Redefining Connections

Mexichem®

2016 Financial and Sustainability Report

Content

Message from the Chairman of the Board of Directors

G4-1,G4-2

Dear Shareholders,

Last year was a testing year for Mexichem. The tragic events of April 20th in the Petrochemical Pajaritos Complex in Veracruz, Mexico, challenged us as an organization and as individuals. I am incredibly proud to report that our Company, our management, and our people proved to be more resilient than anyone ever thought we would need to be.

From the moment of the accident, as Chairman of the Board, together with both Pemex's CEO, Jose Antonio Gonzalez, and Mexichem's CEO, Antonio Carrillo, we insisted that everything we did should put people first, both those directly affected by the tragedy as well as anyone else who comes into contact with our operations. We also insisted, once we moved beyond the triage stage of coping with the accident, that we focus on understanding what went wrong, why failures occurred, and what lessons should be learned to reduce the possibility of such a severe accident ever happening again.

I am pleased to report that I had the full backing of the Board and management in this compassionate and professional approach. But I am even more pleased that the entire Mexichem organization reacted with strength and solidarity. As a result, I am confident that we have emerged from this tragedy as a stronger, more unified, and more mature global company.

We confronted the tragedy head on:

- Focusing on those injured and on the families who lost loved ones.
- Mitigating any further risk, human or environmental.
- Engaging a recognized, independent, global expert to conduct a thorough investigation of the explosion.
- Performing a gap analysis focused on process safety in all our chemical plants.
- Developing a case study to share what we learned as widely as possible.

We did all of these while simultaneously ensuring the continuity of our operations.

There are many takeaways from this tragedy. Perhaps the most important is that the joint venture structure that split operational control between Mexichem and our partner was flawed. In the future, we will always insist on full operational control; that is the only way we can guarantee to our employees and the rest of our stakeholders that we are doing all we can to protect their lives and their interests.

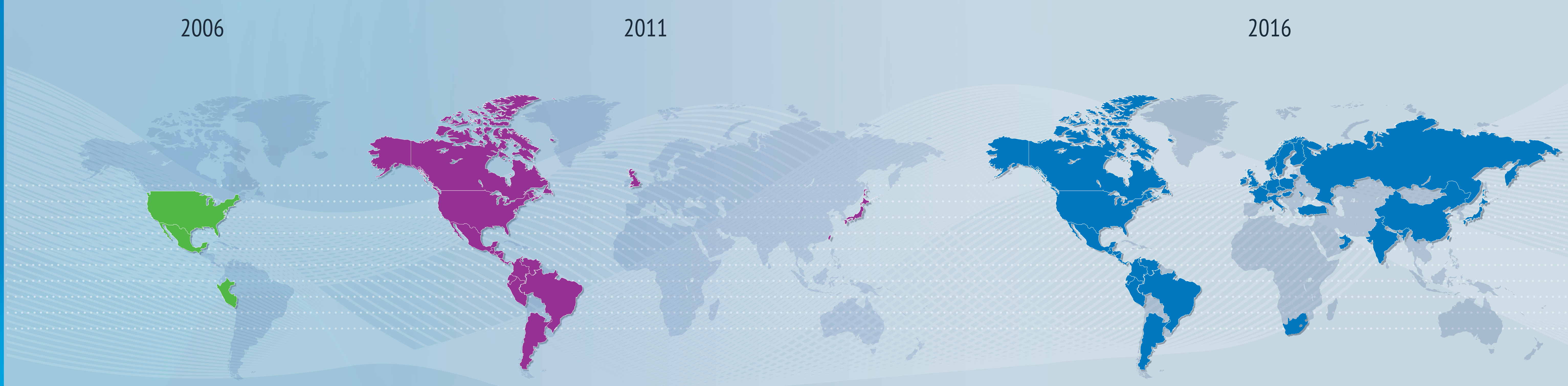
Notwithstanding this very sad accident, during 2016 our leadership team delivered solid financial results and continued to execute our global strategies, as detailed in Antonio's letter. In addition, we implemented transformational changes in Corporate Governance designed to make our Board more nimble, responsive and effective.

As the result of two years of planning, in April 2016, we reduced our Board from 16 members and 16 alternate Directors to 11 members, of which 5 are independent. We also added a new Finance Committee that will focus on providing guidance to management on capital allocation. In addition, we separated our Corporate Practices Committee from the Audit Committee with the mission of focusing on board succession, tracking the evolution of top management and overseeing risk management.

The result of a smaller Board working through three Committees—Audit, Corporate Practices and Finance—is a Board in which the members have become more engaged and closer to the business. I believe this aligns with the interest of all our stakeholders.

These Governance changes, along with the very important structural and organizational changes that Antonio describes below, have us well positioned for an increasingly complicated global scenario. We do not manage Mexichem based on political forecasts or economic scenarios; we manage the Company based on our fundamental values and business ethos. We know who we are. We know how we do business. We know that the health and safety of our people come first. We know that we aspire to operational excellence and that we are committed to be good citizens, both individually and collectively. And we know that, year in and year out, we stay focused on growth, profitability and sound financials.

Geographic Footprint Evolution



Highlights

Commercial activities in
+100
countries

Operations in
37
countries

120
Production plants

71,000
Points of sale

Reduction of
3%
in GHG emissions
2012 base year

34
Social shared value projects at Mexichem operating sites

73%
Of extracted water is reused in operations

+18,000
Employees

2
Fluorite mines

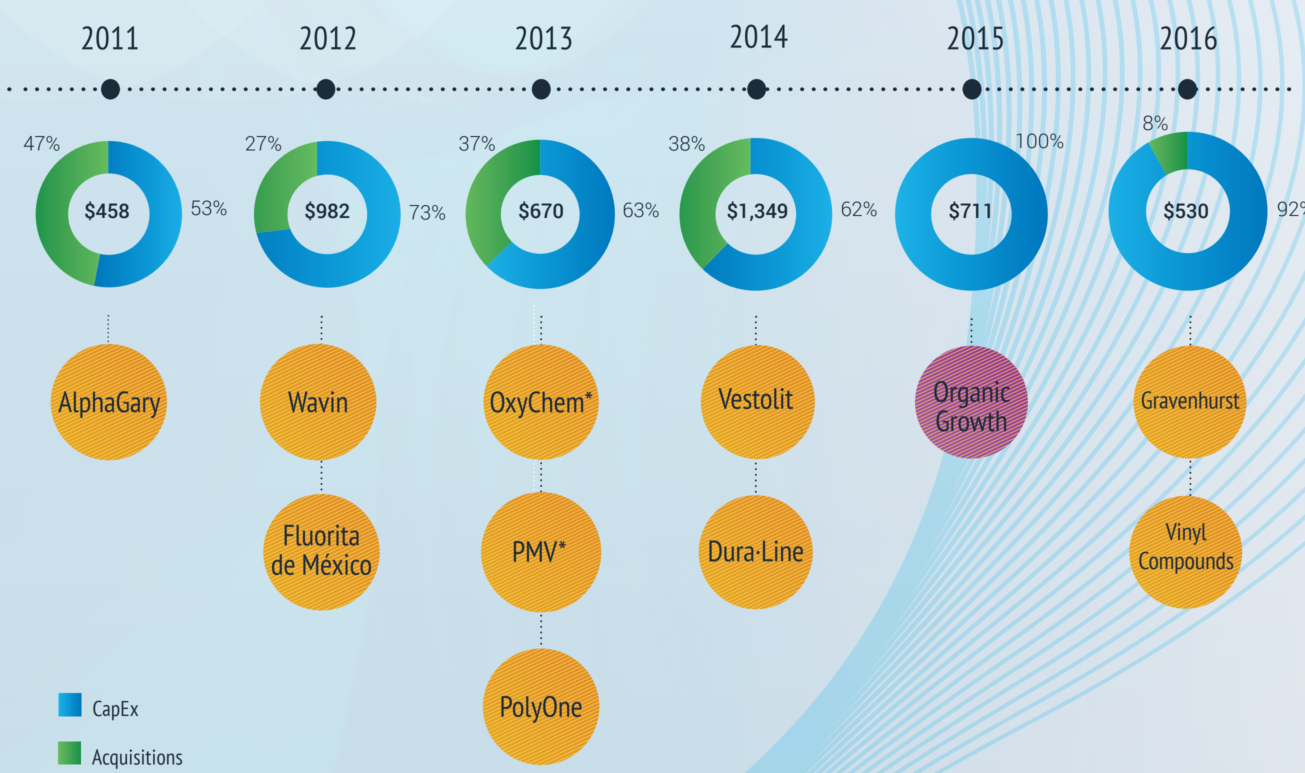
8
Training academies

15
R&D laboratories

9%
Reduction in natural gas consumption and energy versus 2015

52%
Reduction of lost time accidents
2012 base year

Invested Capital & Growth
$ Million

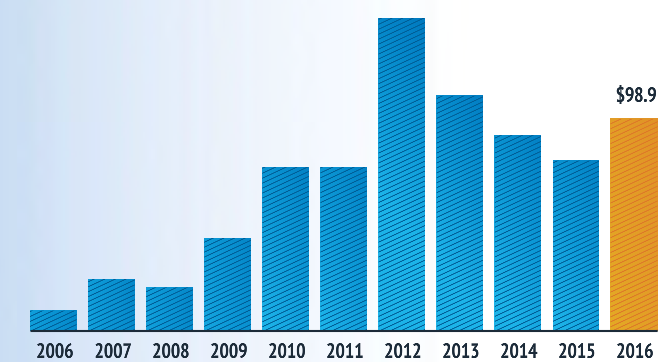


*Joint Ventures
Please notice that figures do not include proceeds from the sale of machinery and equipment

Of course, our strategy, structure and tactics—of which I have written in great detail in the past—must adapt to changing realities. However, they will always remain anchored to an immutable business ethos if we are to continue to prosper.

This approach to business is reflected in our continuous investment in organic and inorganic growth. We have shown our capacity to grow over the past decades while diversifying in terms of geographic footprint, product portfolio and industries. However, our focus is not growth for its own sake, but profitable and responsible growth with a solid balance sheet; taking into consideration our obligations to our stakeholders, the environment, and the communities where we operate.

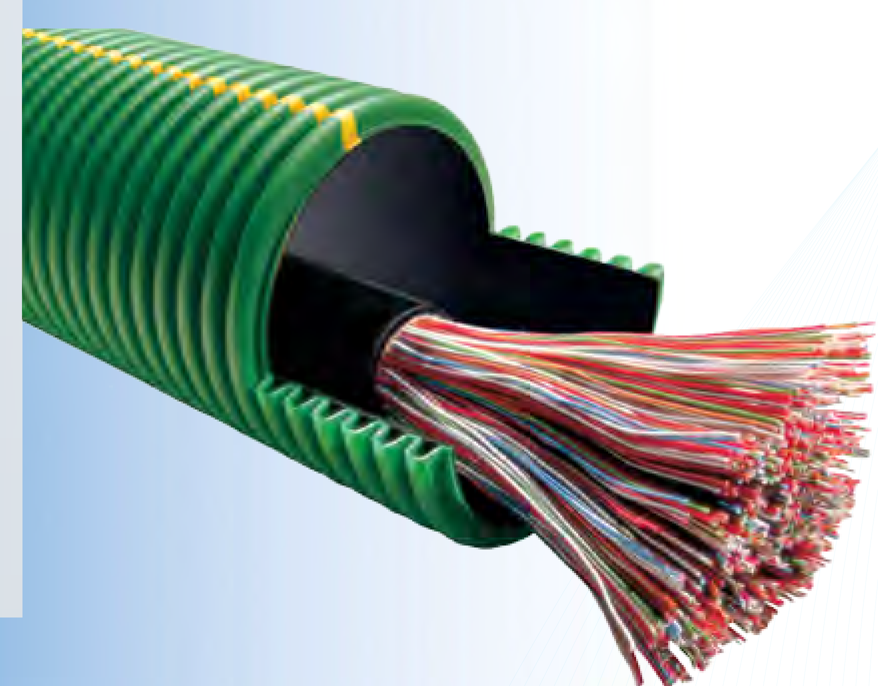
Market Cap
$ MXN thousand million



Source: Bloomberg

Net Debt / EBITDA

*Note: *Adjusted EBITDA*



I believe that what has worked for us in the past will work even better for us in the future. We have built a resilient, flexible, learning organization that is designed not just to weather storms, but to emerge strengthened. That is what happened last year; that is why we ended 2016 stronger, safer and profitable.

Mexichem is a great company, with a strong Board and resourceful people. I thank you, our stakeholders, for your continued support and look forward to continued shared success.

Juan Pablo del Valle
Chairman of the Board of Directors

Message from the Chief Executive Officer

Dear Shareholders,

I am pleased to share Mexichem's financial, operating and sustainability results for 2016, review key highlights of the year, and discuss our outlook for continued progress in 2017.

I would like to begin this message by thanking the great team of people we have at Mexichem for their excellent performance in 2016. I am especially grateful to the group of people who came together at the time of the PMV incident last April to assist with both the human and business aspects of the accident. They gave us the confidence to assure our stakeholders and rating agencies that Mexichem was financially resilient.

As it turned out, our 2016 performance came in ahead of the estimates we provided right after the accident, with adjusted EBITDA reaching $926 million, exceeding our guidance of $900 million and showing positive year-over-year comparisons across key financial metrics.

During 2016, we demonstrated operating discipline by reducing our capital expenditures and achieving a significant increase in cash flow generation. At the same time, we continued to prioritize margin expansion over volume growth, which translated into a significant improvement in profitability.

Regarding to our most important project –the ethylene plant in Ingleside, Texas– I am proud to report that, at the end of 2016 the project was on time and on budget, and operations began in the first quarter of 2017.

By producing ethylene in North America from shale gas, Mexichem will become one of the most cost efficient PVC producers in the world.

In 2017, all three of our business units are well positioned to achieve organic growth in their market groups and to benefit from the repositioning we have carried out during the last few years.

In addition to the contribution of the new ethylene cracker, we expect our Vinyl Group to benefit from an improved pricing environment, which began to materialize at the end of 2016. In Fluor, we expect to see a further volume pick-up from cement industry customers in 2017 and improved margins in refrigerant gases now that the International Trade Commission has ratified dumping duties on Chinese exports to the US.

Our Fluent Business Group is now consolidated under a single organization, and we expect to see continued progress in their ability to cross-sell specialty products globally and to implement manufacturing and operating efficiencies across all regions.

Also, setting the stage for future organic growth are the two bolt acquisitions we completed late in 2016 as part of our strategy to build our portfolio of specialty products and expand our geographic presence.

Over the last 18 months, we have implemented structural and organizational changes that have streamlined Mexichem's operations and have unified the Company around a shared vision. Also, over the last few years we have instituted substantial operational and financial discipline, which I am sure will drive sustainable growth and value for the Company.

In terms of sustainability, we concluded the materiality assessment and established Mexichem's objectives for the next five years. Our past initiatives have advanced Mexichem's position on the Mexican Stock Exchange Sustainability Index, and we were recently selected for inclusion in the FTSE4Good Emerging Index.

This demonstrates the substantial progress we have made in creating a culture committed to the highest standards of environmental, social and governance practices.

There is much work to be done in continuing to drive this new culture in the Company, to increase our return on investment, to manage our new cost structure with the benefit of the cracker, to diversify our products and to drive organic growth.

These will be our priorities in 2017. We are aware of the uncertainty and potential headwinds that will prevail this year, with the imminent exit of the UK from the EU and global protectionist trends.

However, with Mexichem´s clear set of values, the significant flexibility built into its operating structures, and the fantastic team we have, I am confident that we will be able to successfully navigate these turbulent times and take this great company to the next level.

Antonio Carrillo
CEO Mexichem

Mexichem Goes Beyond

G4-3, G4-4

Mexichem is a leading provider of products and solutions across multiple sectors from petrochemical to construction, infrastructure, agriculture, healthcare, transportation, telecom and energy, among others. It is one of the largest producers of plastic pipes and connections worldwide and one of the leading chemical and petrochemical companies in Latin America.

The Company offers a broad range of value added ingredients and finished products, that contribute to customers' success and ultimately improve the quality of life for people around the world. Along with its commitment to good citizenship, Mexichem delivers total value to customers, employees and investors worldwide, every day.

As a sustainable company, it follows a strategy based on the materiality assessment, adopting actions to promote growth, reducing the environmental impact of its operations and products while promoting social progress in the communities in which it operates.

Financial Highlights

G4-9, G4-EC1

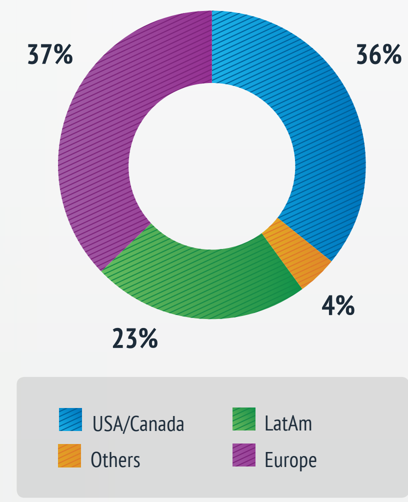
Relevant Key Figures (Million US$*)

	2016	2015	% Var
Net Sales	5,350	5,612	-5%
Operating Income	514	516	0%
Adjusted Operating Income	556	516	8%
Financial Cost	163	245	-34%
Net Income from Continuing Operations	232	185	25%
EBITDA	884	910	-3%
EBITDA Margin	16.5%	16.2%	30 b.p.
Adjusted EBITDA	926	910	2%
Adjusted EBITDA Margin	17.3%	16.2%	109 b.p.
Net Majority Income	238	135	76%
Adjusted Net Majority Income	262	135	94%
Total CAPEX	414	666	-38%
Free Cash Flow	175	95	85%
Number of Suppliers	1,270	1,201	6%
Number of Employees	18,321	18,803	-3%
Investment in Environmental Initiatives	8.1	8.4	-3.5%
Investment in Training	2.5	1.5	67%

*Unless otherwise specified
**Adjusted EBITDA in this case excludes the on-time charge accrued in 2Q16, the one-time benefit net of expenses accrued in 3Q16, and the benefit from our assembly insurance coverage included in the property policy at the PMV plant recognized in the 4Q16.

Net sales

Sales by region

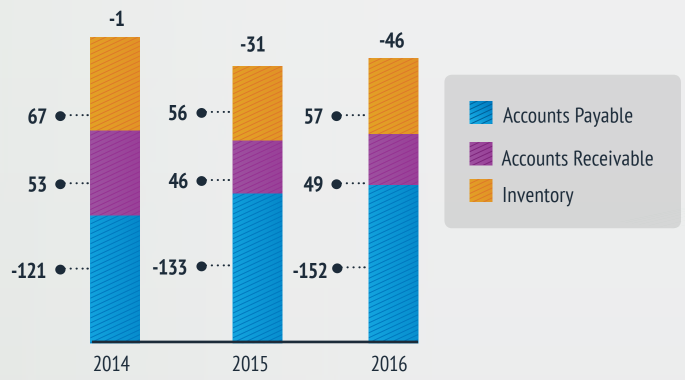


Adjusted EBITDA

Adjusted EBITDA Margin

Working Capital Cycle

Cash conversion cycle (days)

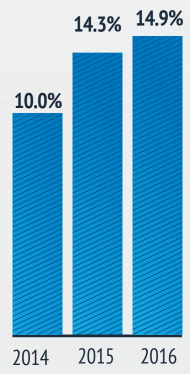


Earnings per Share*

*Shares outstanding 2,100 million

FCF Yield

Market Cap



G4-56

Mission

We transform chemicals and materials into innovative products, services and solutions for diverse sectors. By focusing on operational excellence and market needs, we generate ongoing Total Value for customers, employees, partners, shareholders and the communities in which we operate.

Vision

To be respected and admired globally as a leading industrial company that delivers maximum positive impact by contributing to progress and improving people's lives.

Values

- Safety
- Leadership
- Responsibility
- Commitment
- Results
- Integrity

Culture

Mexichem fosters adherence to its values and Code of Ethics in all its operations

Mexichem is a culturally diverse company due to its worldwide operations. Therefore it is of utmost importance to have and convey a unified corporate vision and culture.

