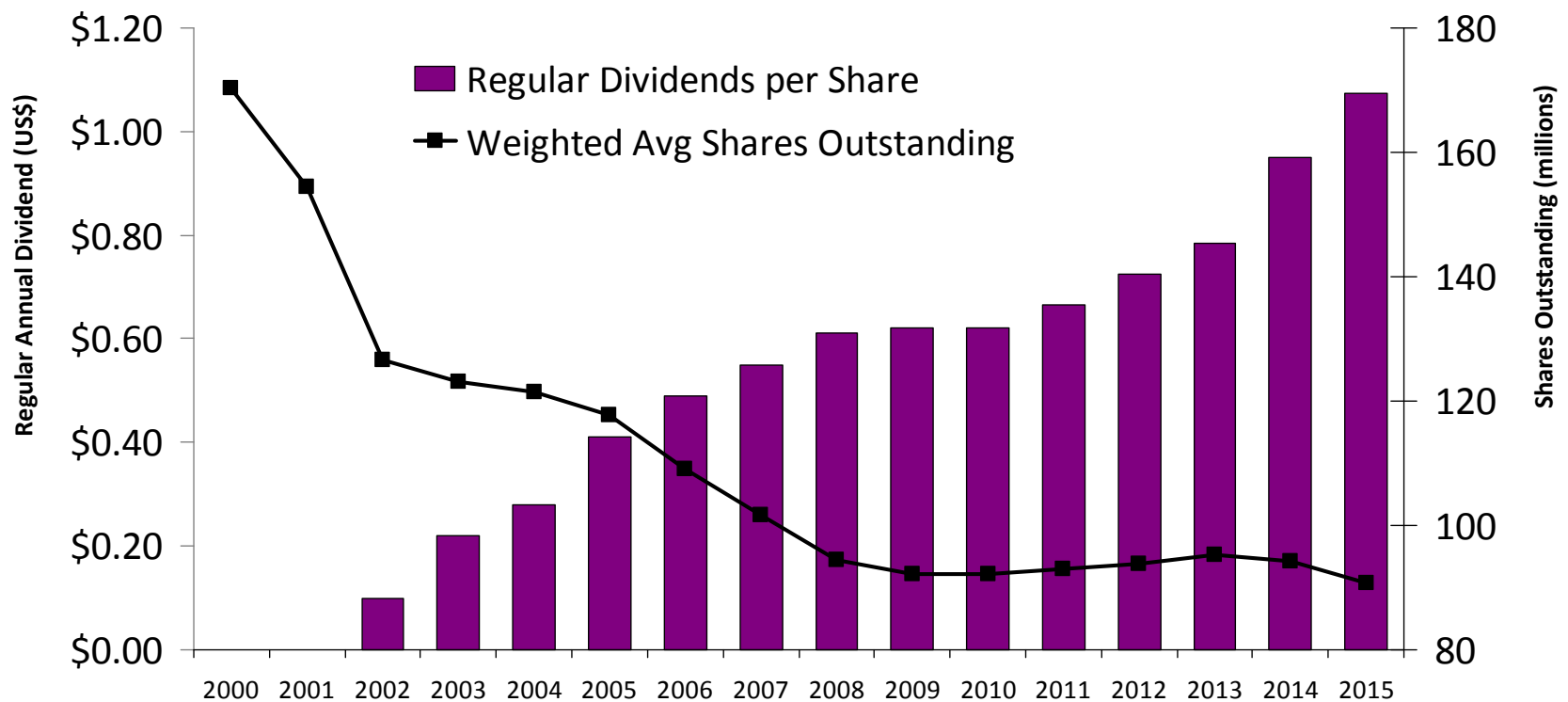
Growth Capital

# Capital Allocation

## Returning Cash to Shareholders



- Dividend of \$0.275/share per quarter (current yield ~3.0%<sup>1</sup>)
- ~47% of shares bought back since 2000



<sup>1</sup> Assumes a share price of US\$35/share

## Summary

- Well positioned to navigate current environment
- Strong leverage to increase in methanol pricing
- Global leader with competitive assets
- Solid franchise value that is difficult to replicate
  - Global marketing, supply chain and shipping network
- Strong cash generation capability & financial position
  - Attractively valued with considerable upside potential
- Track record of delivering value creating growth projects
- Company growth potential
- Distributions / share buybacks



**Well-Positioned for Increased Returns to Shareholders**

# Forward-looking Statements



## FORWARD-LOOKING INFORMATION WARNING

This Presentation, our First Quarter 2016 Management's Discussion and Analysis ("MD&A") and comments made during the First Quarter 2016 investor conference call contain forward-looking statements with respect to us and our industry. These statements relate to future events or our future performance. All statements other than statements of historical fact are forward-looking statements. Statements that include the words "believes," "expects," "may," "will," "should," "potential," "estimates," "anticipates," "aim," "goal" or other comparable terminology and similar statements of a future or forward-looking nature identify forward-looking statements. More particularly and without limitation, any statements regarding the following are forward-looking statements: expected demand for methanol and its derivatives; expected new methanol supply or restart of idled capacity and timing for start-up of the same; expected shutdowns (either temporary or permanent) or restarts of existing methanol supply (including our own facilities), including, without limitation, the timing and length of planned maintenance outages; expected methanol and energy prices; expected levels of methanol purchases from traders or other third parties; expected levels, timing and availability of economically priced natural gas supply to each of our plants; capital committed by third parties towards future natural gas exploration and development in the vicinity of our plants; our expected capital expenditures, anticipated operating rates of our plants, expected operating costs, including natural gas feedstock costs and logistics costs; expected tax rates or resolutions to tax disputes; expected cash flows, earnings capability and share price; availability of committed credit facilities and other financing; our ability to meet covenants or obtain or continue to obtain waivers associated with our long-term debt obligations, including, without limitation, the Egypt limited recourse debt facilities that have conditions associated with the payment of cash or other distributions and the finalization of certain land title registrations and related mortgages which require actions by Egyptian governmental entities; expected impact on our results of operations in Egypt or our financial condition as a consequence of civil unrest or actions taken or inaction by the Government of Egypt and its agencies; our shareholder distribution strategy and anticipated distributions to shareholders; commercial viability and timing of, or our ability to execute, future projects, plant restarts, capacity expansions, plant relocations, or other business initiatives or opportunities; our financial strength and ability to meet future financial commitments; expected global or regional economic activity (including industrial production levels); expected outcomes of litigation or other disputes, claims and assessments; and expected actions of governments, government agencies, gas suppliers, courts, tribunals or other third parties.