Quick ample participation in projects has become an asset that requires integrating the different work cultures, and harnessing the diversity naturally contributed to the Company by employees at the multiple operation sites. Thus, collaboration among operations of different brands, subsidiaries and countries has become a priority in order to develop a strategy of growth that considers the global growth strategy.

Accordingly, the achievement of a multicultural operating corporate environment is based on clear strategy and culture in all operations and the furtherance of responsible employee implementation. This independence, supported by a true cultural unity, will serve to drive Mexichem's advancement as one company.

Mexichem's Aims

Financial Goals

In 2016, the Company continued moving forward in the shift of focus to margins instead of volumes, achieving significant results on margins, as well as to improve the Returns on Equity and Invested Capital. The Company is aiming to achieve in the mid-term a ROIC higher than its WACC. Likewise, the main KPI's are shifting towards improving ROIC and ROE.

Sustainability Goals

In 2012 Mexichem established sustainability objectives, which are focused on mitigating risks and reducing enviromental footprint.

Progress in 2016

Objective (year)

To reduce at least 5% on energy usage from fossil fuels by 2018 (2009 base).
-3%
-5% 2018

To neutralize operational impact on the biodiversity by 2025 (2012 base). Operations started or acquired after 2012, will have a time limit of 10 years to achieve said neutralization.
35%
100% 2025

To reduce at least 5% of greenhouse gas emissions by 2018 (2009 base).
-3%
-5% 2018

To establish a training system on sustainable development and continuous improvement that includes at least 50% of Mexichem personnel by 2016.
30%
50% 2016

To develop shared-value social projects in the communities where Mexichem operates. Each of the Business Groups must have at least one new social project by 2016.
3 PROJECTS
3 2016

To establish and promote bidirectional communication channels with Mexichem's stakeholders.
Achieve 100% coverage of primary stakeholders by 2016 and establish at least one constructive dialogue with each of them.
100%
100% 2016

To obtain a commitment of 100% of the contractors to comply with Mexichem's Human Rights Policy by 2016.
50%
100% 2016

To reduce at least 20% of waste sent to landfills by 2018 (2011 base).
-77%
-20% 2018

To implement the strategy of climate change adaptation and mitigation; assess climate change impact on 100% of Mexichem operations by 2016.
100%
100% 2016

To achieve zero health and safety impact claims from customers or from ecosystem impact from failure in product safety management.
0 CLAIMS
0

To reuse of at least 70% of water consumption by 2018 (2011 base).
73%
70% 2018

To achieve zero fatalities of own employees; to reduce at least 50% lost time accidents by 2016 (2012 base).
-52%
-50% 2016

To train 100% of Mexichem personnel on the Code of Ethics and anti-corruption measures, obtaining a commitment of compliance by 2016.
100%
100% 2016

Global Footprint by Business Group

G4-6, G4-8

Broaden the Horizons

Business Model

Leveraging the Global Platform

Cross Selling Initiatives

During the first half of 2016, Mexichem concluded the strategic analysis of the new organic growth model. This helped the Company to create a list of geographic priorities by product, which made it possible to develop an action plan for the next years.

The Company's presence in 37 countries can be used as a platform for all the products by:

The Company has launched a program that includes Brazil, Colombia, the United States, India and the United Kingdom, among other countries, to maximize the use of the capabilities it already has in these geographies. Different product categories from the three business groups have been identified in order to cross-sell in the existing platforms of these countries, thus maximizing the assets and the know-how to develop the business.

As a successful example of this, effective 2016, Mexichem Brazil is selling Klea® 134a, a refrigerant gas used in automotive air conditioning systems imported from the Fluor Business Group. So, Fluent Brazil will be able to support the needs of the abovementioned automotive global company to leverage our Fluor Business product.

Bolt-on Acquisitions

Mexichem's business model of vertical integration has allowed the Company to leverage its global presence, penetrate new segments and be able to sell a wider range of products, which enables the offering of raw materials, proprietary technology and global competitiveness.

The Company expands its end markets and footprint through a strategy of bolt-on acquisitions, which creates revenue and operating synergies. Mexichem's Capital Allocation Model focuses on project's strategy alignment, potential growth, profitability, capability, market dynamics, and risks to ensure the highest return on investment.

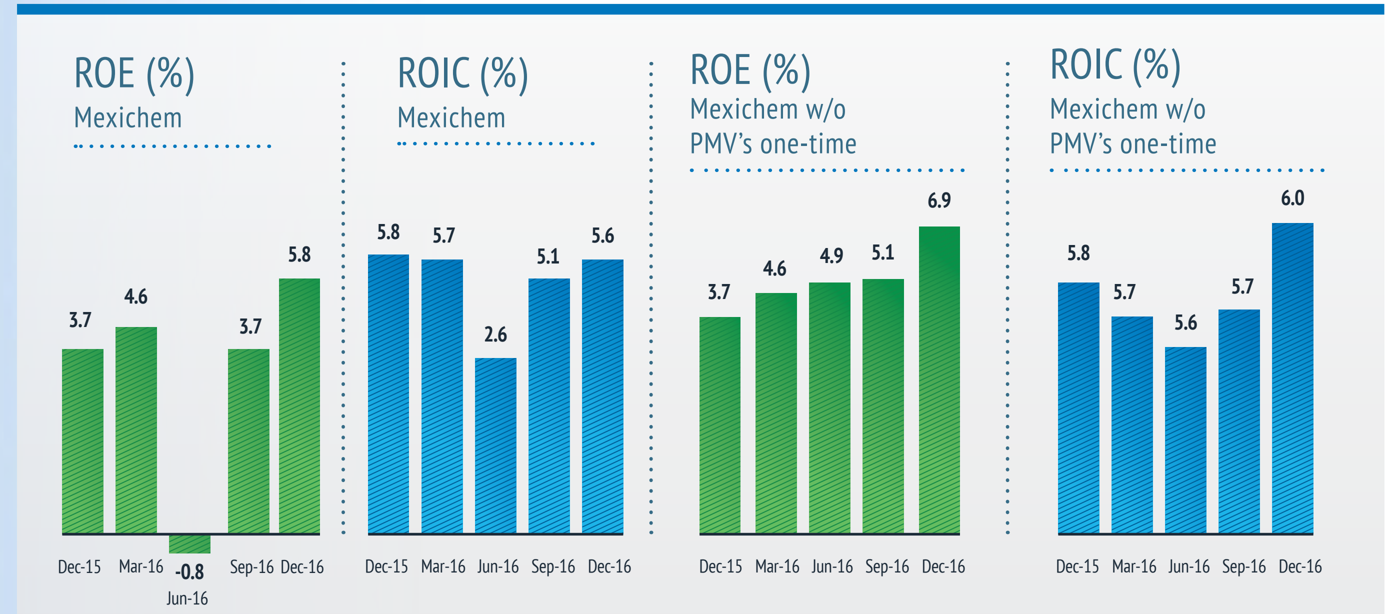
G4-13

Mexichem expanded the portfolio of Compounds Business as part of Vinyl Business Group in the United Kingdom, with the acquisition of Vinyl Compounds Holdings (VCHL), a leading U.K.-based technical PVC compounds manufacturer serving a broad range of industries, including building and construction, pipe and profile manufacturers, footwear and consumer goods. In accordance with the strategy of completing bolt-on acquisitions, this operation will enable further vertical integration to the Company, as it gives access to new geographies, end markets and returns on invested capital.

In an effort to expand Mexichem's footprint, the Company acquired Gravenhurst Plastics Ltd., a Canadian manufacturer of high-grade polyethylene pipe products, to supplement Fluent Business Group's products, which will increase the offer of the Dura-Line brand and strengthen Mexichem's share in the Datacom industry. Furthermore, this acquisition will establish local presence in Canada, a market with high growth potential. It will also provide a platform to expand all of the Company's businesses in that country.

Focus on Specialty Products to Gain Profitability

Mexichem's superior performance during a tough year of high volatility and challenging market conditions demonstrates that the continuous strategic initiatives to expand the portfolio of specialty products, diversify end markets and develop profitable cross-selling opportunities, translated into a continuous expansion of EBITDA margins and profitability.



Dura-Line and Vestolit, Mexichem's added value products, continued their growth during 2016

Vestolit –consolidated under the Vinyl Business Group– is the only European producer of high impact suspension PVC resin (HIS-PVC) and the second largest producer, also in Europe, of PVC in paste and the sixth European producer of PVC resins. This acquisition expanded Mexichem's European footprint, as well as the procurement of new technologies and practices.

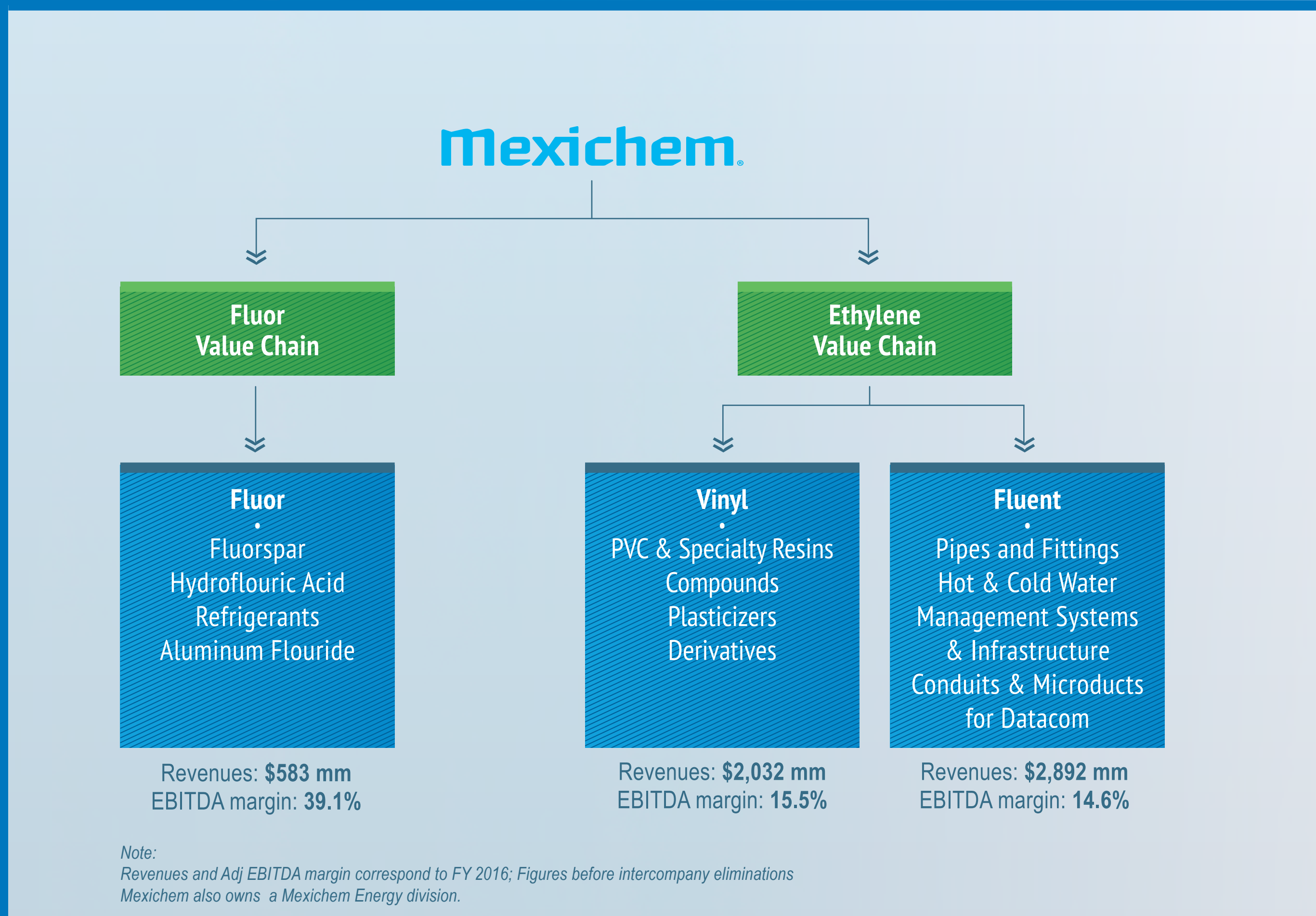
Dura-Line –global leader in high-density polyethylene conduit and duct– allowed Mexichem's expansion in telecom, datacom and energy piping markets, increasing its presence in India, South Africa and the Middle East. The Company's integration strategy for Dura-Line into the Fluent Business Group improved operational performance and consequently, resulted in a margin growth and working capital improvement.

Likewise, the Company continues targeting opportunities in India and Southeast Asia.

Competitive Advantages

G4-12

Vertical Integration throughout the Entire Value Chain



Mexichem's model of vertical integration throughout the entire value chain, plus strategic acquisitions, prioritizing sales of higher margin, specialty products, facilitating cross-selling and achieving operating efficiencies generated the Company a revenue of $5.4 billion. The Company has exclusive access to some raw materials, it is proprietary of technology and has developed a global competitiveness model.

G4-DMA PROCUREMENT PRACTICES (B)
G4-EC9

Material purchasing and services for Mexichem's plants operation is preferably carried out with local suppliers, based on criteria of quality, service and competitive price range.

Mexichem's operations consist of two value chains and three business groups:

- Ethylene Value Chain with Vinyl and Fluent Business Groups
- Fluor Value Chain with Fluor Business Group

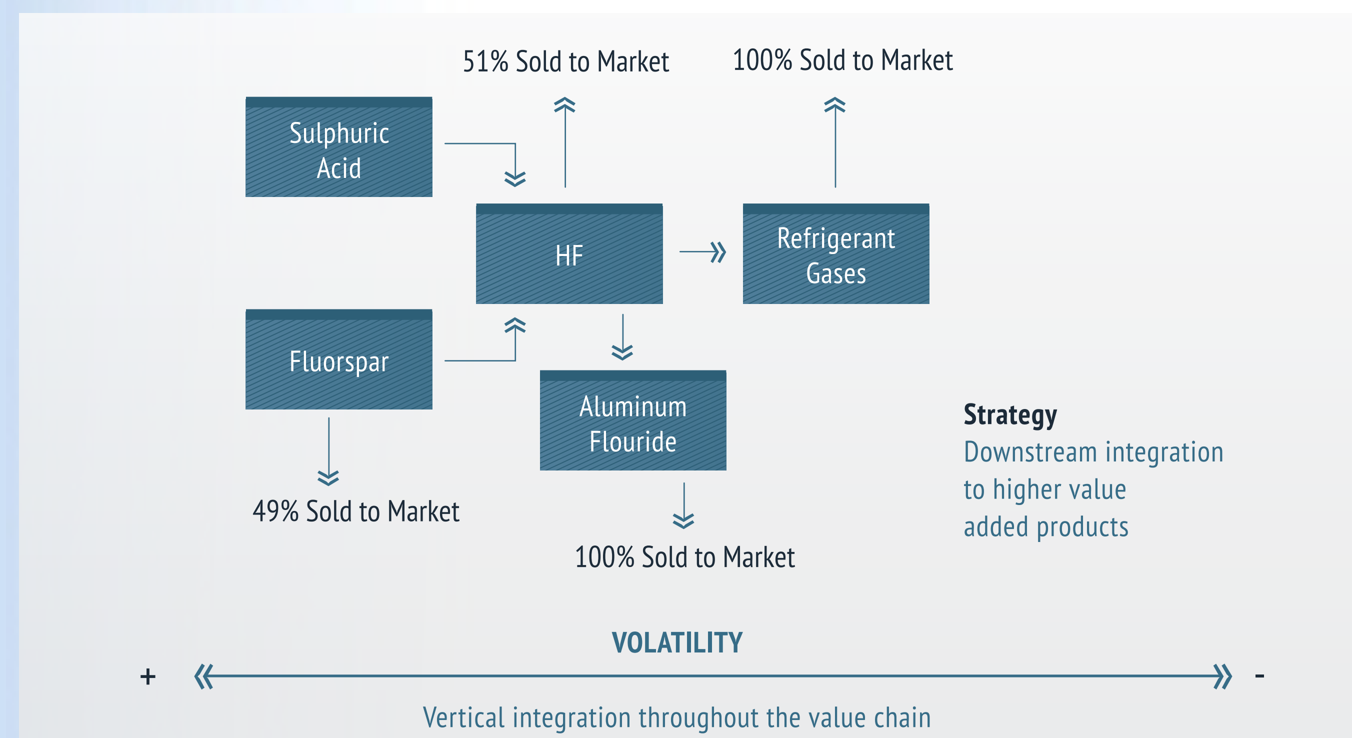
Fluor Value Chain

Calcium Fluoride » Fluorspar

Mexichem is a global leader in the development, manufacture and supply of fluoroproducts that play a fundamental role in enhancing everyday lives.

Fluorspar is a critical raw material used in the production of cement, steel, aluminium, Hydrofluoric Acid and refrigerants, among others.

Mexichem extracts the raw mineral from the world´s largest fluorspar mine, located in San Luis Potosi, Mexico. With an annual volume which represents about 20% of global production, this mine has the largest certified global fluorspar reserves.



Ethylene Value Chain

Ethylene + NaCl

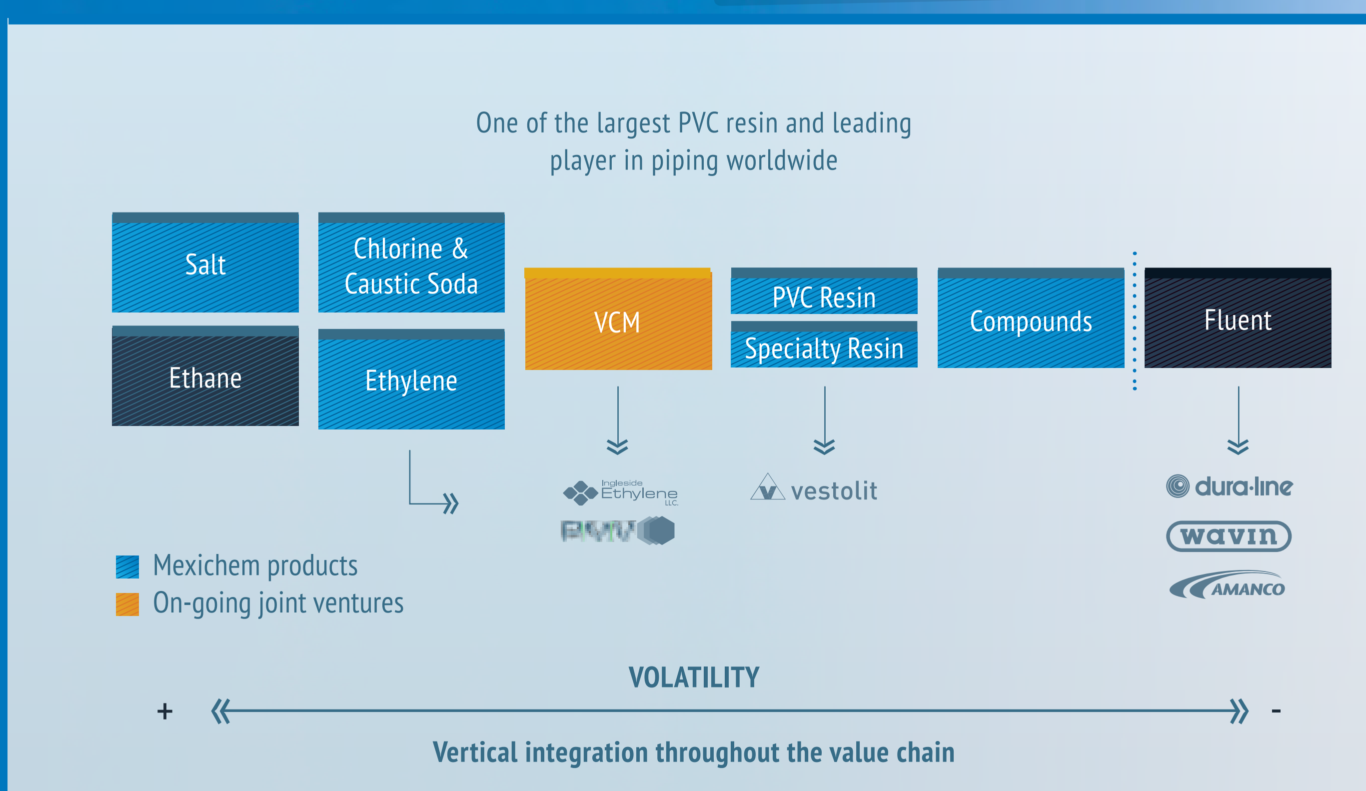
The Ethylene value chain incorporates two business groups –Vinyl and Fluent–, which can be found in plastic products, polymers, fibers and elastomers. Ethylene is the raw material in the chain that is considered the pillar of the global petrochemical industry.