We believe that we have a reasonable basis for making such forward-looking statements. The forward-looking statements in this document are based on our experience, our perception of trends, current conditions and expected future developments as well as other factors. Certain material factors or assumptions were applied in drawing the conclusions or making the forecasts or projections that are included in these forward-looking statements, including, without limitation, future expectations and assumptions concerning the following: the supply of, demand for and price of methanol, methanol derivatives, natural gas, coal, oil and oil derivatives; our ability to procure natural gas feedstock on commercially acceptable terms; operating rates of our facilities; receipt or issuance of third-party consents or approvals, including, without limitation, governmental registrations of land title and related mortgages in Egypt and governmental approvals related to rights to purchase natural gas; the establishment of new fuel standards; operating costs, including natural gas feedstock and logistics costs, capital costs, tax rates, cash flows, foreign exchange rates and interest rates; the availability of committed credit facilities and other financing; global and regional economic activity (including industrial production levels); absence of a material negative impact from major natural disasters; absence of a material negative impact from changes in laws or regulations; absence of a material negative impact from political instability in the countries in which we operate; and enforcement of contractual arrangements and ability to perform contractual obligations by customers, natural gas and other suppliers and other third parties.

However, forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. The risks and uncertainties primarily include those attendant with producing and marketing methanol and successfully carrying out major capital expenditure projects in various jurisdictions, including, without limitation: conditions in the methanol and other industries including fluctuations in the supply, demand and price for methanol and its derivatives, including demand for methanol for energy uses, the price of natural gas, coal, oil and oil derivatives; our ability to obtain natural gas feedstock on commercially acceptable terms to underpin current operations and future production growth opportunities; the ability to carry out corporate initiatives and strategies; actions of competitors, suppliers and financial institutions; conditions within the natural gas delivery systems that may prevent delivery of our natural gas supply requirements; competing demand for natural gas, especially with respect to domestic needs for gas and electricity in Chile and Egypt; actions of governments and governmental authorities, including, without limitation, the implementation of policies or other measures that could impact the supply of or demand for methanol or its derivatives; changes in laws or regulations, import or export restrictions, anti-dumping measures, increases in duties, taxes and government royalties, and other actions by governments that may adversely affect our operations or existing contractual arrangements; world-wide economic conditions; and other risks described in our annual 2015 Management's Discussion and Analysis and our First Quarter 2016 Management's Discussion and Analysis.

Having in mind these and other factors, investors and other readers are cautioned not to place undue reliance on forward-looking statements. They are not a substitute for the exercise of one's own due diligence and judgment. The outcomes implied by forward-looking statements may not occur and we do not undertake to update forward-looking statements except as required by applicable securities laws.