Regarding the Ethylene Chain, Mexichem is one of the largest producers of plastic pipe and fittings in the world, a leading producer of PVC resin, and one of the largest producers of chlorine and caustic soda in Latin America, according to data published by IHS. Since 2014 and by the end of 2016, Mexichem is the only European producer of high impact suspension PVC resin and a world leader in high density polyethylene, pressure ducts and piping solutions for Datacom.

IQNet SE 10 Certification in the Specialty Resins Business Unit in Marl, Germany

Mexichem, through its Specialty Resins Business Unit in Germany (Vestolit) has become the first company in the PVC industry to be certified in compliance with the IQNet SE 10 Standard by the German Association for the Certification of Management Systems (DQS). This Standard establishes the requirements for a social responsibility management system and recognizes such operational structures, where all of its stakeholders are treated with respect.

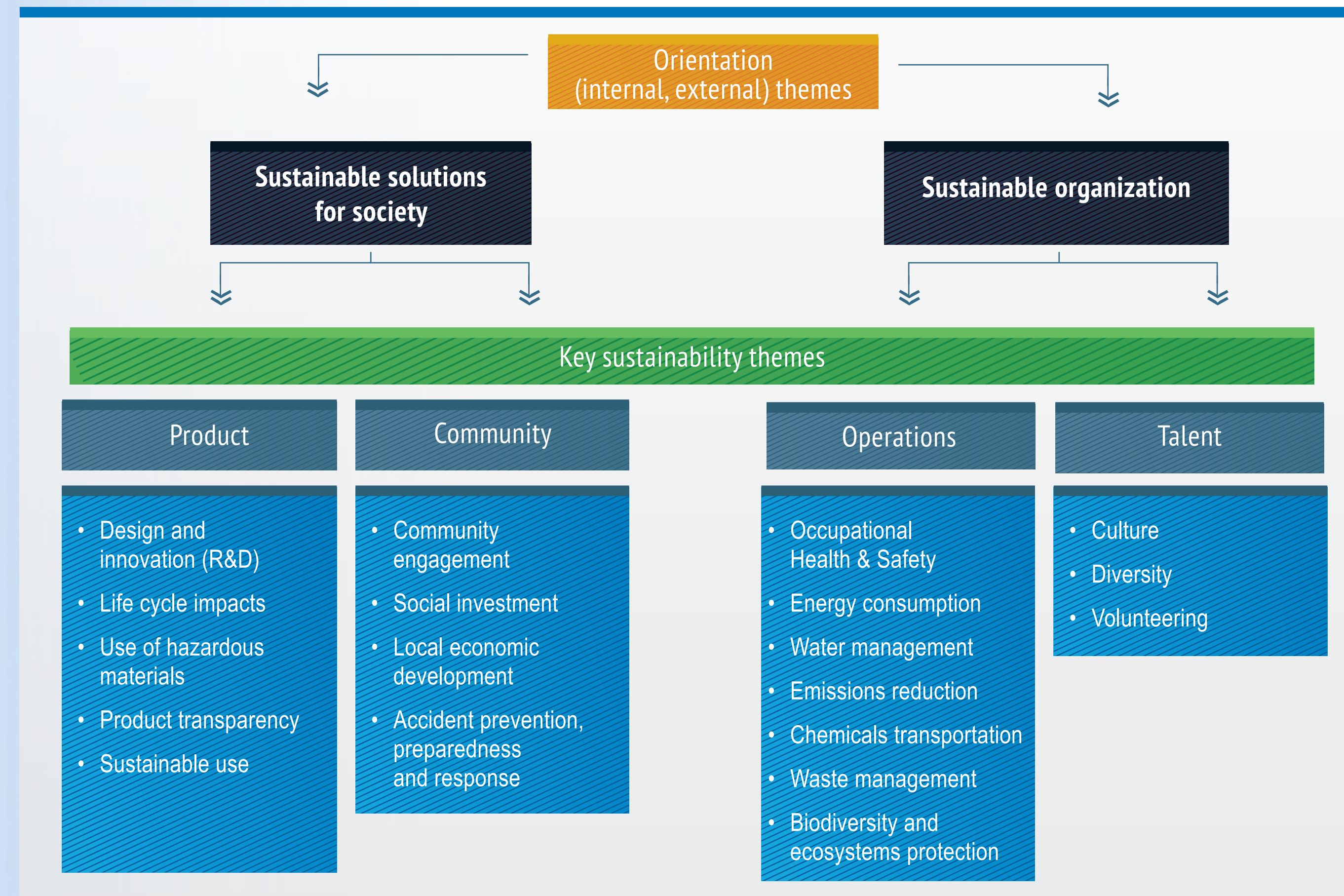
To mark this certification, Mexichem Germany launched the campaign "RESPECT! Give it to get it", which aims to highlight the role mutual respect plays as the foundation for a healthy and successful corporate culture. A comprehensive photographic exhibition is ongoing as part of the campaign, in which employees can express the way they identify with sustainable business and with Mexichem Germany as an employer, by posting their own portraits in the brochure and documenting the active part they play in the Company's lasting success.



Sustainability Strategy

Mexichem's business strategy emphasizes the importance of being a vertically-integrated company, focused on specialty products and the objective of reducing the volatility of its raw materials. Thus, its attention focuses on production and commercialization of higher-profit and value added products.

The strategy identifies the risks and opportunities which might impact the future of the business in order to manage sustainability by means of a strategic planning methodology. The management system integrates strategic objectives and operational goals, in addition to measure, assess and report the materiality assessment results in the following themes: economic, social and environmental.



In order to guarantee best practices in the future, a methodology has been developed to guide the Company's sustainability efforts. It is based on three elements:

- Development of procedures and guidelines for standardized social and environmental practices
- Definition of global sustainability goals applicable to all Mexichem's operations
- The implementation of global sustainability platform for a better tracking of performance

G4-36, G4-37, G4-43, G4-45, G4-48

At Mexichem, sustainability is horizontal in all areas and processes. The Global Sustainability Council manages the relations with all stakeholders to find out about their expectations, identify social and environmental trends, and to develop -with the executive committees- joint strategies that will enable the definition of the Company's sustainable development strategy.

For more information about the Company's sustainability strategy, go to: http://www.mexichem.com/sustainability/

Expand the Possibilities

Business Groups

Highlights 2016

Full year results, adjusted for one-time items, showed similar positive trends. Adjusted EBITDA Margin expanded by 109 basis points to 17.3% reflecting higher margins in Vinyl and Fluent, and relatively stable margin performance in Fluor. Throughout 2016, our Business Groups have taken steps to prioritize sales of non-commoditized, specialty products and to improve their manufacturing processes. As a result, we are enhancing our relationships with customers and progressively increasing the Company's returns on investments.

Mexichem ended 2016 in a strong financial position, with a solid operating framework and a clear strategy for continued growth in the periods ahead. Adjusted Net Income almost doubled compared to last year's levels, and our Free Cash Flow increased by 85% due to the wind-down of large capital investments. The largest of these investments, our joint venture ethylene cracker in Texas, was completed on time and on budget.

Mexichem has entered 2017 with a very manageable net debt to EBITDA and to Adjusted EBITDA ratios of 1.8x and 1.7x respectively, cash and cash equivalents of over $700 million and increasing free cash flow.

Vinyl Business Group

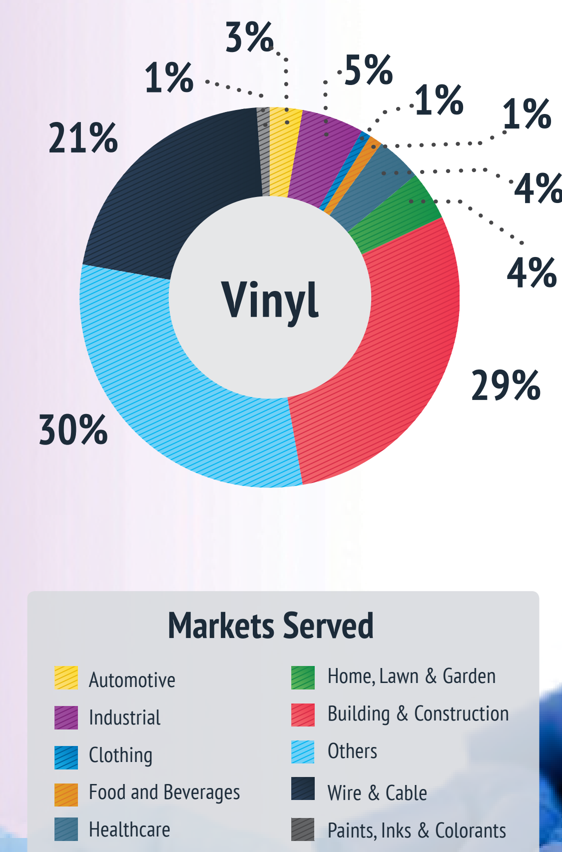
G4-4, G4-8, G4-9

This business group has the objective of producing PVC in one of the most efficient ways in the world today.

The Vinyl Business Group's basic cycle begins with the mining of salt (sodium chloride), from which chlorine and caustic soda are made. Chlorine is then transformed into vinyl chlorine monomer –chlorine plus ethylene– which polymerized, produces PVC that serves principally the construction industry with several uses, such as insulation for wires and cables, doors and window frames, pipes for water supply among many others for diverse markets.

Following the products' cycle, chlorine has also several uses, such as: water purifying, cleaning, disinfectant products and bleach paper, among others. Caustic soda is used to produce soap, shampoo, lotions and detergents, as well as to treat water.

In 2018, when the Ingleside ethylene cracker reaches 100% of its annual production capacity, Mexichem will achieve an integration of 70% of its needs

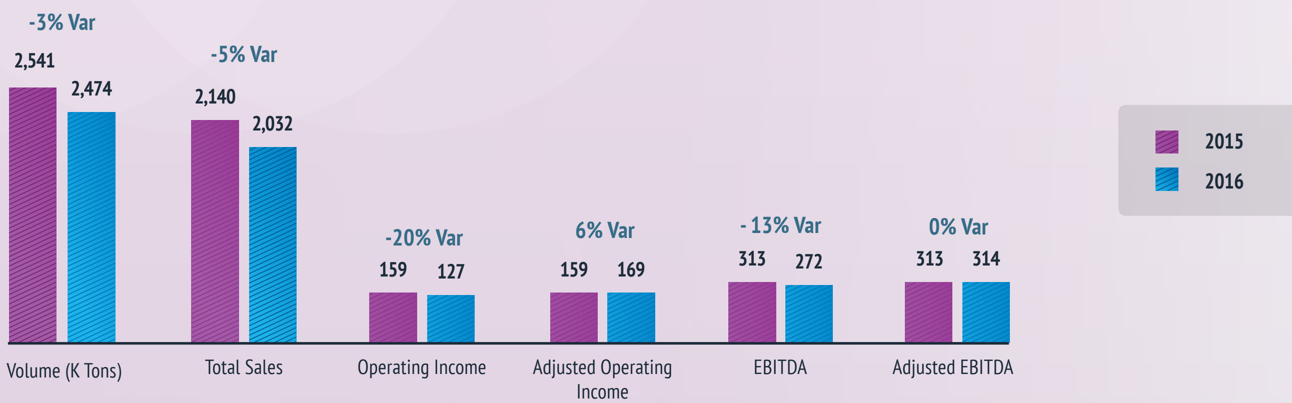


Product Category

- Base chemicals
- Specialty resins
- PVC resins
- Compounds
- PA & plasticizers
- Phosphates
- Other chemicals

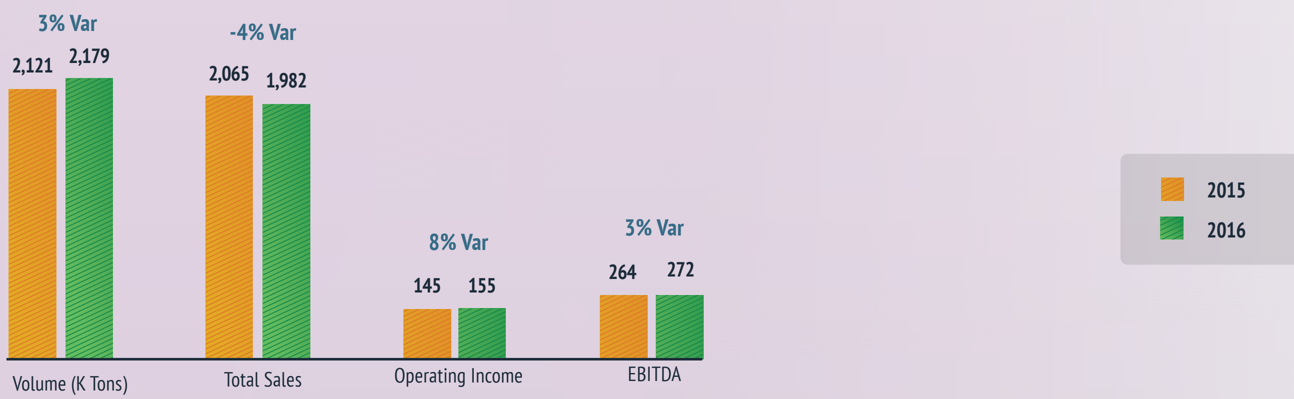
Operational Results

Vinyl



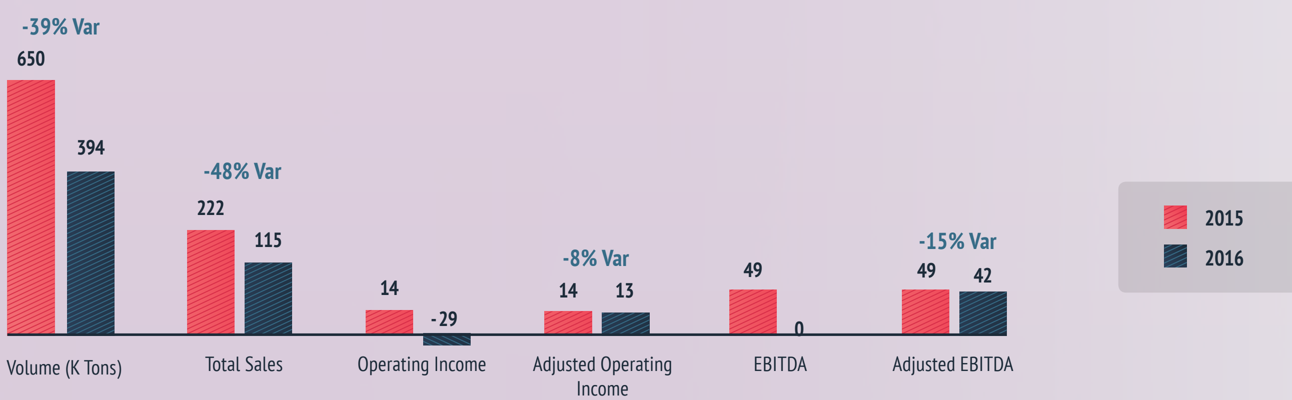
**Intercompany sales as of December 2016 and 2015 were $152 million and $162 million, respectively.*
***Includes Ingleside expenses of $5 million (2016)*

Resins, Compounds & Derivatives



**Intercompany sales as of December 2016 and 2015 were $184 million and $215 million, respectively. Of these amounts $33 million and $53 million were invoiced to PMV accrued to December 2016 and 2015.*
***Includes Ingleside expenses of $5 million (2016)*

PMV



**Intercompany sales invoiced to Resins, Compounds and Derivatives as of December 2016 and 2015 were $33 million and $94 million, respectively.*

Fluent Business Group

G4-4, G4-8, G4-9

The Fluent Business Group has independent operations with different brands, products and solutions in LatAm, Europe and US/AMEA. This business group manufactures products for day-to-day purposes like PVC pipes and connections, polyethylene and polypropylene, as well as geosynthetics, which are used for water management systems for irrigation, drinking water and sewerage, heating and cooling systems, water treatment systems, among others.

> Fluent LatAm is the leader in the region in the production and distribution of plastic pipes, connections and accessories for fluid conduction and for fiber optic conduits protection.
> Fluent Europe is the leading supplier of plastic pipe systems and solutions, while Fluent US/AMEA is the global leader in high-density polyethylene conduit ducts and pressure-pipe solutions.

Fluent Business Group is comprised in three regions: Fluent LatAm, Fluent Europe and Fluent US/AMEA. Both LatAm and Europe focus on commercial and residential construction markets, and also offer technical solutions with geosynthetic products such as non-woven textiles, textiles, geo-drains, geomembranes and geo-mesh.

In 2016, Mexichem acquired Gravenhurst Plastics Ltd. (GPL), in Ontario, Canada in order to reinforce its global growth model for value-added specialty products. GPL also provides high-density polyethylene piping (HDPE) and optic fiber conduits, as well as construction products for the Canadian market.

Fluent LatAm: with its main brands "Amanco", "Pavco" and "Plastigama", Mexichem is currently positioned as the largest producer of piping and fittings in Latin America, with product plants in 12 countries of the region, including Mexico. In addition, it operates in 24 other countries and has over 50 thousand sale points in all the region.

Fluent Europe: Mexichem is one of the leading suppliers of plastic pipe systems and solutions in Europe. With operations in 17 European countries, Fluent Europe provides innovative systems and solutions for its customers through our brand Wavin and its global distribution network, plumbing and civil contractors, housing developers, large installers and local and public service companies. Fluent Europe's products are supplied through 30 manufacturing and assembly plants.

Fluent US/AMEA: Through Fluent US/AMEA (formerly Dura-Line) Mexichem commercializes and produces high density polyethylene ducts and connections for different infrastructure markets and its use for potable water as well as residual waters, offering a longer service life and lower leakage rates. Moreover, Mexichem produces and sells CableCon solutions for use in other infrastructure industries, such as electric lighting, agricultural commercial machinery motors, energy distribution, and voice and data telecommunication services.

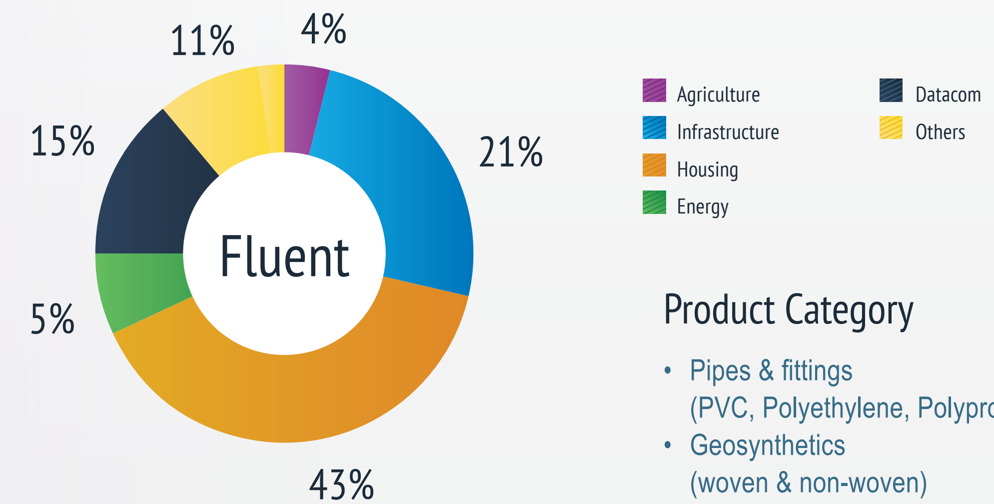
Fluent focuses on three large segments:

Housing: PVC, polyethylene and polypropylene piping systems for housing applications in single-family homes, housing developments, high-rise buildings, public power utilities, commercial constructions, hotels, swimming pools, and landscaping, as well as some industrial applications and water heating systems.