# Q & A

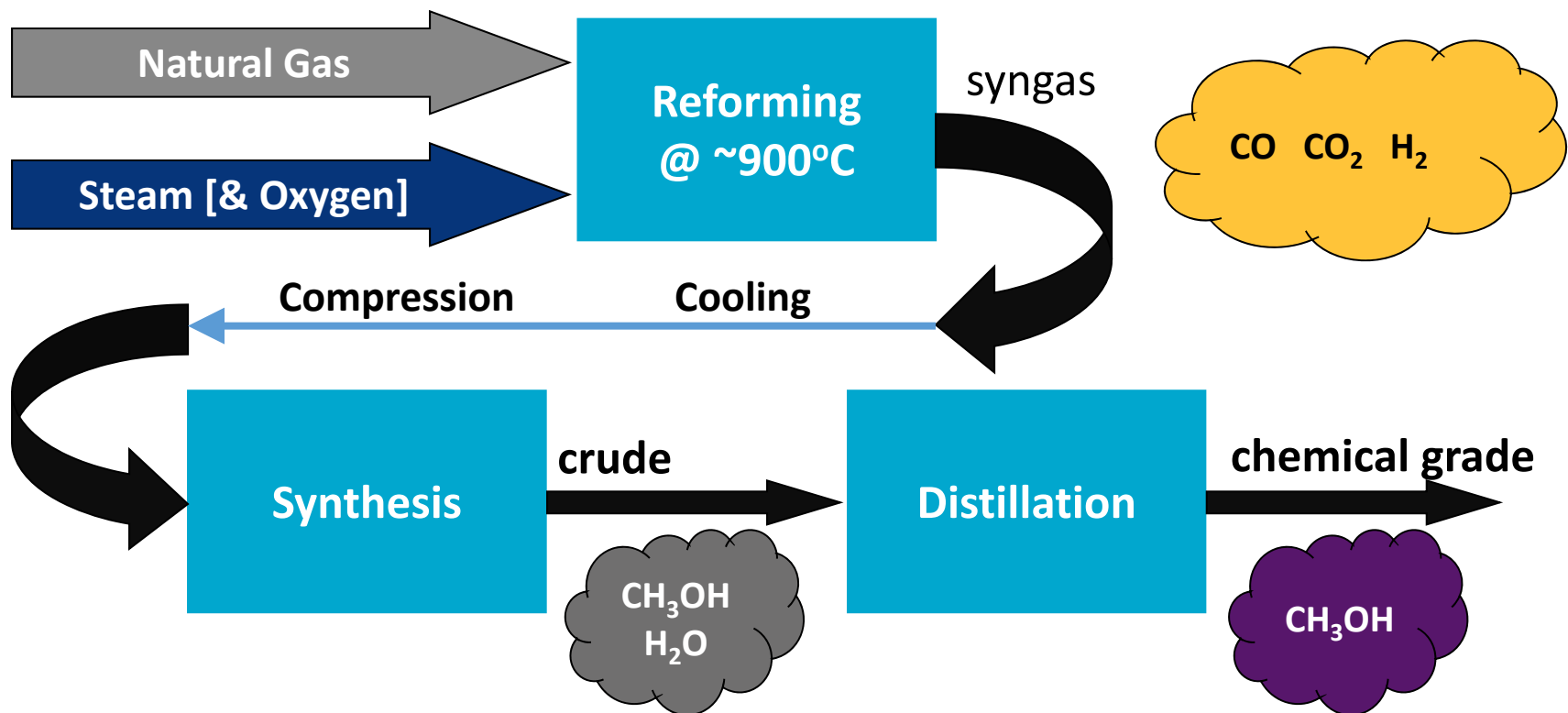


# Appendix

# Industry Review

## Methanol is...

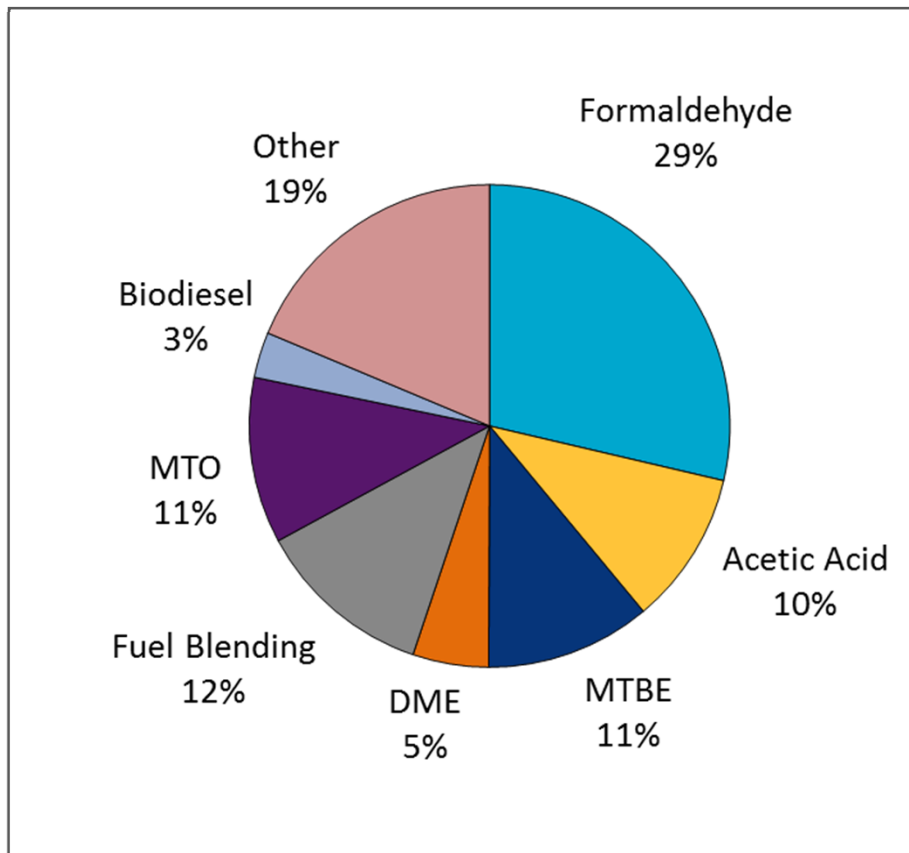
- Primarily produced from natural gas



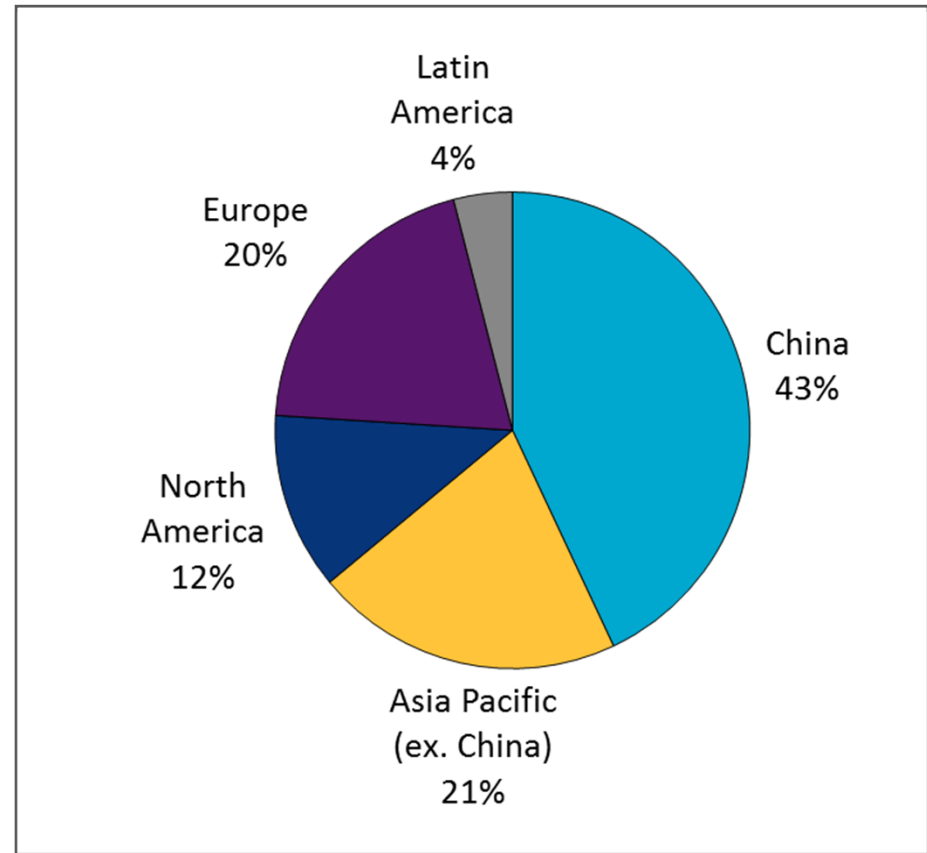
# Industry Review

## Methanol Usage...

...By Derivative



...By Region



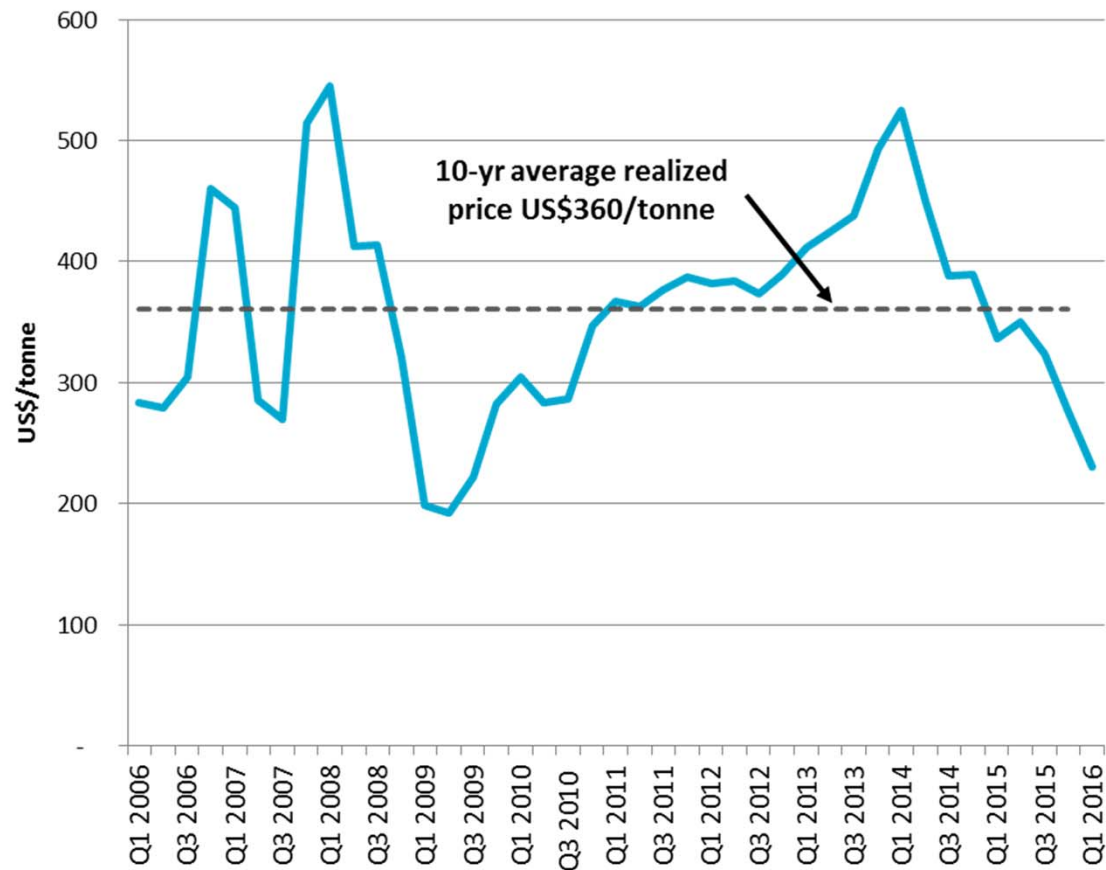
Source: Methanex – last twelve months ended March 31, 2016

# Industry Review

## Methanex Realized Pricing History



- Methanex posts reference prices monthly in Asia and North America and quarterly in Europe
- Realized pricing is lower than reference prices due to discounts specified in contracts



Source: Methanex, March 31, 2016

# Industry Review

## Methanol Consumers



- Concentrated consumer base
  - 30% of global demand from top 20 consumers
- Main consumers are large, global chemical companies:
  - Celanese, BP, Momentive, Skyford, Sabic, BASF, etc.
- Methanex supplies primarily traditional chemical derivative customers who value:
  - Security of supply
  - Global presence
  - Quality product

# Energy Applications

## Methanol as a Fuel



- Methanol has attractive features as a transportation fuel:
  - Liquid fuel – can be blended with gasoline and ethanol in today’s vehicles at minimal incremental costs.
  - High octane fuel which reduces emissions when blended with (or substituted for) gasoline.
  - A safe fuel which biodegrades quickly (compared to petroleum fuels) in case of a spill. The toxicity is similar to gasoline.
  - No material technical hurdles either in terms of vehicle application or of distribution infrastructure to introduce methanol significantly into a marketplace.
  - Can be produced from renewable feedstock.

For further information, see June 6, 2011 MIT study “The Future of Natural Gas” (section on Conversion to Liquid Fuels beginning page 125 of the report) at <http://mitei.mit.edu/publications/reports-studies>

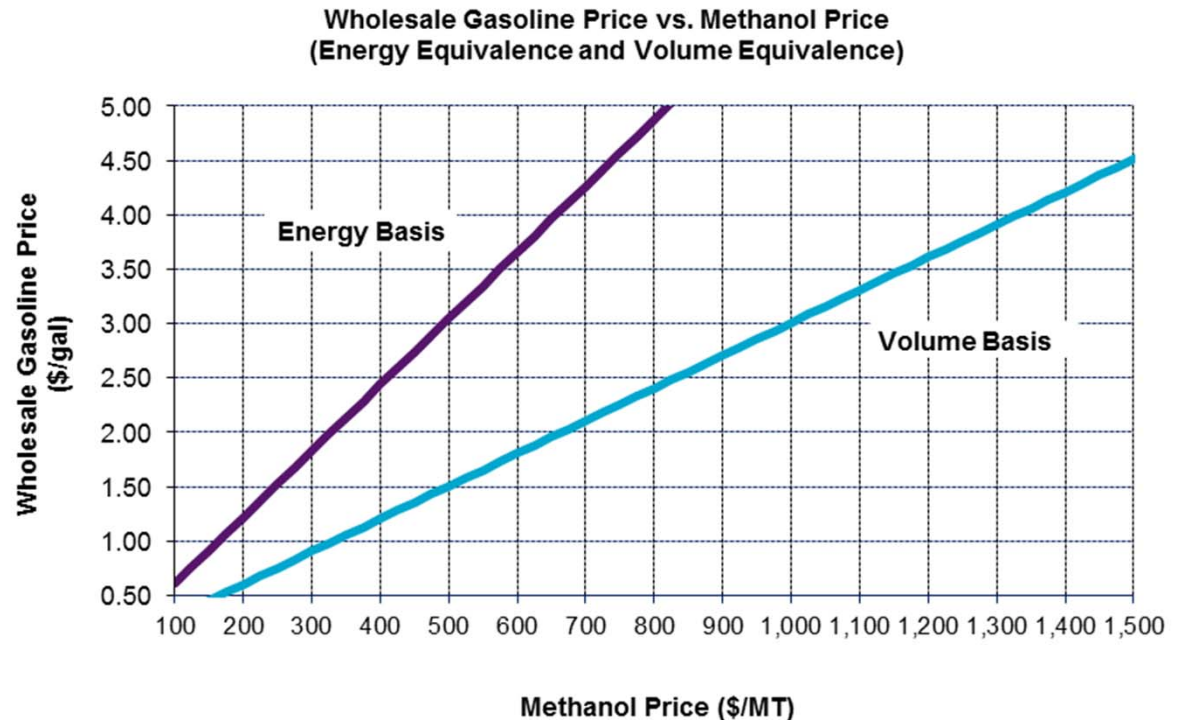


# Energy Applications

## Methanol Value Proposition as a Fuel



- Methanol is an affordable gasoline substitute in China, and can reduce overall emissions versus gasoline
- In dedicated methanol vehicles and at high blends (M85 and M100), methanol burns more efficiently than gasoline
- Most fuel blending in China is at low percentages and sold based on volume.



China (Nanjing) Wholesale Gasoline Price: **\$2.40/gallon April 30, 2016**  
 USGC Conventional Regular Gasoline Price: **\$1.40/gallon April 30, 2016**

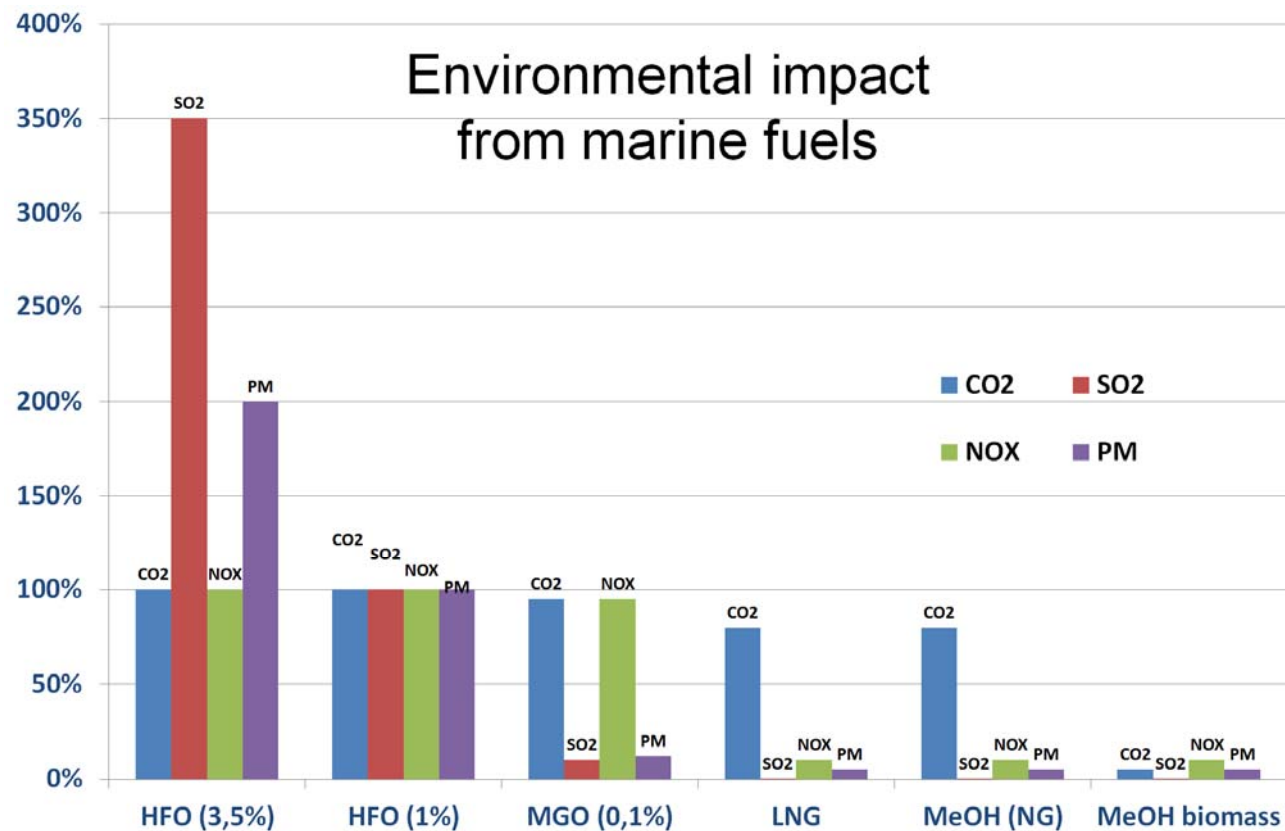
\* Net of 17% VAT. Sources: Oil and Gas China, US Department of Energy, Methanex

# Emerging Markets

## Methanol as a Marine Fuel



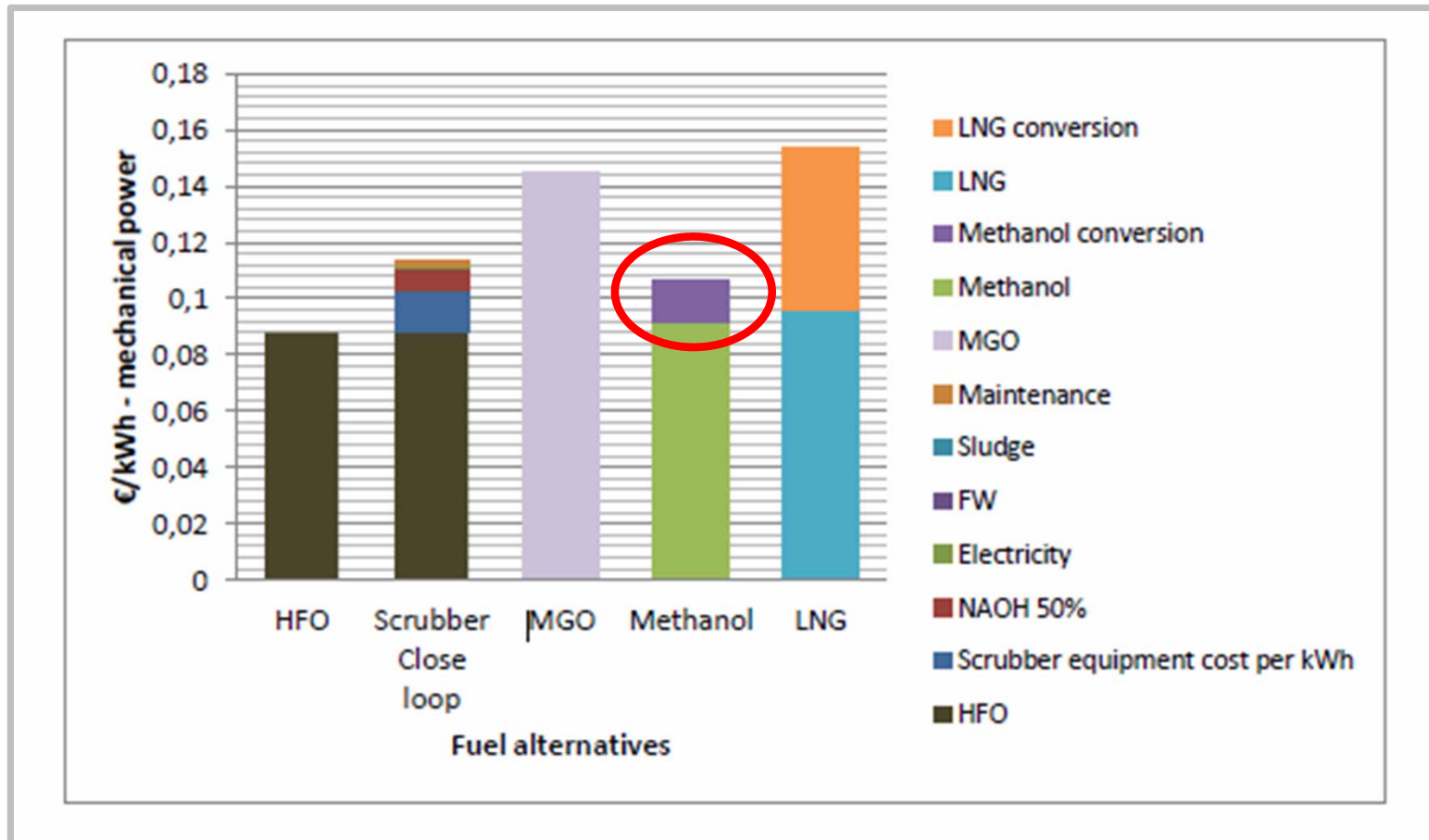
- Methanol (MEOH) achieves low emissions & bridge to lower CO<sub>2</sub> in the future (renewable/bio methanol)