Construction: Bi-oriented PVC piping for drinking water conduction, sanitary sewer and rain water piping.

Datacom: High engineering ducts, micro-conduits, and cable conduction solutions for the voice and data telecommunications market.

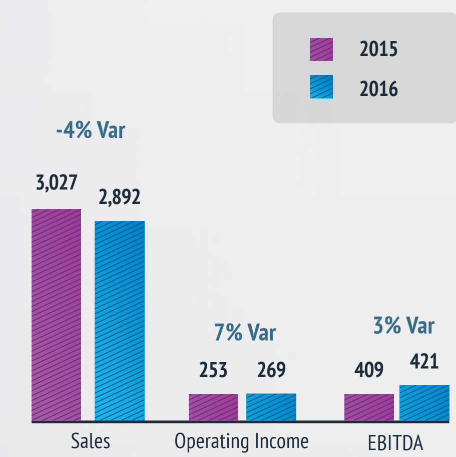
Markets Served

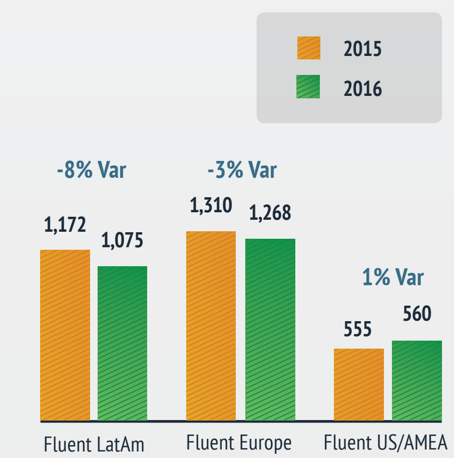


Product Category

- Pipes & fittings (PVC, Polyethylene, Polypropylene)
- Geosynthetics (woven & non-woven)
- Irrigation systems
- Datacom & infrastructure

Operational Results





Intercompany sales as of December 2016 and 2015 were $10 million and $10 million, respectively.

Fluor Business Group

G4-4, G4-8, G4-9

The Group's process consists of three segments: (i) the Fluorite process, which extracts Fluorspar, used in the production of hydrofluoric acid, the cement, ceramic, steel and welding industries, (ii) the hydrofluoric acid and aluminum fluoride process, and (iii) the refrigerant gas process.

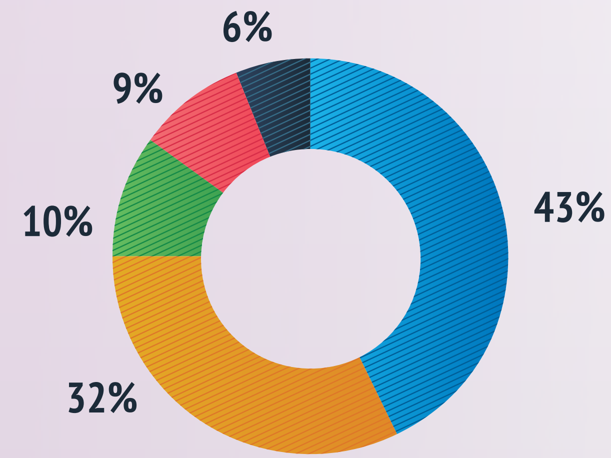
This business group has the world's largest Fluorspar mine with an annual production capacity of approximately 1.3 tons that cover 20% of the world's fluorite annual needs.

Acid grade Fluorspar is the mineral concentrate in which impurities have been eliminated. In combination with sulfuric acid, it is extensively used to produce Hydrogen Fluoride which is itself a fundamental raw material used in the manufacture of the following downstream products:

1. Refrigerant gases for air conditioning, refrigerators and freezers.
2. Propellant for gasoline production
3. Pickling of stainless steel, nuclear fuels, integrated circuit boards, specialized polymers and the production of fluoride salts.

Currently Mexichem is the largest producer of Fluorspar and one of the leaders of hydrofluoric acid in the world.

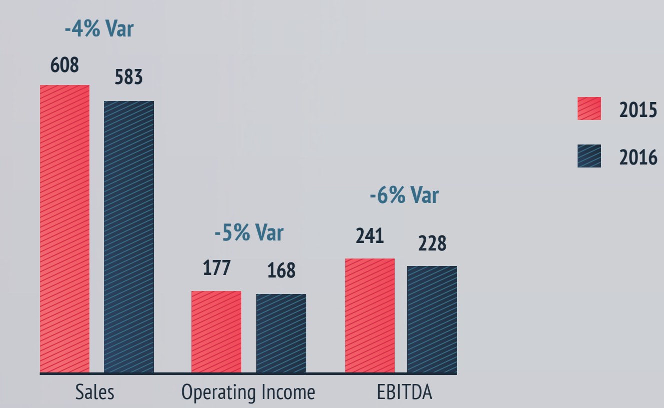
On the other hand, Aluminum Fluoride is an essential element in the production of metallic aluminum and refrigerant gases, resulting from the reaction of hydrofluoric acid and aluminum hydrate. From its plant in Matamoros, Tamaulipas in Mexico, Mexichem supplies the world's main aluminum manufacturers.



Markets Served

- Refrigeration (KLEA 134a and Blends)
- Chemicals
- Building & Construction
- Medicals
- Aluminium

Operational Results



Product Category

- Fluorspar Met Grade
- Fluorspar Acid Grade
- Hydrofluoric Acid
- Aluminum Fluoride
- Refrigerants
- Medical propellants

To Excel with Ethics

Corporate Governance

Governance Bodies

G4-34, G4-35, G4-38, G4-40, G4-41, G4-51

According to the Company's bylaws, a Board of Directors and a Chief Executive Officer are accountable for Mexichem's management; they carry out the duties established in the Mexican Securities Market Law.

The General Shareholders' Meeting, in which the members of the Board are elected or ratified in their position, also qualifies the members' independence. Independent board members and their respective alternates are selected on the basis of their experience, capacity and professional prestige, and they are expected to perform their functions free of conflicts of interest, exercising free judgment and without regard to their personal, equity or economic interests.

> The Board of Directors in 2016 was comprised by 11 regular members, 45% of who are independent

In order to give Board members an overview of the social responsibility their duties entail, as established in the Regulations of the Mexican Stock Exchange (MSE), the Secretary of the Board of Directors presents them with an annual report containing the main obligations, responsibilities and recommendations applicable to the Company as an issuer of securities listed on the MSE, pursuant to the Securities Market Law, the Securities Regulation issued by National Banking and Securities Commission and other applicable legislation. The report also describes the main obligations, responsibilities and faculties applicable to members of the Board of Directors of Mexichem. It is supported in its duties by 3 committees:

Corporate Practices Committee

Required to:

- Provide opinions to the Board of Directors.
- Request and obtain opinions from independent third-party experts.
- Call shareholders' meetings.
- Provide assistance to the Board of Directors in the preparation of annual reports.
- Provide reports to the Board of Directors.
- Review the compensation packages of the management team and their performance.
- Review transactions between related parties.

Audit Committee

Required to:

- Supervise the external auditors.
- Analyze the external auditors' reports.
- Inform the Board of Directors in regards to existing internal controls.
- Supervise the execution of related party transactions.
- Request Mexichem's officers to prepare reports when necessary.
- Inform the Board of Directors of any irregularities that it encounters.
- Supervise the activities of Mexichem's CEO.
- Provide an annual report to the Board of Directors.

Finance Committee

The Finance Committee is composed of three members of the Board of Directors, who were appointed by this Board; except for its President, who was appointed by the Annual Ordinary Shareholders' Meeting.

This Committee shall support the Board of Directors in the fulfillment of its responsibilities with the shareholders regarding the policies, practices and strategies related to its financial affairs' management.

Required to:

- Formulate and recommend for the approval of the Board of Directors the financial policies of the Company, including the management of financial matters.
- Review administration's plans to manage the exposure of the Company's financial risks.
- Review the Company's cash flow plan, balance sheet and capital structure.
- Review the Company's capital allocation strategy, including the capital cost.

The following is the 2016 Board of Directors ratified by the General Shareholder's Meeting on April 28, 2016, pointing out that the Shareholders Assembly determined to do so only for regular members.

G4-LA12

Regular Members	Title	Type of Member
Antonio del Valle Ruiz	Honorary and Lifetime Chairman	Non Independent
Juan Pablo del Valle Perochena	Member	Non Independent
Antonio del Valle Perochena	Member	Non Independent
María de Guadalupe del Valle Perochena	Member	Non Independent
Adolfo del Valle Ruiz	Member	Non Independent
Ignacio del Valle Ruiz	Member	Non Independent
Jaime Ruiz Sacristán	Member	Non Independent
Divo Milán Haddad	Member	Independent
Fernando Ruiz Sahagún	Member	Independent
Guillermo Ortiz Martinez	Member	Independent
Eduardo Tricio Haro	Member	Independent
Eugenio Santiago Clariond Reyes	Member	Independent
Secretary		
Juan Pablo del Río Benítez	Not member of Board	
Pro-secretary		
Álvaro Soto González	Not member of Board	

Members of the Audit Committee
Fernando Ruiz Sahagún (President and financial expert)
Divo Milán Haddad
Eugenio Santiago Clariond Reyes

Members of the Corporate Practices Committee
Eugenio Santiago Clariond Reyes (President)
Fernando Ruiz Sahagún
Divo Milán Haddad

Members of the Finance Committee
Jaime Ruíz Sacristán (President)
Guillermo Ortíz Martínez
Antonio del Valle Perochena
Guadalupe del Valle Perochena
Adolfo del Valle Ruíz
Ignacio del Valle Ruíz

Code of Ethics

G4-56

Mexichem has always carried the banner of a company with strict principles and values. Through its Code of Ethics – approved by the Board of Directors and which handles the key conduct behaviors for all its employees and Board members– the Company maintains and strengthens its ethical and professional performance.

G4-57, G4-58

This program is proactively communicated to employees, also available for suppliers, customers and third parties.

It is managed by a third party independent consultant available 24/7. And all information is anonymous reporting and the reports are treated confidentially. During 2016, Mexichem had 5 reports through the Whistleblower hotline; 100% of them were investigated and none of them proceeded, according to Mexichem`s Code of Ethics.

> The Code of Ethics establishes Mexichem's comitment to society, the government and competition, as well as to its employees, suppliers, customers, clients, partners and shareholders

For more information on the Code of Ethics visit: http://www.mexichem.com/wpcontent/uploads/2015/04/Code-of_ethics.eng.pdf
The whistleblowers hotline can be accessed at: http://www.mexichem.com/investors/corporate-governance/whistleblower-line
http://www.mexichem.com/wp-content/uploads/2015/04/Free-hotline-new-countries-coming-soon.pdf

Connecting with Our People

Highlights 2016

18,321
Employees

Reduction of lost time accidents by
52%
against 2012 base year

318,225
Training hours

7,523
Mexichem volunteers

100%
of employees
Trained on Code of Ethics

$2.5
million
Invested on training

Performance Management Process

G4-LA11

Mexichem strives to build a high-performance organization.

To ensure the execution of the Corporate Strategy, Mexichem has implemented a Performance Management process throughout the whole Company.

Our Performance management process requires employees to set annual goals, and to work on them during the year. Our employees are also expected to demonstrate the competencies within the Mexichem Talent Model every day, through specific behaviors which are expected from all Mexichem employees across the whole of our business.

Activities in the performance management process include at least three formal conversations between the manager and the employee over the course of the year; that is, a formal goal-setting process, mid-year and year-end reviews. In 2016, exactly 14,162 employees received performance evaluations. This process helps the Company meet its commitment to deliver positive outcomes and guarantee sustainable growth by engaging and developing the best talent.

Talent

G4-DMA EMPLOYMENT

At Mexichem we are convinced that our people are one of the main pillars of our business strategy and our most important asset.

We are very aware that our capability of attracting, engaging, developing and retaining, not only the best talent but the right talent, is a key competitive advantage for Mexichem.

Having the right talent in our business will enable us to achieve and exceed our business goals and ensure the success of our business today and in the future.

We are focused on the creation of development opportunities for our people, we will adopt best practices in the external market, to ensure our talent management processes are the best in class.

We also see our talent as a key driver to fulfill our commitments to our partners, customers and the communities of which we are part, and in which we operate. By doing this, we are able to promote diversity, support volunteering programs, drive operational excellence and uphold our ethical culture, to deliver maximum positive impact to all our stakeholders.

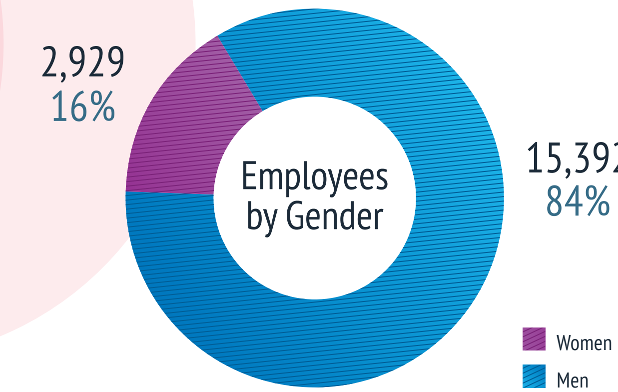
Please see more on the following link:
http://www.mexichem.com/Careers_mexichem.pdf

G4-9

18,321 employees in 2016

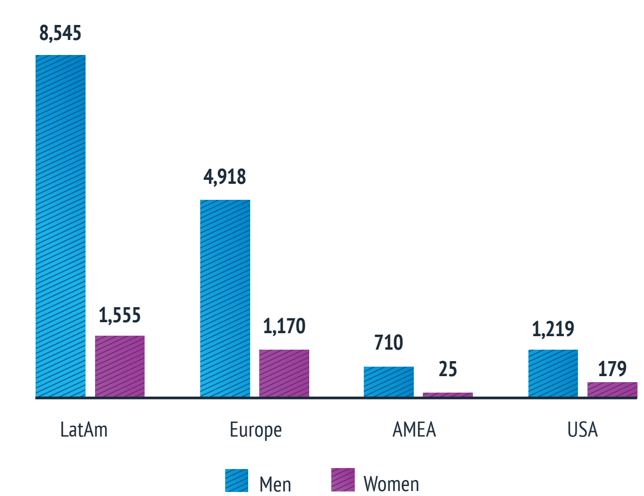
G4-10, G4-11, G4-LA4

All employees have a permanent, full-time work contract. This figure does not include subcontractor personnel, independent workers, or part-time workers. Organizational changes are communicated promptly to union centrals, and if they affect the worker-employer relationship in any way they are incorporated into those collective bargaining agreements.



Employees by Region

G4-LA12



G4-LA1

16.8%
turnover rate

15.9%
hiring rate

Wages and Benefits

G4-DMA MARKET PRESENCE, DIVERSITY AND EQUAL OPPORTUNITIES
G4-LA2

Mexichem provides equitable and fair compensation consistent with the market and with each employee's performance, skills, duties and assigned responsibilities. The benefits Mexichem offers exceed the requirements of labor law in each country, such as major medical insurance, retirement plan, life insurance and variable compensation schemes, among others.

G4-EC5

Each country's labor laws establish minimum wages, and Mexichem offers fair and equal compensation above the minimum requirements. The Mexichem salary structures are based on the labor market, type of industry, and the duties and responsibilities involved in the position, with a job description based on skills and knowledge, without personal bias conditions, such as gender.

G4-EC6

Mexichem hires employees from the region in which it operates its different businesses, centering its approach on supporting local communities by offering employment opportunities to enhance their quality of life.

Training and Development

G4-LA9

318,225
training hours

G4-DMA TRAINING AND EDUCATION

Sixty-three percent of training hours were delivered to unionized employees under collective bargaining agreement, with 37% of hours of training for employees working under individual contracts. Each site develops its individual annual training plans based on its specific needs and may include the Code of Ethics, Safety Procedures, Corporate Culture, Process Management, and Technical Training, among others.

Investment in training increased
67% in comparison to 2015.
It represents a total spent of
$2.5 million

Human Rights

G4-LA12

16%
of leadership positions are occupied by women

Human Rights Policy

G4-DMA NON-DISCRIMINATION

Mexichem established a Human Rights Policy that has been approved by our CEO. This policy states that we do not tolerate any form of unethical behaviors, harassment, discrimination, cruelty or degradation of the human condition, and seeks to promote and protect, with dignity, the human rights and fundamental freedoms of employees, suppliers, our environment, and the communities where we operate. Our Human Rights Policy has been communicated to our employees and published on the Company's website for our external stakeholders. In addition, its main principles are referred in our Code of Ethics, in which our employees are properly trained.

G4-HR2, G4-SO4

In 2016, we provided 10,867 hours of training on Human Rights for our employees; and 11,246 employees were trained on anti-corruption policies.

G4-SO4

100%
of our employees were trained on the Code of Ethics

G4-DMA ANTI-CORRUPTION (B)

Our Code of Ethics has a dedicated chapter to Anti-Corruption. Training employees in our corporate Code of Ethics involves a certification and recertification process. All new hires have to receive full training and get certified through the eLearning platform or in person. Training features the main topics addressed in the Code of Ethics with the types of claims employees may submit through the proper channels, plus a short knowledge test and a disclaimer of conflict of interest. The recertification process consists on an exam and a disclaimer of conflict of interest; employees who fail this exam are required to start the certification process again from the beginning.

The policy will continue to be communicated to employees, suppliers, contractors and distributors

Mexichem's Human Rights Policy and all related information may be accessed at: http://www.mexichem.com/sustainability/documents-center/

Human Rights in the Company

G4-DMA FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING (B), CHILD LABOR, FORCED OR COMPULSORY LABOR, ASSESSMENT, LOCAL COMMUNITIES (B)

G4-HR4, G4-HR9, G4-HR11

The right to free of association and to belong to collective agreements or contracts is based on the activity or position each employee holds, and we see to it that this is complied with. Freedom of association is granted in collective bargaining agreements, and there are no risks affecting that liberty.

Based on our procedures and the labor law, we only hire people who are 18 years old or older. We do not hire underage workers, and we comply with the International Convention on Human Rights. Minimum working age is clearly stipulated in the collective work contracts and the same criteria applies for our suppliers.

According to the evaluation by the Safety and Hygiene Committees, no Mexichem operations have been identified to be at risk of forced or compulsory labor; consequently, no actions have been required.

G4-DMA LABOR / MANAGEMENT RELATIONS

Any employee can present a complaint to senior management or report abuse through the suggestions box, either anonymously or openly, via e-mail or phone, to our whistleblower's hotline.

Safety and supervision personnel that work for the Company receive training on human rights, trust issues, and values. This training helps prevent reputation risks and litigation from inappropriate actions or approaches not tolerated by our Company.

Human Rights and our Suppliers

G4-DMA EMPLOYMENT (B), INVESTMENT (B), SUPPLIER ASSESSMENT FOR LABOR PRACTICES (B), SUPPLIER HUMAN RIGHTS ASSESSMENT (B)

G4-HR1, G4-LA15

Mexichem communicates its Human Rights Policy to all its suppliers and requires that they pledge to respect and abide by it. We monitor the news media to identify whether any information is published on our leading suppliers involved human rights issues. The greatest vulnerability is an infringement of workers' rights.

Because Mexichem is structured into productive chains that are vertically integrated based on the raw materials extracted from nature, our affiliates become clients and intercompany suppliers. In other words, the finished product of one plant becomes the raw material for another, until reaching the final consumer. These intercompany suppliers, considered as internal in the organization, receive training on human rights policy and knowledge regarding their specific business.

Health and Safety

G4-DMA OCCUPATIONAL HEALTH AND SAFETY

Mexichem works day in and day out to provide a safe workplace for employees, visitors and contractors. The basic premise is that all work-related accidents and illnesses are preventable, in 2013 we made the decision to unify safety systems for our operations and align them with the International Safety Rating System (ISRS) standard, a system for managing risk and controlling losses. The ISRS defines safety responsibilities and activities for issues regarding leadership and management, planned inspections and maintenance, critical tasks, investigation of accidents and incidents, emergencies, knowledge and skills, personal protection equipment, industrial health and safety, change management and engineering, off-site communications and safety. The ISRS is equal, and in some cases, more demanding than OHSAS 18001.