Source: Stena (4-stroke engine testing)



# Methanol as a Marine Fuel Modest Fuel & Conversion Costs



Source: Effship Project Summary Report, 2013 (\* Costs do not include infrastructure development). Fuel cost based on market price 2012. Conversion based on 5 years pay-back and 6% interest

# Emerging Markets: Di-Methyl Ether (DME)

- DME can be blended directly with LPG (propane) up to approximately 20% for cooking and heating applications.
- Future promising application for DME is as a diesel replacement:
  - Oberon Fuels Produces DME in the U.S.
  - ASTM Standard issued, California approval, qualified under U.S. Renewable Fuel Standard.
  - Volvo developing DME trucks.
  - Ford and German government are leading project to test DME in passenger vehicles.



DME as propane substitute



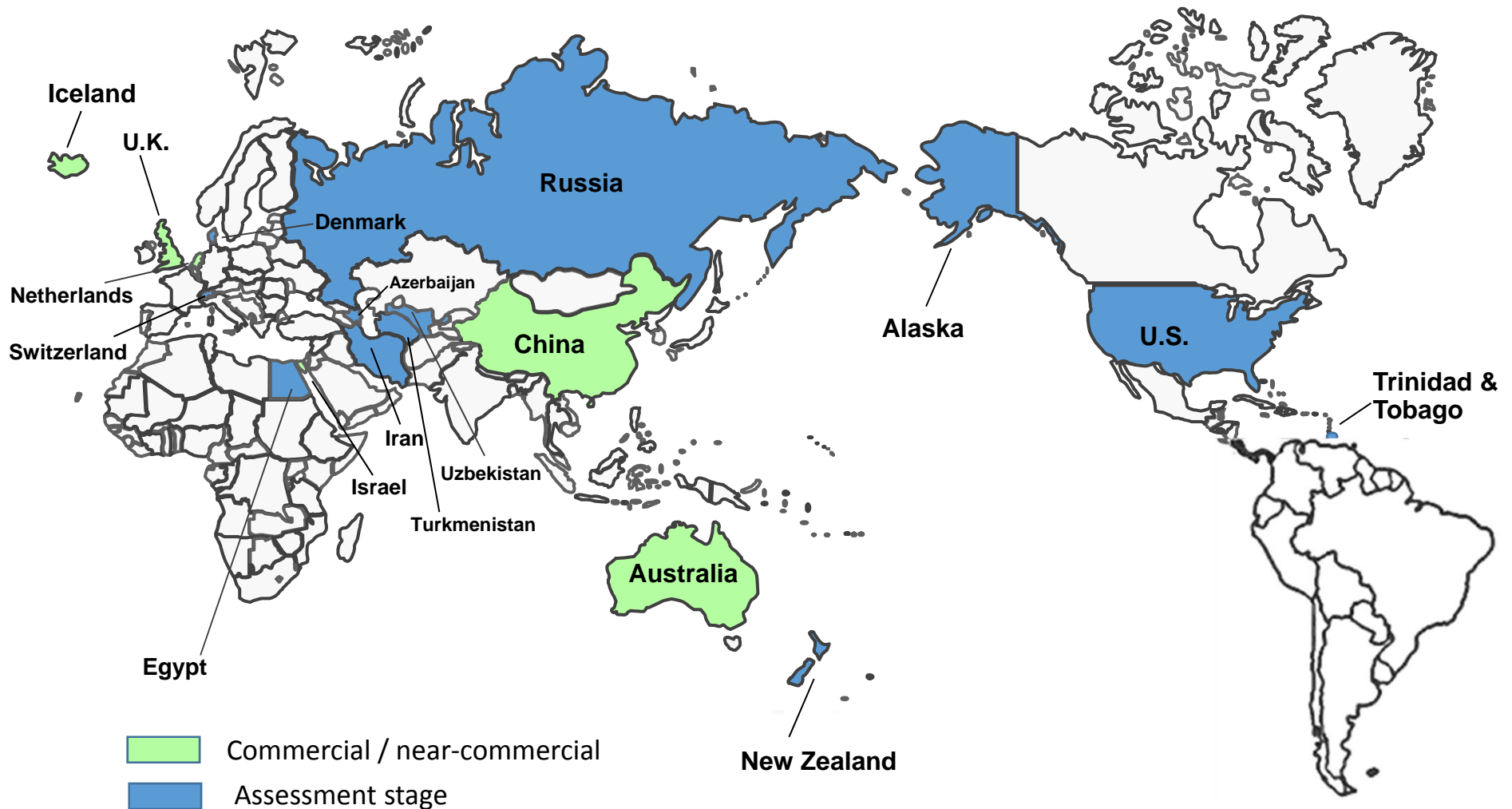
Volvo DME Truck

# Emerging Markets

## Methanol Fuel Blending Growing Outside China



- Several countries outside China in the assessment or near-commercial stage for fuel blending, however minimal demand is included in current forecasts from these regions



# Emerging Markets

## Methanol / DME as a Fuel Outside China



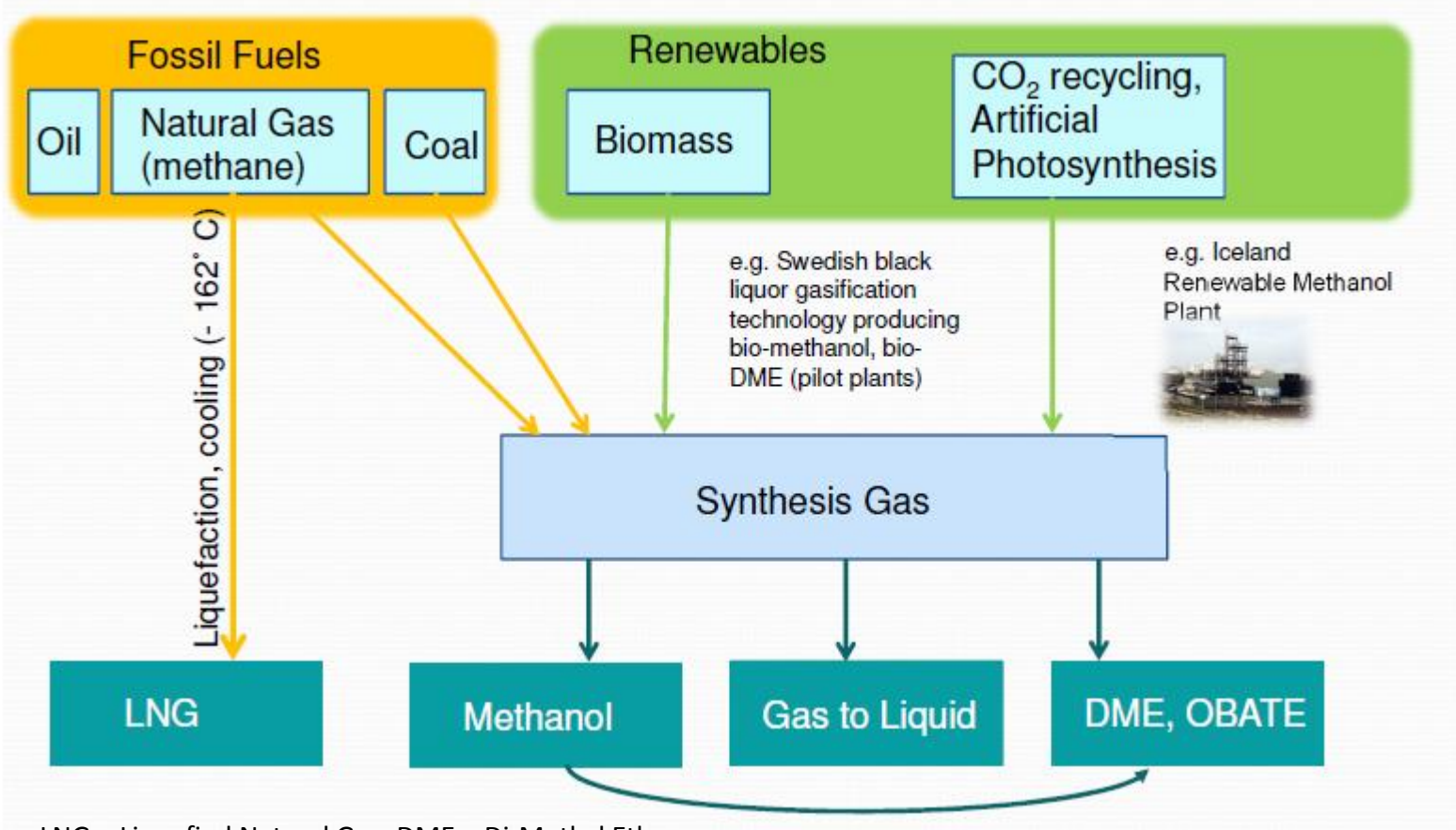
- Europe is blending methanol into fuel today (up to 3% blending permitted)
- Australia - Coogee demonstration project targeting limited launch of methanol blends in near term
- Israel - M15 demo program (market potential ~400kta), target commercial introduction in the next few years
- Other countries studying or demonstrating fuel blending: Azerbaijan, Denmark, Russia, Uzbekistan, Iran, Netherlands, Switzerland, Egypt, Turkmenistan, Trinidad & Tobago, New Zealand and Germany
- North America
  - Open Fuel Standard Bill recently re-introduced in Congress
  - Oberon Fuels producing DME



Methanol / gasoline pump at Coogee plant site

# Emerging Markets Renewable Methanol

- Methanol and DME is produced from fossil fuels and renewables



LNG = Liquefied Natural Gas; DME = Di-Methyl Ether;  
OBATE = On Board Alcohol to Ether (i.e. methanol converted to DME on board ships)

# Emerging Markets

## Carbon Recycling International



- World's greenest methanol – technology captures CO<sub>2</sub> from industrial emissions and converts it into Renewable Methanol
- Sales into Europe gasoline blending market (M3)
- George Olah semi-commercial plant commissioned in 2011
- Completed a project to triple the capacity of the current plant to 4,000 MT, with future plans to add commercial scale plants
- In July '15 Chinese automaker Geely announced plans to invest \$46 million over 3 years in CRI
- Methanex became a CRI shareholder in 2013