With development of the ISRS, safety results have shown that lost time accidents decreased by 52% against the base year 2012

Mexichem established a Global Sustainability Council made up of representatives from all our worldwide operations. The purpose of this Council is to develop a comprehensive, unified strategy on health, safety, the environment and social responsibility, and to identify best global practices and implement them in every one of our geographic regions.

Our Safety, Environment and Quality Policy and, in general, all of our efforts are geared toward achieving accident-free operations, although responsibility for achieving those goal rests on each and every one of the Company's employees.

G4-LA5

In addition, all our employees, both those working under individual contracts and those that are part of collective bargaining agreements, are represented in the Occupational Health and Safety committees, which are responsible mainly for drafting proposals to improve worker safety and protection, verify compliance with established agreements, conduct plant visits to make sure conditions are up to standard, follow up on any major deviations, comment on accident investigations and promote activities aimed at improving employee health and safety.

Our safety performance was overshadowed by the event at the Clorados III plant belonging to Petroquímica Mexicana de Vinilo (PMV), a joint venture with PEMEX, where 32 contractors not directly supervised by Mexichem lost their life in an explosion. Furthermore during that same year we had three fatalities of contractors not supervised directly by Mexichem inside our facilities and a direct employee of the Company. A thorough investigation was carried out in each of these events and corrective actions were implemented according to the identified original causes.

Safety: Mexichem's Drive

Fluent Europe

Throughout its history Fluent Europe has acknowledged the key role of health, safety and the environment on its capacity to create added value for all its stakeholders. In 2016 it launched the new Safety and Health Framework and adopted the ISRS safety management system, keeping its commitment with the safety of its employees, (sub) contractors and the whole Company. These investments focus on improving safety culture and operating performance, as well as on guaranteeing Mexichem's reputation with its clients. The new framework consolidates the best practices of Fluent Europe and makes them available to all sites.

Fluent Europe's health and safety framework prepares operating sites for external ISRS audits to be carried out company-wide in the following years

Risk management at the plants of Fluent Europe is essential. Employees and (sub)contractors are exposed to safety risks on a daily basis: machinery, noise, vibration, forklifts, transportation vehicles and large products are some. The launch of the Health and Safety Framework and the ISRS audit system has the objective of keeping employees safe. During launch and in preparation of the ISRS, special attention will be paid to machinery design and adjustment, material used during operations, training courses, safety guidelines review and improvement, and investigation of accidents.

Moral responsibility for effective safety management provides a strong motivation for future programs. However, expectations are that the benefits will go beyond a safe culture and performance. By improving operating risk management, Fluent Europe guarantees the quality, safety and efficiency of its operations, in turn directly benefitting its clients. An example of this are the Safety and Logistics Improvement projects currently being carried out in Southwestern and Northwestern Europe. These programs help to improve client relations and evidence that Fluent Europe is the preferred supplier for its high quality products and solutions.

Fluent Europe's Health and Safety Excellence team will support all its sites with the implementation of the Health and Safety Framework. The safety maturity achieved by every site is determined by ISRS audits. These audits show maturity levels in the range of 1 to 10, where 10 is maximum maturity. The next steps will include an increase in the level of maturity or the inclusion of new topics, such as quality and/or the environment to ensure continuous improvement.

Fluent Europe

Currently, 11 sites have achieved ISRS certification level 7 and 13 others are expected to for next year

ISRS and Mexichem Specialty Compounds (MSC)

There are currently seven Mexichem Compounds sites: two in the US – Pineville and Leominster– and two in the UK –Melton Mowbray and the recently acquired Vinyl Compounds sites in the North of the country– besides three more in Latin America.

The two sites in the US and Melton were part of the original ISRS project in 2013 (19 sites). Thus, they achieved ISRS certification Edition 6 in 2015, level 8 for the UK and 7 for the US. As a result, a great change in culture was observed at the three sites due to the decision of direct involvement, rather only mere support, of high corporate levels. This involvement resulted in greater floor recognition from top management in visits and talks.

MSC believes that ISRS is the path to follow regarding cultural change and integration, as well as for positive behavior, regardless of the current environment. In addition, modifications in the ISO9001, ISO14001 and OHSAS 18001 (will change to 45001) certifications are based on risk prevention and leadership, therefore making ISRS the base for compliance of these requirements.

ISRS Fluent USA / Canada

Fluent has ten sites in the US and two in Canada. Mexichem carried out its first GAP analysis at the site in Sanderville, Georgia. On the base of the results, executives received training at headquarters in Canada and the US. In 2017 Fluent will carry out activities for the development and start of process implementation aimed at obtaining Edition 8 Certification in all sites by 2019.

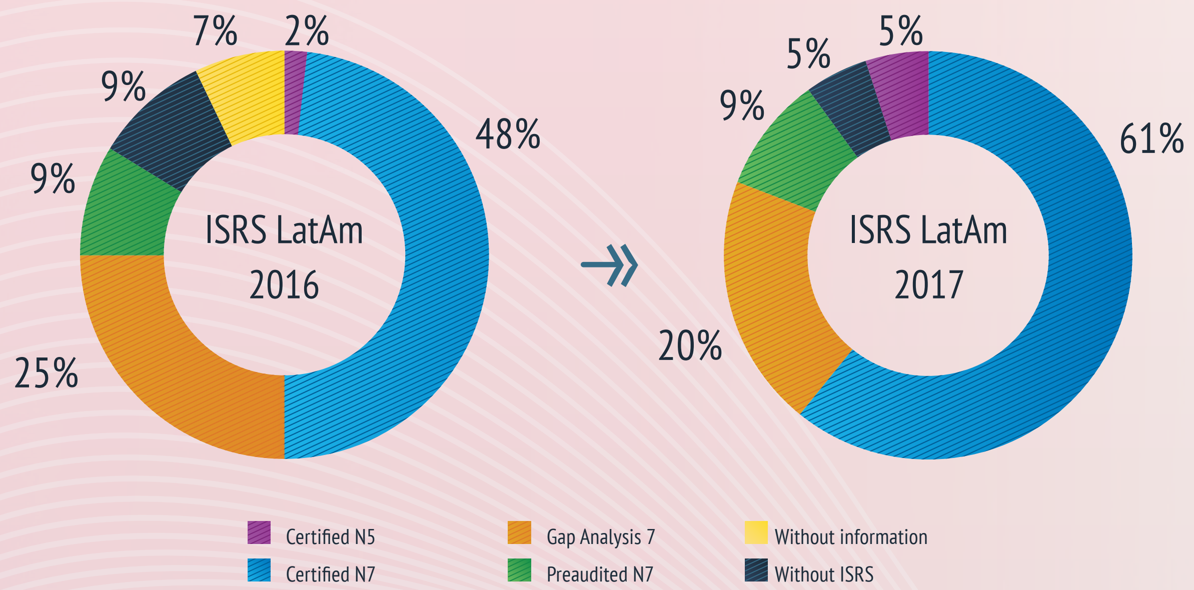
ISRS and Specialty Resins, Inc. (MSRI)

MSRI has two sites in the US, Pedricktown (New Jersey) and Henry (Illinois). Both will be evaluated with the goal of obtaining ISRS edition 8, Level 6 certification.

Pedricktown achieved a successful initial evaluation in October and is currently in the process of obtaining feedback and guidance. A certification audit is programmed for the fourth quarter of 2017, with full certification expected at the end of the first quarter of 2018.

Henry will receive its initial assessment in 2017's third quarter; achieving its certification in 2018's last quarter.

ISRS LatAm –Fluent, Vinyl, Fluor–



48% of the LatAm sites obtained Level 7 ISRS certification

50% of Fluor | 73% of Vinyl | 37% of Fluent

Operating Safety Indicators

G4-LA6

	2012	2013	2014	2015	2016
Lost time accidents	253	188	205	147	121
Days lost	8,777	5,950	5,268	4,013	2,531
Fatalities[1]	0	0	0	1	1
Man-hours worked	36,782,516	36,855,286	39,582,720	41,810,917	41,940,179
Frequency index[2]	1.3	1.0	1.0	0.70	0.58
Severity index[3]	47.0	32.2	26.6	19.20	12.07

[1] Fatalities of Mexichem employees
[2] FI = (Lost time accidents / Man-hours worked) x 200,000
[3] SI = (Days lost / Man-hours worked) x 200,000 (severity related to days from work)

Health Prevention Programs

G4-DMA OCCUPATIONAL HEALTH AND SAFETY (B)

During the annual Safety and Health Week at the different locations where we operate, experts present and discuss aspects related to education, training, and advice in the prevention and control of risks. We frequently invite families of our employees to participate and acquire good habits to improve their own and their family's health.

As part of medical program activities, we hold talks on preventing the most common serious illnesses in the various regions where our plants are located--high blood pressure, diabetes, obesity, smoking, influenza, stress, alcoholism, cancer, and AIDS— all with a focus on preventive medicine aligned with productivity.

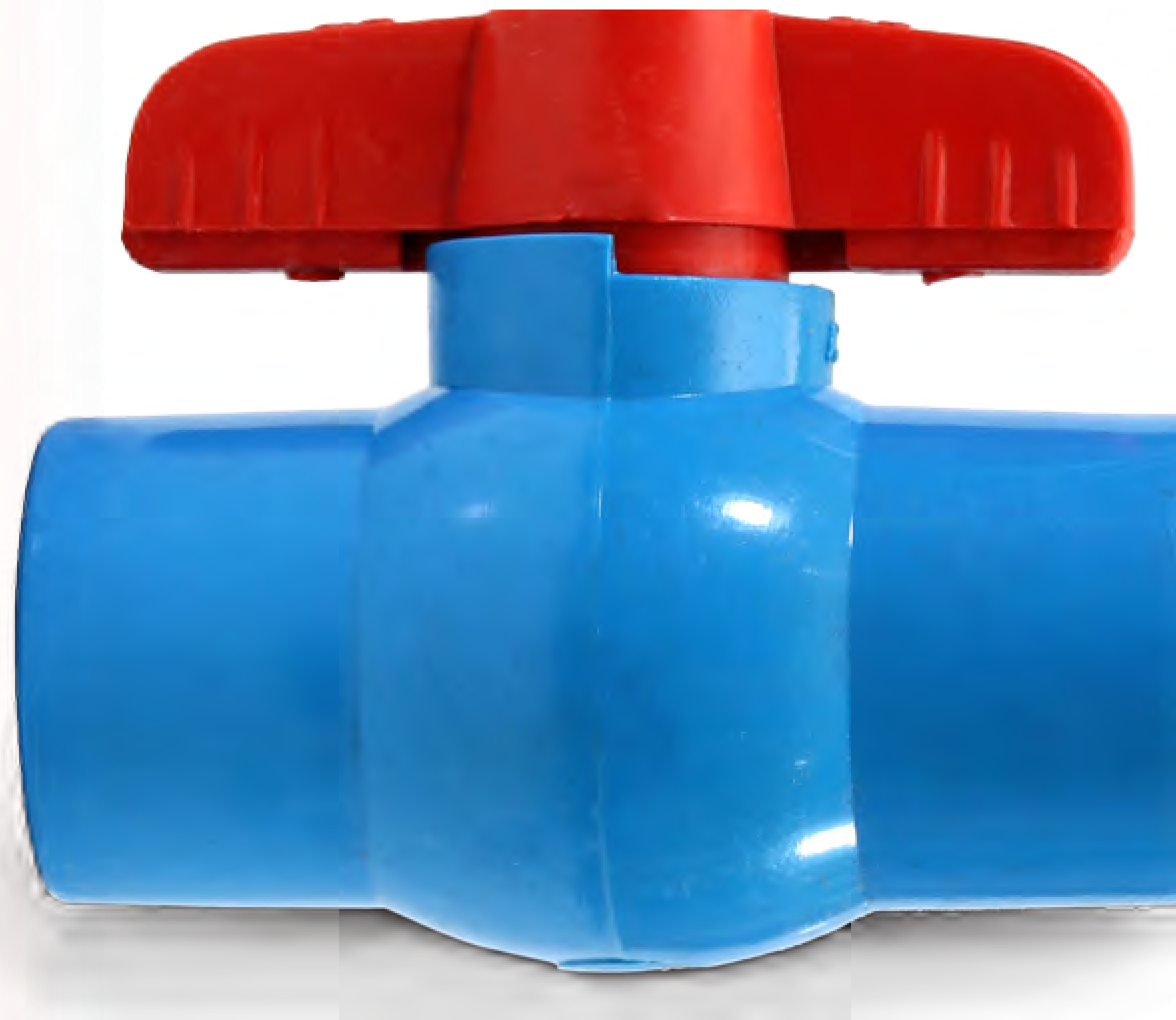
Other health care initiatives include our epidemiological awareness program, regular medical checkups for our workers, vaccination campaigns, and cafeterias and food supervision. We also organize on-site visits by doctors and safety personnel, besides offering information on health and hygiene through newsletters or on bulletin boards.

G4-LA7, G4-LA8

The purpose of our safety programs is to protect the health of workers that are most exposed to risk, injury, work-related illness and accidents. Labor agreements with our unions include health and safety clauses for all employees.

Our preventive safety programs include, among others:

- Safety orientation for newly hired employees
- Safety orientation for contractors
- Safe handling of chemical products
- Safety Data Sheets and emergency sheets
- Accident and incident investigation
- First aid
- Major emergency training
- Fire brigades
- Handling of hazardous materials



Volunteering

Mexichem's Volunteer Program seeks to engage employees in social projects that provide a positive impact in our society. They give their time and talent to support our neighbor communities.

The Company promotes, facilitates and supports volunteer work among its employees in order to contribute to the development and well-being of society

The Guide to Corporate Volunteer Programs promotes strategic actions aimed at achieving transformation in our society through the empowerment of employees who take on leadership roles and become agents of change, in the following four scenarios:

7,523
Mexichem employees participated in volunteer actions

1

Philanthropic Actions:
Humanitarian and social assistance interventions for vulnerable social groups, these are done both in places neighboring Mexichem operation sites and in regions where Mexichem has presence and a natural disaster has occurred. Typical activities are: collection of donations by employees, donations made by the Company, and partnerships with NGOs to support the affected population.

2,407
volunteers participated in natural disaster relief campaigns -Hurricane Otto in Costa Rica; the earthquake in Ecuador and the Louisiana floods-

2

Event Activities:
Day-long events in which volunteers contribute with their time to carry out activities that benefit neighboring communities. Some of these activities are: beach clean-up, reforestation days, Hydros workshops, and the events of the +Km Program, which promotes health improvement through sports activities; kilometers are registered and transformed into donations made by Kaluz Foundation to support social investment projects, once the goal has been reached.

2,405
participants in the +Km Program

2,086
volunteers were involved in end-of-year activities for communities

3

Skill-based Initiatives:
These initiatives are based on volunteer talent and skills and are carried out in support of a specific community. For example, employees may participate in: transfer of technical capacities such as pipe installation training courses, entrepreneurship workshops or participation in the Hydros project as Water Ambassadors promoting a healthy water culture among schools, neighborhoods and communities.

101
volunteer participants in the Hydros Project, acting as Water Ambassadors

4

Social Investment Projects:
Employees identify a social problem, design an intervention and call on other volunteers for its execution. They become leaders of their own projects, which must be aimed at water and education; these projects participate in the Kaluz Foundation Award.

224
volunteer participants with social projects

For information on the results of the 2015-2016 Kaluz Award, go to: http://www.fundacionkaluz.org/premio/2015-2016/innovacion-social/
For information on the Corporate Guidelines for Volunteering Programs, go to: http://www.mexichem.com/wp-content/uploads/2016/08/Guide-to-Corporate-Volunteering-Programs-in-Mexichem-official-.pdf

Transcending with Responsibility

Product Responsibility

Mexichem acknowledges the importance of innovation and development to remain as a leader in its markets

Mexichem recognizes that research and development is the engine of our future growth. It creates new market opportunities, improves understanding about our products' impact throughout their life cycle, and provides solutions for risk management. Investment and actions on R&D are aimed at improving product performance in benefit of clients and at complying with the most rigorous regulation of the different markets in which it operates.

Investment on Research and Development:
$27.3 million

Mexichem's main source of innovation has traditionally been the acquisition of new companies, but we are also prepared to respond to stakeholders who require an increasing amount of scientific information about our products and are eager to learn about innovation and new developments.

Mexichem has earned recognition for its development of specialty PVC products, tailored to its clients' needs in the construction, services, civil infrastructure, water conduction, basic sanitation, transportation, energy and telecommunications.

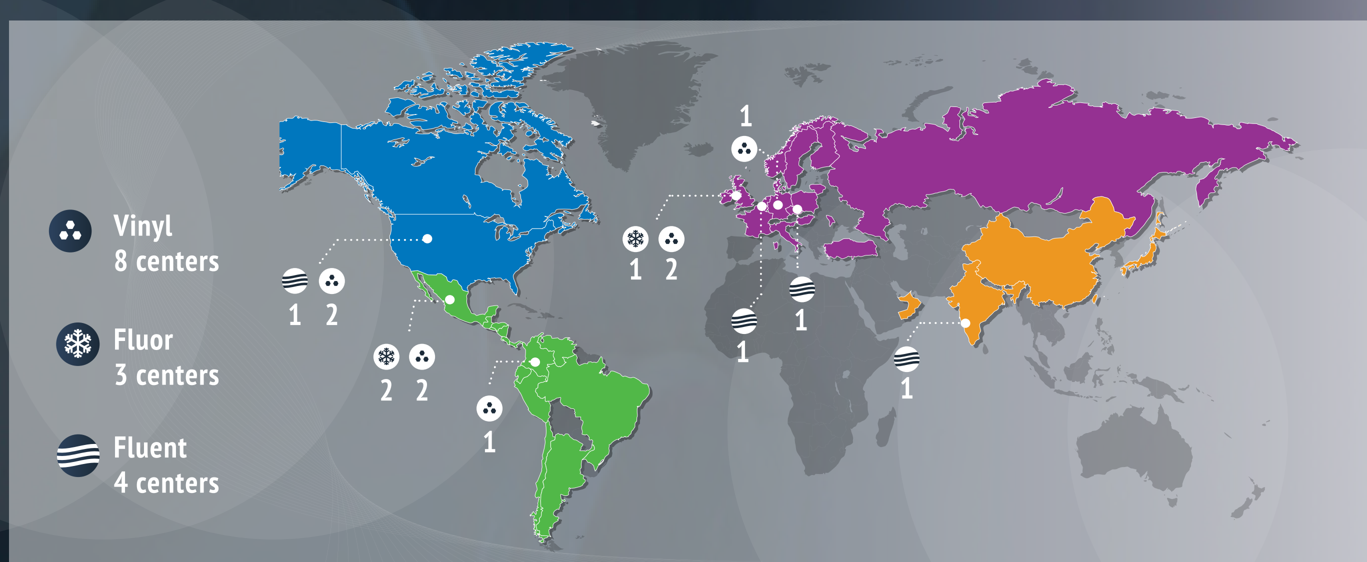
Mexichem has 15 R&D labs focused to develop cutting-edge technology to come up with new and better comprehensive products, processes and applications, which have a positive impact in the users' quality of life

Moreover, it develops cutting edge technology for gas refrigerants to be used by the automotive industry in 2017.

The Mexican government maintains the policy of granting financial incentives for research and development through the National Council for Science and Technology (CONACYT). Mexichem has had access to this benefit for years –including 2016- through different projects.

In 2016, Mexichem organized a Committee of Technology in charge of Fluent Europe -creating synergies with Fluent LatAm. Research and Development centers focused on satisfying the global market Mexichem serves and on transferring technology from Europe to Latin America. The result was the creation of global solutions. In addition, a technical team carried out the relevant technology changes in the manufacturing processes.

Later in 2015, the strategy at the R&D centers focused on increasing the payback degree (rate of return) of the projects and on covering customer requirements by geographical regions; if necessary, projects are created for countries that require them. This regional approach has allowed the R&D centers to tend with greater opportunity the technological needs of our clients.



Mexichem maintains the strategy of migrating to greater value added products in the three business groups:

- Vinyl: with the assets of Mexichem Specialty Resins and Mexichem Specialty Compounds –focused on wide range plastic compounds -and Vestolit- the largest producer of high-impact PVC resins in Europe.
- Fluent: with the integration of Dura-Line with high density polyethylene products through conduit and piping solutions for voice and datacom.
- Fluor: with the development and commercialization of medical propellants and fluoride compounds for the cement industry.

Product Stewardship

Product stewardship is a central objective in Mexichem's strategies for sustainability, aimed at ensuring the prevention and control of risks in the life cycle of the materials we use, produce and transform. We are committed to minimizing the risks and impacts associated with our products, managing for this purpose from its design to its final disposal. We count on specialists in diverse disciplines, trained to promote the development of the necessary innovations and improvements.

Mexichem is committed to the Responsible Care initiative and the Global Charter signed by our CEO. A global initiative of the chemical industry for sustainability, we seek to guarantee the safety of our processes and products following guidelines that establish the adoption of the most demanding practices in management and the best technologies available for supporting continuous improvement.

We work to strengthen our corporate Product Stewardship strategy by establishing global guidelines and tools for standardizing best practices, guaranteeing product safety and pursuing continuous improvement. This work is being led by the Product Stewardship work team.

Through our Materiality Assessment, Mexichem identified five issues relevant to the adequate safety management of its products:

- Product transparency and regulatory compliance
- Safe management of hazardous materials
- Assessment of impact on product life-cycle
- Closure of product life-cycle
- Product contribution to sustainability

Product Transparency and Regulatory Compliance

G4-DMA PRODUCT AND SERVICE LABELING, COMPLIANCE

G4-PR3

Mexichem complies with the regulations applying to the products and substances it uses in its processes, and the places where it produces or sells its products. Moreover, it makes available to its clients and stakeholders the complete, transparent and adequate safety information for all of its products by differents ways.

The products comply with the requirements established by a risk communications program that includes labeling and classification based on the Globally Harmonized System. The content of the labels and Safety Data Sheets complies with the laws and regulations of each of the countries in which products are sold and include information such as its composition, instructions for its safe use and storage, and recommendations for its proper disposal. Mexichem also provides technical assistance to clients in order to guarantee that safety measures are correctly implemented in the storage, handling and processing of the product. Adoption of GHS and update of the PVC resin Safety Data Sheets advanced in 2016.

Mexichem has developed and published risk assessments of the substances it produces registered under REACH. The reports of chemical safety for said registered substances, including exposure scenarios and full information, are available for public consultation at the websites of the European Chemical Agency (ECHA).

For more information, go to:
http://echa.europa.eu/web/guest/regulations/reach

Marketing Communications

G4-DMA MARKETING COMMUNICATIONS

Mexichem management incorporates the ethical codes and principles of transparency in the set of information to stakeholders. All marketing and advertising communication and, in general, all information published by the Company, is consistent with the policies documented by Mexichem's Legal and Investor Relations Departments.

Regulatory specialists in each country where we operate review local communications to ensure they comply with the prevailing laws and regulations, in accordance with the Company's Code of Ethics and policies. This review encompasses all marketing and advertising information published on websites, in technical product literature, newsletters, information presented at business fairs, information included in the product packaging, and any other material relating to advertising, promotion or sponsorship.

Through the industrial and mining associations to which we belong, we remain abreast of progress on the regulatory front and other measures for product safety management in light of concerns among the general public and the emergency of any restrictions that might affect our markets. We stay informed so we can act responsibly when justified concerns or legal limitations arise.

Client Privacy

G4-DMA CUSTOMER PRIVACY

At Mexichem, we closely control information to avoid any unauthorized leakage of data on our clients or ourselves to outside parties. Thus, we avoided any incidents for breach of regulations on marketing communications or client claims regarding privacy and leaks of their personal data.

Use of Hazardous Materials

Mexichem supports the United Nations Environment Program (UNEP) Strategic Approach to International Chemicals Management (SAICM) and its goal: "by the year 2020, chemicals are produced and used in ways that minimize significant adverse impacts on the environment and human health."

In Europe, Mexichem complies with REACH (Registration, Evaluation and Authorization of Chemicals) requirements for all substances produced or imported by subsidiaries in our Fluor and Vinyl Business Groups. We have completed pre-registration of more than 70 substances and registered the substances classified as priorities.

The chemical safety reports for registered substances, including exposure scenarios and full information are available for consultation at the website of the European Chemical Agency (ECHA) at: http://echa.europa.eu/web/guest/regulations/reach

Life Cycle Impact Management

G4-DMA CUSTOMER HEALTH AND SAFETY (B)

Prevention, reduction and mitigation of product impacts throughout their life cycle - extraction, manufacturing, marketing, storage and distribution, use, final disposal, reuse or recycling - are managed through Responsible Care practices of Product Stewardship, with technological support from Mexichem's Research & Development Centers.

In order to prevent potential harmful effects to health and the environment, a toxicological assessment is carried out during the production of new products as well as during its use. Mexichem avoids as much as possible performing tests on animals. In those cases in which protocol or applicable regulations require it, and always as a last resort, alternatives are assessed until confirmation that tests on animals are the only practical option.

G4-PR1

All products are assessed for opportunities to improve their use and minimize the risk to human health and the environment

Closure of Product Life Cycle

At Mexichem, we are aware that a circular economy will transform the outlook of the plastic industry. Contribution to the European Council of Vinyl Manufacturers (ECVM) is made through Vestolit –part of Mexichem in Marl, Germany. The entity leads the voluntary commitment of the vinyl industry to sustainable development in the European Union – known as Vinyl Plus- whose objective is the creation of a long-term framework for the sustainability of PVC. This initiative is also supported by other industrial associations such as the European Plastics Converters and the European Plastic Pipes and Fittings Association (TEPPA), in which other Mexichem plants are also represented.

One of the objectives of Vinyl Plus' commitment is the recovery and recycling of PVC waste

This initiative has recycled more than **400,000** tons of PVC waste, which has been transformed into goods useful for society

Fluent products are designed to last. Plastic is a material that is versatile, light and lasting; adequate to be made into diverse sustainable products of easy use. It is used in window frames, pipes and fittings, and may be recycled up to eight or ten times without losing its mechanical properties or long-term behavior. At the end of its life cycle, after several recycling cycles, the material pulverizes to be incorporated into new products. Energy may be recovered from it by incineration or it may be used as fill in other applications.

Using recycled materials reduces the global need for raw materials and virgin energies, in consequence, it reduces greenhouse gas emissions. In addition, it minimizes water, land and air pollution. Land fill prevention and incineration helps to preserve the biodiversity and nature's ecosystems.

There are two identified types of waste:

- **Post-industrial waste** (*scrap*). It originates inside the plants whenever a product does not comply with the required quality standards and therefore, cannot go out to the market. Post-industrial waste is the easiest to recycle, as it is relatively new and clean.
- **Post-consumer waste.** It originates when the product ends its life cycle; this type of waste is harder to recycle as it originates from different sources, thus containing a mixture of different plastics. The challenge posed by this type of waste is in transforming low-quality plastic waste into high-quality material.

Fluent launched innovative waste-content products, such as multiple-layer drain piping and the filter units for rainwater management in the Netherlands

Drain piping consists of external and internal layers made of virgin PVC and a 100% recycled PVC core, using the UK-developed Reycore technology. The piping fully complies with the European standard for drain piping and with the equivalent characteristics of the type made from virgin PVC resin.

The European plastic industry has been working intensely to increase the recovery of plastic waste and to optimize recycling technologies. Based on the achievements of the 2010 Vinyl program, the new Vinyl Plus Voluntary (10-year) Commitment was signed in 2010. The initiative has been very successful and is on its way to achieving its goals.

Vinyl Plus established the goal of recycling **800,000** tons of PVC every year by 2020

Mexichem's first PVC recycling initiative in Latinamerica was established in Colombia on April, 2016. Through an agreement between Mexichem Resinas Colombia, Mexichem Colombia (PAVCO) and the waste management company "*Ambientes Plasticos de Colombia*", 21 tons of PVC waste generated on construction sites of Mexichem Colombia clients were recovered, and transformed into articles such as chairs and hoses.

A monthly recovery goal of 10 tons is expected to be achieved in order to make the incorporation of this waste to the Woodpecker production plant viable*. This Company uses PVC waste and dry coffee husk to produce profiles used to build houses, classrooms, decks, and many other valuable products.

*www.woodpecker.com.co

Products Contribution to Sustainability

Mexichem offers a wide range of raw materials and finished products that contribute to the success of our clients and improve quality of life for people around the world, through environmental, social and economic benefits.

Our experience and products help improve access to water and sanitation through efficient pipe systems facilitating social compliance of global sustainable development objectives, in particular number 6, whose objective is to achieve equitable access to adequate health and sanitation services, implementing integrated management of water resources at all levels and strengthening the participation of local communities in the improvement of water management and sanitation.

Mexichem contributes to create social value by providing solutions that help to deal with the floods intensified by climate change, as the Company provides the know-how and technology for effectively managing excess rainwater. In addition, it supports small farmers by providing adequate irrigation systems for their crops.

Moreover, with the raw materials produced, the Company contributed to the development of a great number of items which became part of construction and infrastructure. Manufactured PVC products have functional attributes that contribute to a better performance, under relevant sustainability criteria. These criteria focus –in most sustainable construction accreditation systems- on impact control at the project site, selection of durable, environmentally friendly, non-toxic, responsibly-manufactured materials, as well as on thermal comfort and interior air quality. Materials produced by Mexichem provide all these factors at reasonable prices, facilitating its access to a larger number of people. By participating in the infrastructure sector, the Company contributes to the achievement of the global sustainable objectives, which seek social development of reliable, resilient and quality infrastructures to support economic development and human welfare, with special emphasis on equitable and affordable access for all.

The products of the Fluor Business Group provide medical solutions such as pharmaceutical grade medical propellants which have a direct effect on the improvement of social health. In addition, the Company is at the forefront in production of reduced Global Warming Potential refrigerants.

For more information on sustainable solutions go to: *http://www.wavin.com/web/news/show-news-on-page/pros-and-cons-of-separating-rainwater-from-sewers-to-prevent-sewer-overflow-in-urban-areas-1.htm*

INNOVATIVE PRODUCTS + SUSTAINABLE CRITERIA

Mexichem has established a partnership with KWS for the development of the PlasticRoad system, which converts plastic waste into light modules whose interior cavities may pass cables and piping, as well as drain excess water. The objective is to create avenues with a smaller ecological footprint than traditional ones, which may be recycled at the end of their life cycle, contributing to a circular economy and the protection of the environment.

For more information, go to: *http://www.wavin.com/web/news/show-news-on-page/three-industry-leaders-team-up-on-developing-a-sustainable-plasticroad-prototype-1.htm*

Aspiring to Increase Value

Sustainable Operations

G4-DMA BIODIVERSITY, EMISSIONS, PRODUCTS AND SERVICES, COMPLIANCE, TRANSPORT

G4-14

Mexichem is firmly committed to protecting the environment, and complying with all legal requirements related to our environmental footprint. Our protection actions seek to minimize operational impact, protect the environment and develop initiatives that raise awareness about the preservation of environmentally-valuable areas and natural resources.

The Company strives to maintain a greater efficiency in all the resources it utilizes in its operations, applying the principles of industrial reduction, reuse and recycling. We regularly evaluate risk and identify opportunities related to climate change in the geographic zones surrounding our operations.

In addition, we prepare an inventory of greenhouse gases (GHG) in our operations and account for direct and indirect emissions related to the electrical energy and fossil fuels we consume. Our commitment to reduce GHG emissions is focused on energy savings and efficiency goals in our process, and involves all of our sites and employees.

In the following years we will continue to develop different development plans for energy saving and process eco-efficiency, technology substitution and assessment of alternative renewable energies.

G4-EN27

Our initiatives to mitigate environmental impact are the following:

- Water and energy use optimization
- Reduction of industrial waste
- Control of atmospheric emissions
- Development of plans for protection of biodiversity, soil, surface water and aquifers
- Research and development for designing and producing safer and environmentally friendly products

G4-DMA OVERALL

G4-EN31

These mainly included energy saving and optimization activities, water treatment systems, chemical spill protection, noise reduction and industrial waste handling. In 2016 operating costs for environmental compliance were $15.9 million.

Moreover, Mexichem adopted the precautionary principle relative to products aimed at the medical and food industries, by obtaining validation of new raw materials from the Food and Drug Administration: physical and chemical testing for bioaccumulation, cytotoxicity, microbiology, melamines, melatonins, genetics and bioavailability.

Highlights 2016

Improving water management in Mexichem territories

Mexichem reaffirms its commitment to improve its employees and communities' lives through several programs focused on promoting water security in Latin America for the next five years.

Mexico City

Water is one of the five priorities in the strategy "CDMX Resilient: adaptive, inclusive and equitable transformation" launched by Mexico City's government.

On September 6, 2016, representatives of the Latin American Alliance of Water Funds signed a cooperation agreement to support the strategy through an initiative promoted by CitiBanamex, Coca-Cola FEMSA, FEMSA Foundation, Río Arronte Foundation, Grupo Modelo, HSBC, Mexichem and The Nature Conservancy, who will implement actions to help the city achieve its water resilience targets by fostering multi-sector collaboration.

Through CDMX Resilient –which has Rockefeller Foundation's support– comprehensive solutions will be implemented to face challenges generated by globalization, urbanization and climate change, as well as their social and economic impacts.

Peru

In August, employees of Mexichem Peru, S.A., became partners of the Peruvian Water Fund Directive Committee –Aquafondo–, dedicated to protect the water's amount and quality in all rivers that supply Lima and Callao, as well as to promote water security in rural and urban areas, by means of investing in strategic projects of conservation and restoration of green infrastructure.

Ecuador

Mexichem Ecuador is a partner in the Guayaquil Water Fund and contributes in a trust fund to receive funds from all the project's participants.

Colombia

Mexichem has progressed in the identification of territories that will benefit from water funds driven by the Columbian company, mainly in Bogota, Cartagena and Cauca.

Energy Consumption

G4-DMA ENERGY

Most of the energy we consume in our operations comes from fossil fuel sources. Since the generation of GHG is linked to this activity, we will continue working to optimize energy use, reduce consumption and identify alternative sources for the future.

The demand for energy varies among our Vinyl, Fluor and Fluent Business Groups. The Vinyl Business Group's plants consume the most energy. At present, 70% of the energy used in our operations at Altamira comes from a cogeneration process that supplies more efficient energy.

G4-EN6

2018 Goal*: reduce by

5% global energy consumption

*Base year: 2012

2016 progress: reduction by

3% derived from operating efficiency and process energy reduction projects

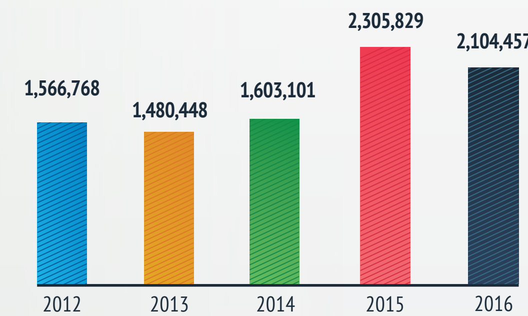
G4-EN3, G4-EN6

Mexichem's energy comes primarily from two sources: electricity and natural gas. It is supplied almost exclusively by external companies. Secondary energy sources are steam, diesel and LP gas.

In 2016, electricity consumption totaled 2,104,457 Gcal, 8.7% less than in 2015, derived from lower consumption of the Vinyl business

Electrical energy

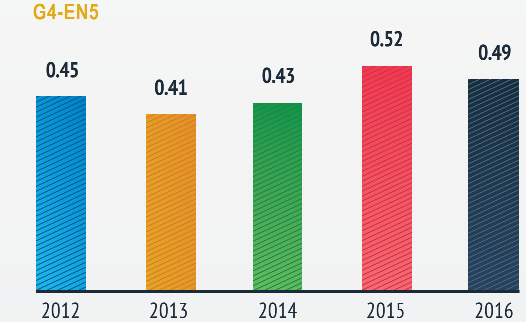
Gcal/year



Energy intensity

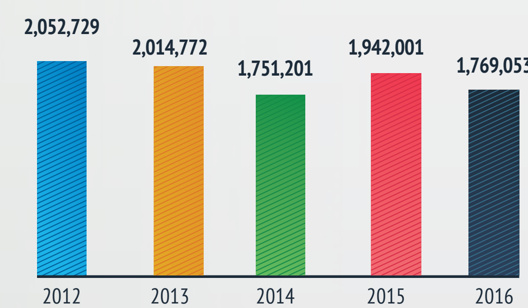
Electrical energy consumption/ton sold

G4-EN5



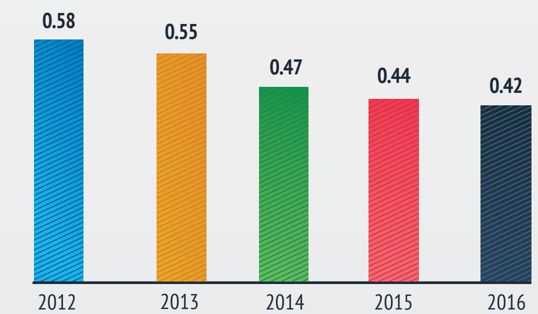
Natural gas

Gcal/year



Energy intensity

Natural gas consumption/ton sold



Note. Data for 2014 and 2015 was recalculated due to a correction on data from USA operations.

Direct energy consumption from natural gas: 1,769,053 Gcal; reduction of 8.9% against 2015

The unfortunate event that occurred on April 20, 2016 at *Petroquímica Mexicana de Vinilo* (PMV, joint venture with Pemex), where the Clorados III area inside the Pajaritos Petrochemical Complex suffered an explosion in the VCM plant, has resulted in the reduction of energy consumption (electricity and natural gas), given that PMV soda chloride plant is currently operating at lower capacity rates. And, this operation is a high-energy consumption process.

G4-EN7

In order to save energy, several actions were carried out at operating sites such as the substitution of high-efficiency motors, and installation of LED lighting and improved-efficiency cooling equipment. In addition, operational practices were carried out such as the shutdown of non-critical equipment during peak hours and the increase in production efficiency.

Water Management

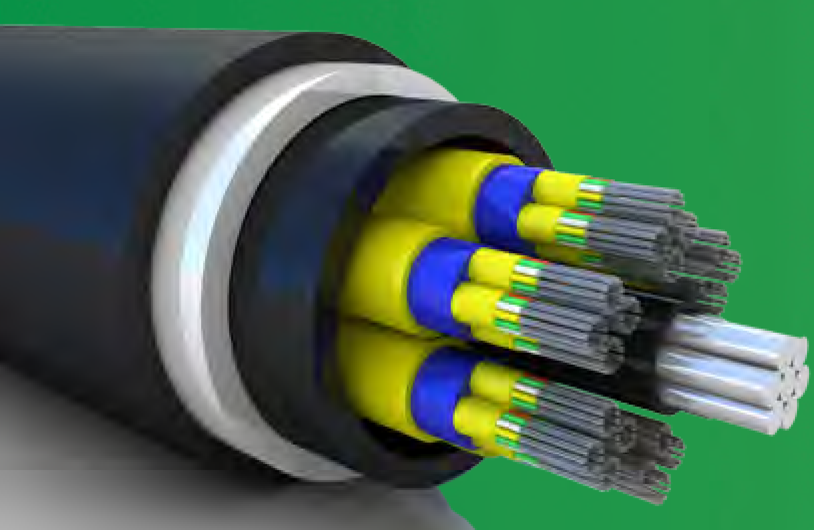
G4-DMA WATER

Water consumption at Mexichem operating sites is subject to authorization of the corresponding government agencies, who carry out studies based on the availability of the natural resource and grant permits, licenses and/or concession titles in accordance to environmental laws in every country. Mexichem is always in compliance with the laws and regulations derived from the results of said studies and assesses the risk of a water shortage for its operations. Currently, no risk of water shortage to the operations has been detected.

Water is an essential resource in the operation of the Vinyl, Fluor and Fluent Business Groups. PVC products generated by Fluent are mainly used in hydraulic and sanitation systems as a means to transport water. Moreover, the sustainable solutions it provides allow the recovery of rainwater, as well as handling, decanting and use of water for human consumption.

Hence, the Company makes permanent efforts to reduce water consumption in all processes and adheres to water-protection initiatives from NGOs such as the Water Funds Partnership NGO, a specialist in water-related themes which develops joint projects with other companies or with its own foundations in order to protect river watersheds through different actions which include reforestation and education of communities, among others.