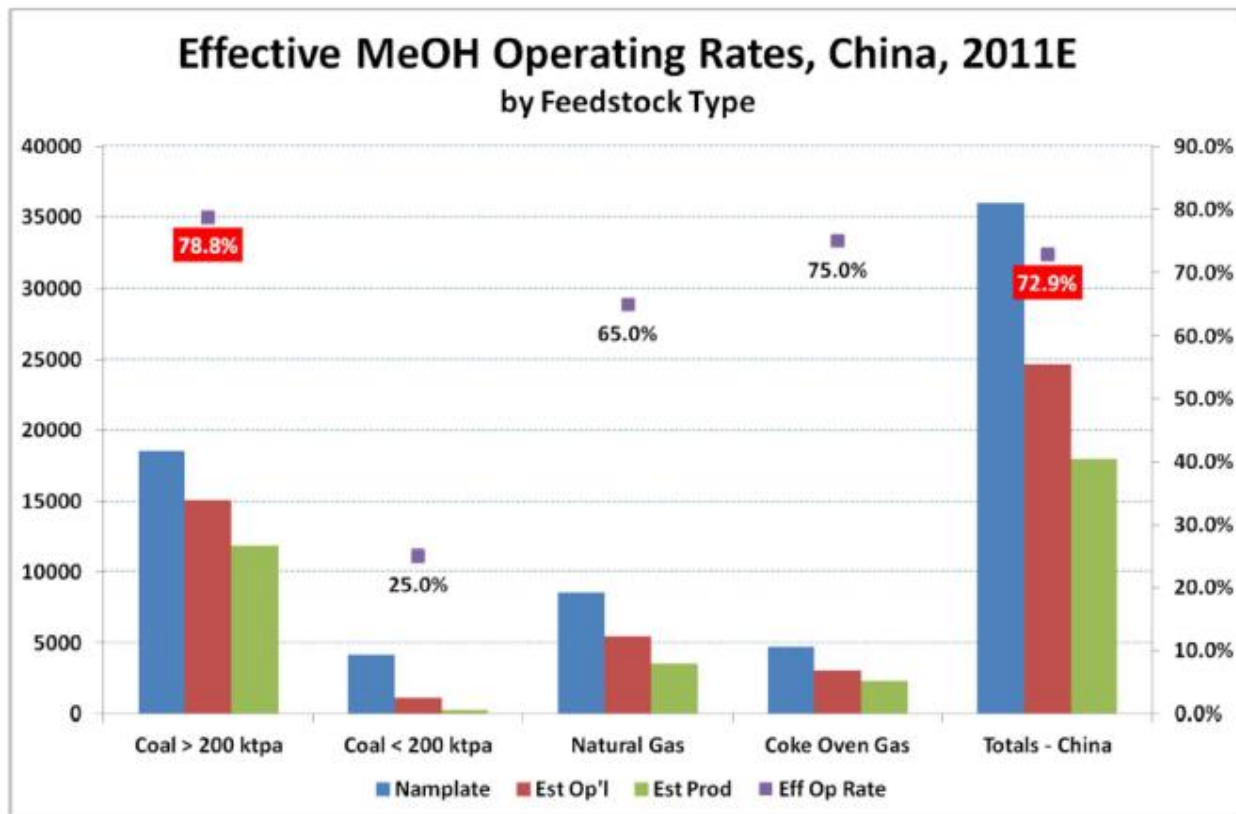


CRI's GO Plant in Svartsengi, Iceland



# Operating Rates in China

- China has operated at ~50% based on nameplate capacity; however, market is tighter than it appears and effective operating rate is ~73% (source: MMSA)
- Many plants are not operational due to various factors including: operational problems/maintenance, inability to access feedstock, high cost, swung to ammonia production, emission controls, low rates of coking coal operations



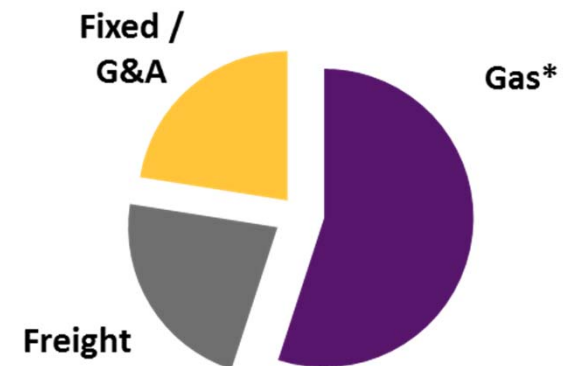
Source: Methanol Markets Services Asia (MMSA); capacity and production includes Methanol to Olefins

# Methanex Cost Structure

- Natural gas
  - Long-term gas contracts have fixed base price and variable component linked to the price of methanol. This reduces methanol price exposure
  - Medicine Hat gas sourced from Alberta market. Gas price for 90% of requirements hedged to end of 2016, and 70% for 2017, and 50% for 2018 & 2019.
  - Geismar 2 exposed to US spot market; gas price for 40% of gas requirements hedged to 2025
- Freight
  - Fleet of 22 leased and owned time charter vessels supplemented with shorter term COA vessels and spot vessel shipments
  - Integrated supply chain allows benefit of back-haul shipments
  - Network of leased and owned terminals worldwide

- Fixed Manufacturing and G&A costs
  - Primarily people costs (approx. 1300 employees)

## Representative Operating Cost Distribution



\* Assumes average realized methanol price of approx. US\$400/tonne (gas costs vary with methanol pricing).



# Leverage – Rating Agency Perspective



- Leverage target = Investment Grade
  - Preserves financial flexibility
  - Lowers cost of debt
  - Access to longer-term bond market, shipping market, etc.
  - Higher credit capacity to hedge gas exposures, etc.
- Moody's Baa3, S&P BBB-\*, Fitch BBB-
  - ~3.0x Debt/EBITDA is key threshold
  - Ratio typically ratio calculated over a cycle
- \$300 million undrawn credit facility
  - Backstop liquidity

\*S&P corporate rating BBB-; bonds BB+

Pro Forma Rating Agency Credit Ratios			
<i>(US\$ billions unless indicated)</i>			
<b>Total Debt <sup>1</sup></b>			
Debt (Q1-16)		1.4	
Capital and Operating Leases <sup>2</sup>		<u>0.8</u>	
Adjusted Debt (including leases)		2.2	
<b>Equity</b>		1.7	
<b>Adjusted Debt/EBITDA</b>			
	<u>ARP</u>	<u>EBITDA<sup>3</sup></u>	<u>Debt/EBITDA</u>
	300	0.7	3.1
	350	0.9	2.3
	400	1.1	1.9

<sup>1</sup> Includes Methanex proportionate share of debt & cash

<sup>2</sup> Approx. adjustment for capital and operating leases

<sup>3</sup> "With Trinidad and Egypt Gas Restrictions" EBITDA scenario from earlier slide, plus \$75 million adjustment reflecting approximate lease portion of COGS

# Foreign Exchange Sensitivity



- US dollar based business
- Majority of revenues in US dollars (EU net exposure hedged)
- Natural gas and freight costs in US dollars
- Approximately \$150 million in local currency costs (not actively hedged)
- Approximately \$100k in non-US dollar working capital assets

“A strong US dollar benefits Methanex”

# Management Alignment

- Executive shareholding requirements:
  - CEO - 5 times salary in Methanex shares or share units
  - Senior executives (5 members) – 3 times salary
  - Other senior management (~50 employees) – 1 times salary
- Short-term incentive linked to ROCE (return on capital employed)
- Long-term incentive targets:
  - Stock options and share appreciation rights
  - Performance share units
    - Payout ratio linked to total shareholder return

“.....Management does well when shareholders do well!”



Thank You



A RESPONSIBLE CARE® COMPANY