For more information about the Water Funds initiatives, go to: http://fundosdeagua.org/es



Hydros project

The project was launched on 2012 at all the Kaluz Group companies in order to raise awareness and promote responsible water use. The project allows persons from different communities to become water ambassadors and provides them with the necessary tools to sensitize others in sustainable management and achieve a greater impact.

For more information about this project, go to: http://proyectohydros.com/

G4-EN8

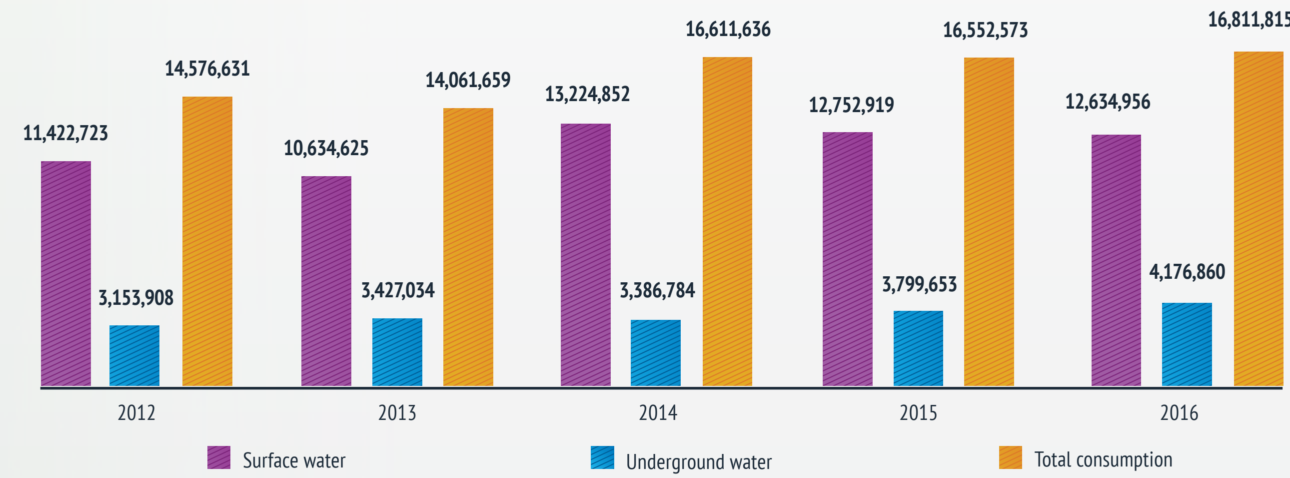
Total water consumption

16,811,815 m^3

In 2016, approximately 75% of our water was extracted from surface water bodies, meaning that most of the water consumed by Mexichem comes from the natural runoff of the water into rivers, lakes, creeks, and water vessels, where there is a natural replenishment of these water supply sources, meaning there is a natural replenishment of these supply sources. The remaining 25% comes from underground sources, which natural replenishment takes more time.

Water consumption in operations

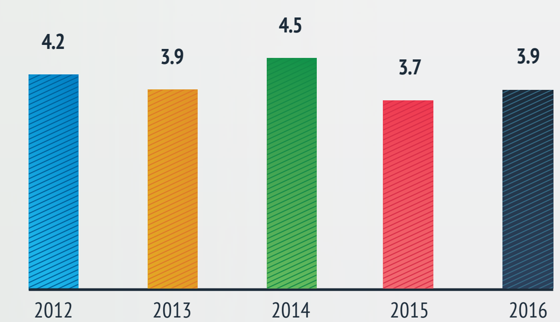
m^3



Note. Data for 2014 was recalculated due to a correction on data from USA operations.

Water intensity

m^3



G4-EN10

In 2012, we set the goal of re-using at least 70% of our consumed water by 2018.

By the end of 2016, we had attained a global water reuse index of **73%**, equivalent to a volume of 12,189,859 m^3.

Water reuse (m^3)

	2012	2013	2014	2015	2016
Recycled and reuse water (m^3/year)	10,899,117	7,760,089	8,552,959	11,425,139	12,189,859
Recycled and reuse water (% of total used)	53	55	51	69	73

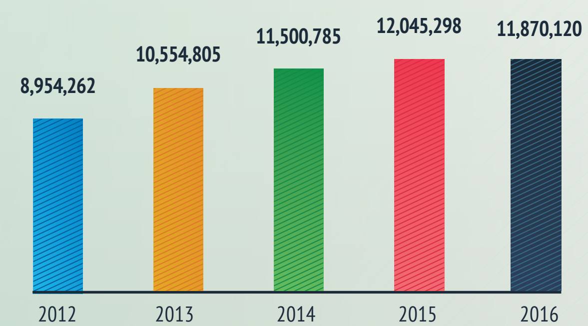
Note. Data for 2014 and 2015 was recalculated due to a correction on data from USA operations.

G4-DMA EFFLUENTS AND WASTE

Because all of Mexichem's plants are equipped with wastewater treatment facilities, all waste water is treated before being discharged, according to the quality characteristics required under each country's laws and regulations.

G4-EN22

The amount of treated wastewater discharged into surface water bodies, municipal drains, and through filtration was **11,870,120** m^3



Discharged to rivers, creeks, municipal sewage and injection.

Greenhouse Gas Emissions

G4-DMA EMISSIONS

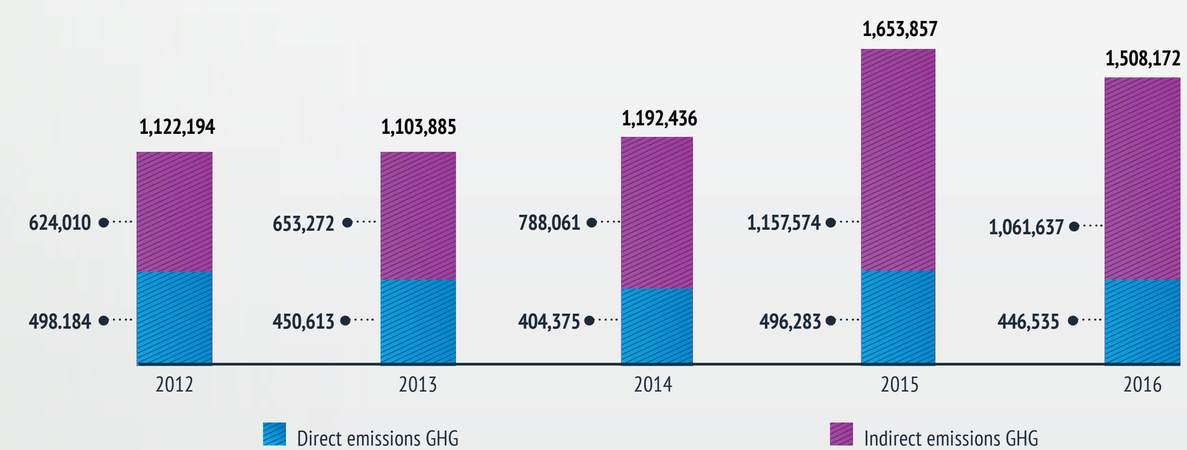
Mexichem measures its emissions of gases and particles pursuant to regulatory requirements of its operating sites to ensure the health and safety of its personnel and neighboring communities and to protect the environment.

Most of the greenhouse gases generated in our operations relate to our consumption of electrical energy and natural gas from fossil sources. Accordingly, we have focused efforts on making our operations more efficient and thus reduction consumption, and on identifying energy cogeneration projects that help us to be less dependent on fossil fuel sources and increase the use of more efficient fuels such as natural gas.

Furthermore, we comply with local regulations related to gas and particulate emission and in some of our operations, such as Coatzacoalcos, we have reduced process emissions to levels below the regulatory minimum.

G4-DMA-B ENERGY, EMISSIONS

To calculate these emissions, we used the methodology of the World Resources Institute (WRI) and of the World Business Council for Sustainable Development (WBCSD), taking into account emissions factors from Mexico's Federal Electricity Commission (CFE) established in the GEI Mexico program (http://www.geimexico.org/) and the International Energy Agency (CO_2 Emissions from Fuel Combustion 2013 Edition). The calculation includes emissions of NOx, consumption of fuels like natural gas, LP gas, diesel and gasoline, both fixed and mobile sources, converted to equivalent metric tons of CO_2.



Note. Data for 2014 and 2015 was recalculated due to a correction on data from USA operations.

G4-EN19

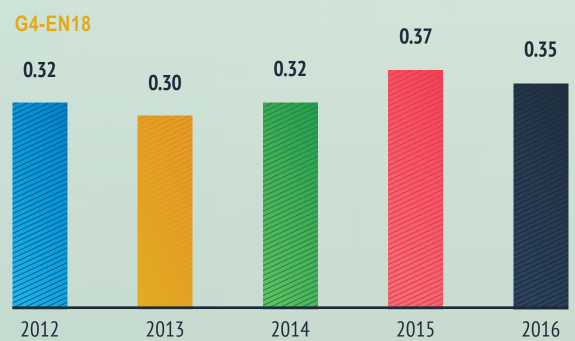
Reduction of 8.8% in GHG emissions and 5.4% in intensity of emissions against 2015 as result from a lower energy consumption by the Vinyl business

G4-EN20

As a result of using best practices in managing ozone-depleting substances, in compliance with the Montreal Protocol agreements, Mexichem has been able to continue reducing emissions. Our consumption in 2016 was 10 tons. Our refrigeration equipment is going to be substituted to eliminate the use of refrigerants included in the Montreal protocol.

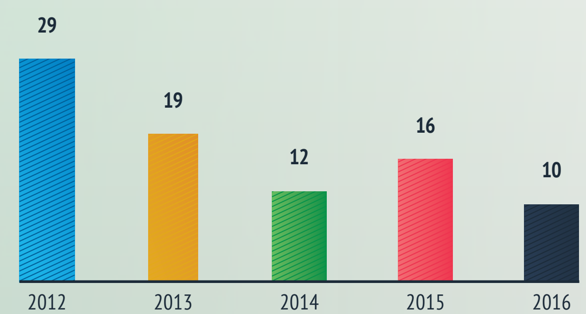
Emission intensity

tons CO_2eq/ton sold



Emission of ozone-depleting substances

ton/year



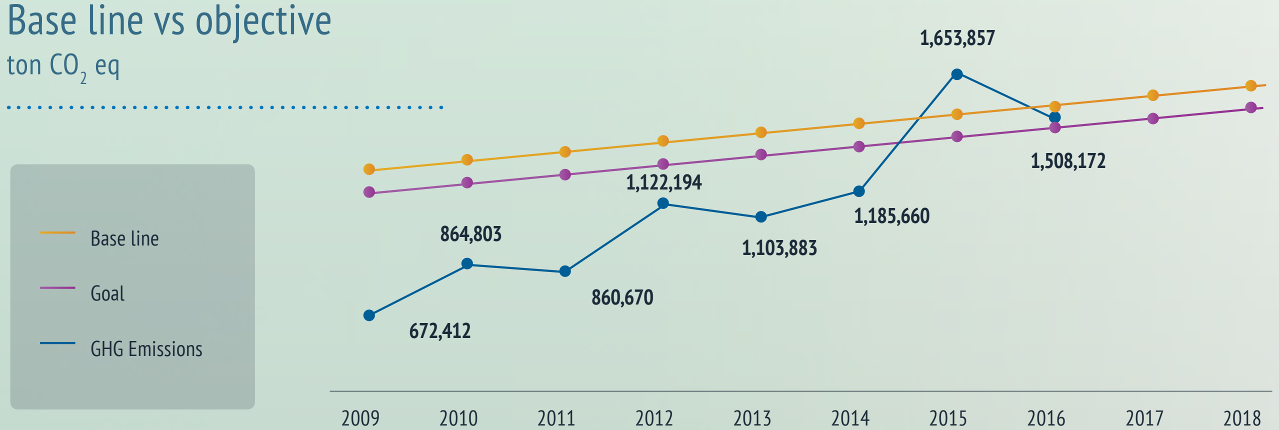
At Mexichem we are committed to reducing GHG emissions and have established energy saving goals at our operations, office buildings, and industrial facilities. Furthermore, we have developed projects to use renewable sources of energy that will allow us to reduce our carbon footprint. Our goal is to achieve a 5% reduction by 2018.

G4-EN21

Our combined NOx and SOx emissions were equivalent to 2,582 tons

Total emissions vs 2018 goal Base line vs objective

ton CO_2 eq



Industrial Waste

G4-DMA MATERIALS, EFFLUENTS AND WASTE

Because of the nature of our business, we also generate waste that require special handling or byproducts for which we have specific programs for re-use in the construction industry. With this, we not only reduce the amount of waste destined for containment, but also reduce the use of raw materials in different industries.

We established the goal of reducing the volume of waste destined for containment by 20% by the year 2018, against the base year 2011. At the end of 2016, the achieved reduction against the base year was 77%, as result of the correct identification of waste flows in each of our operations and local programs for reuse of generated waste, which include oils, paper and plastic.

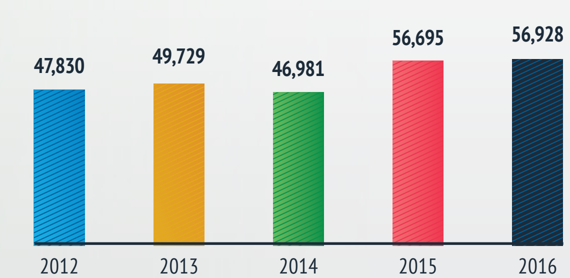
Almost all special handling waste that is generated and not considered hazardous –used oil, tires, glass, plastics, paper, paperboard, biodegradable organic matter and wood, among others– are valued and used through waste management plans. Examples of these are industrial oils whose calorific value is used as fuel. Other waste is reused –such as wood, cardboard and paper– and other –such as plastics– is recycled.

G4-EN23

In 2016, 56,928 tons of waste were generated, of which 10% is considered hazardous and the remaining 90% is not categorized as hazardous. Reduction programs apply to all types of waste. The disposal method applied was 80% land fill and compacting cell, 2% incineration, 17% and 1% industrial containment.

Total waste generated

ton/year

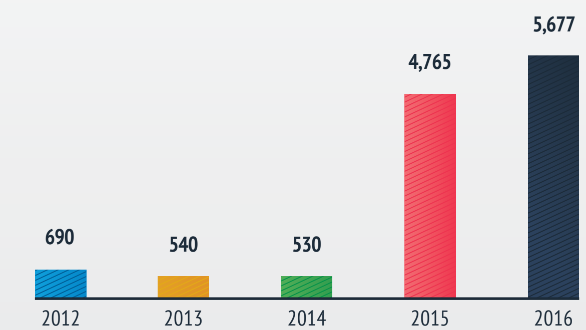


G4-EN25

The hazardous waste generated by Mexichem's operations is handled locally in temporary warehouses and subsequently sent either to controlled confinement sites or for stabilizing or recycling treatment, in compliance with the environmental regulations of each country. In 2016, Mexichem generated 5,677 tons of hazardous waste, which were reused or recovered for thermal energy and sent to disposal in containment. Hazardous waste is mainly generated by chemical operations of Vinyl Business Group.

Hazardous waste transported locally for treatment

ton/year



G4-DMA MATERIALS

G4-EN2

The rate of global industrial recycling for all Mexichem businesses is 11% on average. However, Fluent stands out for recovering off-specification PVC scrap and reintegrating it to the process closing the product's life cycle.

At Vinyl and Fluor the products are mostly generated in large volumes where all of them are consumed in terms of different quality characteristics, just a minimum quantity may require recycling; however, volume is not relevant.

Shipping of Chemical Products

Our Vinyl and Fluor Business Groups produce chemical products which, if spilled may pose a hazard to the environment and to the communities that reside close to the main routes by which they are carried. To control these risks, Mexichem hires specialized and duly certified shipping companies, in compliance with the laws on handling of chemical products.

In addition, we introduced at our Vinyl and Fluor plants a system of inspection of containers before loading the product, in which we run specific tests to ensure the equipment is in optimum conditions before transporting the product.

Finally, we train shipping agents' personnel in the handling, transportation and risks of each of Mexichem products they handle and conduct training at clients' facilities as well, so they are trained in situ in the appropriate handling of our products.

Biodiversity

G4-DMA BIODIVERSITY

Mexichem owns areas of land in Mexico that are rich in biodiversity and where it carries out mining and ore processing operations for nonmetallic minerals such as fluorspar and salt in areas of an important biodiversity.

Mexichem's biodiversity strategy is focused on its extraction-mining and fluorspar processing operations, which could have an environmental impact. Based on our sustainability vision, fluorspar extraction and recovery operations are executed jointly with a biodiversity protection strategy in the area.

G4-DMA-B BIODIVERSITY

In the areas where we operate or where future operations will be established, we conduct environmental impact studies in order to determine the measures we need to take to protect or restore the natural habitats and species located in the area surrounding the facility. The following table describes our strategies for managing biodiversity impacts.

Focus	Actions
Species that inhabit the region	• Monitoring • Recording the events related to each species
Quality of air and water	• Monitoring
Waste	• Ensuring proper management and the best possible recovery of waste
Communities	• Supporting organizations that preserve biodiversity • Establishing efficient communication channels with stakeholders
Invasive species	• Monitoring and control
Native vegetation	• Reforesting • Monitoring and control of restored population density
Physical, chemical, and seasonal dimensions	• Study of physical and chemical indicators • Studies of toxicity • Study of bio-indicators of environmental health

G4-EN12

Based on the results of these studies and compliant to legal requirements, the necessary actions to protect the biodiversity are planned. The most significant impacts that could occur due to mining operations are the generation of waste and salts, the alteration of the ecosystem or negative effects on the biodiversity. Therefore, the analyses consider the following aspects:

- The level of impact that mine exploitation will have or the recovery of material from the deposits
- The degree of sensitivity of the area in which facilities are located
- The use of the biodiversity by the local community
- The importance of communities and employees in the protection of the environment and biodiversity
- The identification of protected areas where mines are located
- Actions for compensation and protection of the area
- Actions for adequate closing of mining areas once operations are ended

G4-EN14

As part of the program of identifying species located within our mining complexes and the degree to which they may be threatened, Mexichem identified six species with different degrees of extinction risk, according to the National Commission for Knowledge and Use of Biodiversity (Conabio): two species are vulnerable, two are threatened, and two are endangered, in the area surrounding one mine and two fluorspar extraction sites in Mexico Villa de Zaragoza and Río Verde in San Luis Potosí; and Álamos de Martínez in Guanajuato.

	Subject to special protection		Threatened		In danger of extinction	
	Common name	Scientific name	Common name	Scientific name	Common name	Scientific name
Rio Verde	Skunk	*Spilogale Pygmaea*	Bush rat	*Peromyscus boylii*	Rattlesnake	*Crotalus molossus*
	Jilguero	*Myadestes occidentalis*				
	Aguililla rojinegra	*Parabuteo unicinctus*				
Alamos de Martinez	Biznaga barril de acitron (a type of barrel-shapedcactus)	*Ferocactus histrix*	Golden eagle	*Aquila Chrysaetos*	Codorniz	*Colinus Virginianus*
			Sparrow	*Spizella wortheini*		
Villa de Zaragoza	Skunk	*Spilogale pygmaea*			Rattlesnake	*Crotalus molossus*
	Black-tailed hare	*Lepus Californicus*				

G4-EN26

Biodiversity of water resources and related habitats

Mexichem conducts environmental impact studies to determine the size, protection status, and biodiversity value of water resources, so we can take the necessary prevention measures. Such studies do not show any water scarcity conditions at our operations sites. Mexichem reports that there are no impacts to aquifers affected by wastewater discharge from mining operating, since in its mining facilities water is managed in a closed loop system.

The strategies and actions planned and implemented to manage biodiversity impact resulting from the mine's operations are primarily low-magnitude, and we have mitigation measures in place to temper these impacts.

No natural resources requiring special attention were identified in the mine's area of influence, except for a species of flora with special protection status—the woolly globe cactus or *biznaga de lana*, which grows near the mine. The area where these species are located has not been affected by mining operations nor are there any plans to extend the operation that far in the future.

Climate Change

G4-DMA ECONOMIC PERFORMANCE

G4-EC2

The effects of climate change that have been predicted for in the sites where Mexichem has operations or a market presence are desertification and drought, rising sea levels, changes in rainfall patterns, decrease in water availability, deforestation, and diseases.

Although climate change could represent additional costs resulting from the potential shutdown and/or relocation of affected operations, protection measures against natural disasters (like building dikes in sea level facilities, or protection against floods or fire), relocating facilities to sites with better conditions, and even tighter environmental regulations—it could also present interesting business opportunities:

- Creation of new niches and markets of products for adapting to and mitigating the impact of climate change
- Endurance and positioning resulting from customer preference for companies committed to protecting the environment and to corporate social responsibility

Some facilities may need to undergo physical modifications also as a result of the effects of climate change. Coastline protection at sea-level facilities, for example, could be threatened by a higher sea level or more extreme meteorological events. Some operations could also be modified or strengthened in order to adapt. They could, for instance, consider different options that would affect logistics as little as possible if a hurricane were to hit nearby.

Therefore, the main risks that can be expected are physical risk to current and future facilities, as well as the availability of the water they need to operate. Mexichem has carried out risk assessment and detection of opportunities derived from climate change in each of its regional operating sites. Preventive actions have been identified and have led to actions taken to mitigate such risks.

It is also important to monitor the advance of certain diseases in regions where historically they had never been present before, because the impact they could have on the workforce or their food supply could directly affect the Company's productivity.

Mexichem must also consider future regulations regarding climate change that could affect operations. Water supply and taxes on GHG emissions are issues that will soon be on the legislative agenda.

At Mexichem, we have identified and mitigated operational risks in sea-level areas by constantly monitoring hurricanes, based on forecasting models provided by the National Water Commission and the National Hurricane Center in Miami. This allows us to plan measures that need to be taken within the supply chain and plant operations in order to prevent problems that these events can generate.

Extreme weather events can also have serious repercussions on the Company's logistics. Production units could become isolated and be unable to receive or ship products by land or sea.

The flow of materials could also be interrupted in off-site locations that are strategic for transporting products such as a closed port in the United States or an inaccessible border crossing due to floods in Europe.

Since the Intergovernmental Panel on Climate Change (IPCC) forecasts that extreme meteorological events will tend to grow in intensity and number, Mexichem drafts contingency plans to respond to these events, striving to reestablish operations as soon as possible through new logistics options. Redundant options in transportation, different routes, and logistic measures or emergency inventories are some examples of our contingency plans. If we are able to operate in an almost normal fashion during these events, we will have a clear advantage over competition that does not have such plans in place.

Opportunities

Water is an essential resource for the extraction, transformation, and general operations of Mexichem. Consequently, many of our plants have closed-loop circuits, and all of them are equipped with wastewater treatment systems that recover more than 50% of the water they use.

Studies conducted by the United Nations Development Program show that extreme variations in temperature are one of the consequences of climate change. These changes can represent an opportunity area of a potential growth in the demand for air-conditioning equipment and in the use and production of more efficient refrigerants.

Mexichem has a project portfolio for each of its three business groups which consider climate change, market trends and product demand, among other factors to achieve operational sustainability

Vinyl

Vinyl offers comprehensive solutions for wastewater treatment. In areas where less precipitation is expected, we can predict that water availability for household and industrial use will also decrease. To face this problem, the industrial sector will need to become more efficient in using this resource, either by modifying operation facilities to make them a closed-loop circuit or by using wastewater. In both situations, they will be forced to install water-treatment systems. We expect that demand for wastewater treatment systems will increase significantly in these regions, both in the private and public sectors, since they will need more chlorine for water treatment and caustic soda for regenerating treatment resins.

Fluor

The Fluor Business Group supports worldwide regulation to contain and reduce the growth of hydro fluorocarbon (HFC) emissions. It is imperative that HFC emissions are used correctly, because they have a wide array of applications that can provide safe and efficient cooling. Mexichem is currently conducting research in the United Kingdom to develop refrigerants that are as or more efficient than those available today, but with a lower global warming potential.

Fluent

Climate change may result in reduced precipitation in the regions where Mexichem operates and could raise the demand for water extraction and irrigation services in agricultural fields. Fluent can serve this growing market. But if the reduction in rainfall is such that aquifers are drained, higher temperatures would directly affect productivity in the fields.

Human settlements that depend on watershed basins where less precipitation is expected will also drive demand for alternative methods for extracting water for both household and industrial use. This is another growing market that Fluent will be able to serve.

Strengthening Bonds with Communities

Highlights 2016

G4-EC7, G4-SO1

Water

Rain water harvest (Honduras, Fluent)
Developing a rainwater capture and storage system.

Plastigama water design contest (Ecuador, Fluent)
Encouraging future Civil Engineers to use their technological knowledge and creativity to develop tangible solutions to the problems of water conduits.

Safewater and productivity at Guachene (Colombia, Fluent)
Helping small owners become more competitive, improve irrigations systems in traditional farms and business (pork, poultry, dish) based on underground sources and improvements in water collection and management processes.

Rainwater for life in Choco (Colombia, Fluent)
Taking advantage of rainwater by installing a system for collecting, storing, cleaning and preserving it.

Rainwater capture for Patio, San Luis Potosí (Mexico, Fluor)
Develop a system for sustainable use of rainwater involving a capture and filtration system for viable reuse.

Water for urban vegetable gardens (Colombia, Fluent)
Designing irrigation system so each garden can optimize its water use.

Drinking water for Baru in Cartagena (Colombia, Vinyl)
Improving living conditions for 4,500 inhabitants of Barú, helping them to develop a local source of clean drinking water.

Ecology

Rain water optimization (Guatemala, Fluent)
Projects for sewage and rain water management, water treatment and optimization to improve quality of life at the Colonia Monte Carlos.

Reforestation of areas close to the mine (Mexico, Fluor)
Reforestation of community flora in which business unit operates and improve rainwater capture in the area.

Improvement of social and environmental conditions of the Rio Frio riverbank at Cajica (Colombia, Vinyl)
Contribute to reforestation of the Rio Frio river basin by consolidating a fish bank of native species.

Fish farm at Carrizal (Mexico, Vinyl)
Decrease environmental impact of fishing overexploitation at the Estero Negro Lagoon by generating a livelihood alternative for a group of interest.

Water park at Parque Lineal (Ecuador, Fluent)
Create a water park in phases, working together with neighboring community and authorities.

Feasibility study for bio-remediation of water in Cartagena (Colombia, Vinyl)
Grow spirulina by using industrial wastewater from MRC as a medium and gases from the boilers and smokestacks to contribute carbon fixation.

Botanic Garden Mexichem (Mexico, Fluent)
Maintain community flora by sensitizing the community.

Reforestation through Education in Monterrey (Mexico, Fluent)
Improve air quality by planting 1,100 ever-green oak trees in a first phase, 10,000 in a second, and 20,000 in a third.

Education

Multi-sectorial alliance in industrial safety
Guatemala · Fluent
Share industrial safety manuals for building in Central America and train various ethnic groups.

Professional plumbers Colombia penitentiary
Colombia · Fluent
Help inmates with evaluation and certification for labor skills, issued by the SENA (National Learning Service).

El Salto has a future
Colombia · Fluent
Providing participants with tools for protecting the cloud forest by serving as water trainers, restoring El Salto de Tequendama.

Light and hope for children and teenagers in Puerto Tejada
Colombia · Fluent
Making children and young people more aware of the importance of studying and sports for getting ahead and staying off the streets.

Education within everyone's reach Estación Colonias
Mexico · Vinyl
Building a technical high school for close to 3,000 students. Support construction of classrooms using PVC materials.

Friends United to help
Mexico · Fluor
Support for poor and disadvantaged members of the community of Matamoros so they can improve their quality of life through training.

Integrating community talents
Mexico · Fluor
Strengthen ties between the business and the community, enriching the skills of operating personnel and inhabitants of *La Salitrera* and neighboring communities.

Education, sports, and health for Pasacaballos
Colombia · Vinyl
Help schoolchildren between 9 and 13 years old in the Pasacaballos community by sponsoring a soccer championship that contributes to their overall development, the appropriate use of their free time and strengthens family ties.

Building leaders
Mexico · Vinyl
Renovations, maintenance and equipment in priority areas of the Tamaulipas primary school.

Improvements at Attorney School León de Febres Cordero
Ecuador · Fluent
Improve water storage facilities and training on a community garden equipped with an irrigation system.

Martinez project
Mexico · Fluent
Support disadvantaged children from the orphanage in their personal and academic development.

Multi-purpose classroom for the Pasacaballos community
Colombia · Vinyl
Build a multi-purpose classroom for community use to impart work training programs (non-formal education), which becomes a reference point to guide the development of small productive entrepreneurships.

Gasfitheroes

Mexichem Peru, through its brand PAVCO, offers technical training including business management, marketing and technology use, as well as efficient water management, to plumbers, in order to increase their business opportunities.

Over 11,000 plumbers benefitted with the program in 2016.

Health

Medical dispensary

Mexico

Fluor

Build and equip a medical clinic to serve rural communities near the plant. Provide basic medical attention and preventive programs for residents.

Memories of Yesterday

Mexico

Fluent

Help low-income elderly persons to become more Active.

Housing

Revamping urban image

Mexico

Fluor

Giving local residents a sense of pride and belonging by unifying the image of the main streets at the municipality of Villa de Zaragoza, San Luis Potosi; 151 houses were intervened.

Culture and tradition

Cultural identity through oral tradition at Guachene

Colombia

Fluent

Transmitting ancient traditions from local culture in the voice of elderly residents.

Harvesting rain water
Honduras

http://mexichemrainharvest.com/rainwater-harvest-system/

Value Creation

G4-DMA INDIRECT ECONOMIC IMPACTS, LOCAL COMMUNITIES

G4-EC8

Mexichem is committed with the communities in which it operates and together with them harnesses opportunities for creation of shared value. The actions include different ways of intervention that respond to the different stakeholders with whom the Company interacts, such as assistance and support for development self-management. These tasks encourage initiative and volunteer work of Mexichem's employees in benefit of social progress of the communities.

Our triple-bottom-line management model acknowledges the importance of a good relationship with our stakeholders and aims at generating a positive impact on them, especially in the communities in which we operate. Correspondingly, our policies and actions seek to prioritize the following matters:

- **Community engagement:** maintain a respectful, honest and healthy relationship with neighboring communities, enabling efficient communication channels to allow opportune knowledge of our impact on them, their interest and needs, thus avoiding conflicts.
- **Social investment:** invest and assign economic resources to projects that create shared value which improve social, environmental and economic conditions of the communities.
- **Local economic development:** generate jobs and inclusive chains at the operating sites in order to benefit local people from the growth of the Company.
- **Corporate volunteering:** promote volunteer work among collaborators in order to strengthen corporate culture and values and generate a positive impact on society.

Social Initiatives

Maintaining good relations with the community is an important part of Mexichem's corporate philosophy and good neighbor policy

G4-DMA INDIGENOUS RIGHTS, LOCAL COMMUNITIES

G4-SO1

Social progress implies establishing a relationship of trust with the communities located close to where Mexichem operates in order to enable business-driven development. This is made evident by the diverse interventions implemented dealing with environmental education and social development, as well as with solutions that lead to a better quality of life. Most representative of this is Mexichem's effort to improve the access to water and its sanitation, promote adequate water use and raise environmental standards through actions being carried out in different countries.

38

social interventions in neighboring communities to raise quality of life

*31 projects that participated in Kaluz award and seven proyects in India.

This means 55% of all operations participate in programs that range from donation campaigns to social innovation development programs, which include volunteer employee participation in the different programs and activities.

23 plants

took actions within the frame of the Hydros corporate program

43 Mexichem operating sites

participated +Km program

17 plants

participated in the fifth edition of the Kaluz Foundation Award: "Innovative people with social impact"

55 operating sites

took part in programs, projects and activities based on skills to transfer knowledge in neighboring communities and other entrepreneurship projects

Chambers, Associations and Recognitions

G4-16

Membership

Mexican Mining Chamber

National Association of Chemical Industry (ANIQ, Mexico).

Commission for Vinyl Promotion (PROVINILO)

Plastics Industry Commission on Responsibility and Sustainable Development (CIPRES)

Transportation Emergencies System for the Chemical Industry (SETIQ)

Emergency Squad Training School (ECBE)

Institute for Materials Research and Testing (IDIEM)

Acoplasticos Colombia

Colombian Council of Sustainable Construction

Colombian Institute of Technical Standards and Certification (ICONTEC)

Instituto do PVC Brasil

The Vinyl Institute USA

Responsible Care® Initiative of the Chemical Industry to improve Health, Safety and Environmental Development

Mexican Association of Investor Relations, A.C.

Mexican Broker Association

Latin American Stock Exchanges

Petrochemical and Chemical Association of Latin America (APLA)

Mexichem Initiatives and Distinctions

G4-15

Chlorine Institute

Green Building Council Brazil

Brazilian Entrepreneurial Council for Sustainable Development

IQNet SR10 Social Responsibility Management Systems in Germany

ISO 9001: Quality Management Systems

ISO 14001: Environmental Management Systems

ISO 22000: Food Safety Management

OHSAS 18001: Occupational Health and Safety Management Systems

ISO 50001

Comprehensive Responsibility Management System from the Mexican National Chemical Industry Association (SARI)

NSF, The Public Health and Safety Organization: Independent, objective non-profit organization engaged in product testing and certification, which establishes global performance standards for a wide variety of household and industrial products

Brand certifying final product quality in Venezuela (NORVEN)

Lima Water Supply and Sewage Services. (SEDAPAL)

Quality Seal INEN

Seal of Approval INASSA

Clean Industry Certification from the Mexican Environmental Authorities

Socially Responsible Company Certification from the Mexican Center for Philanthropy

Certificate of Safety and Health Management, Secretariat of Labor and Social Welfare

Kosher Certificate from Calidad Kosher, S.C.

SIG recertification and ISRS certification

Responsible Care

Kaluz Award 2016 edition

White Cross Medal of Merit, in the category of Safety Excellence, health and environment protection

Environmental Excellence Award, SEDUMA

Ekos de Oro

Recognition by the District Environmental Excellence Program (PREAD), Elite category

Furthermore, Mexichem was also awarded with distinctions for Environmental Leadership for Competitiveness (Mexican environmental protection agency), the Family Responsible Company Distinction, and Voluntary Environmental Compliance, occupational Health and Safety System Level 3, both of these from the Ministry of Labor and Social Welfare.

Through Mexichem Colombia, we reiterate our commitment to the 10 Universal Principles relating to human rights, labor relations, environmental respect and the fight against corruption, consigned in the UN Global Compact.

In line with our sustainability strategy, we work for economic growth, the social development of communities, and a reduced environmental footprint. The Communication on Progress (CoP) for 2016 is under development and will be published in May 2017.

For more information about CoP, go to:
Colombia: https://www.unglobalcompact.org/participation/report/cop/create-and-submit/active/238631
Brazil: https://www.unglobalcompact.org/participation/report/cop/create-and-submit/active/259581

Management Discussion and Analysis

Management Commentary and Analysis on the Company's Operating Results and Financial Position

Operating Results

Our continued focus on increasing profitability levels by prioritizing sales of higher margin, specialty products, facilitating cross selling and achieving operating efficiencies led to substantial growth in EBITDA, EBITDA margin and net majority income. As a result, we were able to report full year EBITDA performance that exceeded our guidance and to lay the foundation for further progress in 2017.

Our achievements took place within a difficult operating environment, with economic uncertainty and the strength of the U.S. dollar creating headwinds for many global industrial companies, including Mexichem. We are pleased to report that we were able to more than offset these impacts thanks to a more favorable product mix, cost containment and operating improvements across our organization.

The results in our Business Groups were similar to our expectations and demonstrated the importance of our diversified product portfolio and geographical footprint.

Full year results, adjusted for one-time items, showed positive trends. EBITDA margin expanded by 109 basis points reflecting higher margins in Vinyl and Fluent, and relatively stable margin performance in Fluor. Throughout 2016, our key groups have taken steps to prioritize sales of non-commoditized, specialty products and to improve their manufacturing processes. As a result, we are enhancing our relationships with customers and progressively increasing the Company's returns on investments.

Mexichem ended 2016 in a strong financial position, with a solid operating framework and a clear strategy for continued growth in the periods ahead. Adjusted net income almost doubled compared to last year's levels, and our free cash flow increased by 85% due to the wind-down of large capital investments. The largest of these investments, our joint venture ethylene cracker in Texas, was completed on time and on budget. The cracker's performance supports our expectation that it will increasingly contribute to improving our cost position. For 2017, our current budget anticipates capital expenditures of approximately one third less than we invested in 2016.

We also expect our 2017 results to benefit from the bolt-on acquisitions we completed in 2016 to extend our specialty product portfolio, increase our customer base and enter new geographic markets. Additional organic growth programs, including the expansion of our Compounds business and the acceleration of sales synergy programs throughout our business units should contribute positively to EBITDA performance in 2017, as will measures we took in 2016 to streamline the Company's operations.

Mexichem has entered 2017 with a very manageable net debt to EBITDA and to Adjusted EBITDA ratios of 1.8x and 1.7x respectively, cash and cash equivalents of over $700 million and increasing free cash flow. These resources give us the financial flexibility to opportunistically invest in organic and acquisition growth opportunities that can enhance our global operations and provide positive returns for all stakeholders.

Early in 2017, Mexichem was named to the FTSE4Good Emerging Index, in recognition of our commitment to high standards of environmental, social and governance practices. We are very proud of this accomplishment as it highlights the progress we are making to achieve consistent, positive impact across our value chain.

Mexichem's resilient performance in 2016, which was challenging year for our Company, speaks to the successful efforts of our more than 18,000 employees in over 30 countries, who are pulling together to make us a unified, global company with shared ideals and values.

Full Year 2016 Financial and Operating Highlights

- Consolidated revenue was $5.4 billion and in a constant currency basis was $5.6 billion, a decline of 5% and flat, respectively;
- EBITDA was $884 million; Adjusted EBITDA increased 2% to $926 million;
- On a constant currency basis, EBITDA and Adjusted EBITDA were up 3% and 8%, respectively;
- Consolidated EBITDA margin expanded 30bps to 16.5% and Adjusted EBITDA margin expanded 109 bps to 17.3%;
- Net majority income increased 76% to $238 million, and adjusted net majority income increased 94% to $262 million;
- Free Cash Flow was $175 million, up 85%;
- Full year ROE and ROIC were 5.8% and 5.6%; adjusted ROE and ROIC were 6.9% and 6.0%, respectively;
- Net Debt to reported EBITDA and to Adjusted EBITDA improved to 1.8x and 1.7x, respectively.

Revenues

Revenues for full year 2016 were $5.4 billion while the Company posted $5.6 million in FY15, $263 million less or 5% below. However, of this decline in revenue, 94% was the result of a currency translation effect. On a constant currency basis, total sales would have been $5.6 billion, flat year-on-year. The previously mentioned has been consistent with our strategy to pursue more profitable sales rather than just volumes.

By region, the United States represented 16% of total sales in 2016, Brazil accounted for 6%, and the UK and Germany represented 8% and 13%, respectively.

During 2016 the dollar denominated sales from our Mexican companies represented only 9% of our total sales and 39% of those were exports to US representing only 3.5% of our total sales from which 88% were exports from our Fluor Mexican Companies, with fluorspar representing the highest proportion of those exports, product in which the US is deficient.

EBITDA and Adjusted EBITDA

For the full year 2016, reported EBITDA was $884 million, down 3% from 2015 but adjusting 4Q15 with the Fluor one-time legal settlement benefit, EBITDA would have decreased 2%. Adjusted EBITDA in 2016 reached $926 million, 2% higher than in 2015, but excluding the 4Q15 benefit would have increased 3%. This slight increase in EBITDA, on an adjusted basis was achieved despite a $56 million foreign exchange impact during 2016.

On a constant currency basis, Adjusted EBITDA for the full year 2016 would have increased 8% to $982 million, adjusted by the Fluor legal settlement would have increased 9%.

Operating Income and Adjusted Operating Income

Full year operating income was $514 million, flat year on year. Operating income would have increased by 1%, adjusting for the one-time Fluor benefit in 4Q15. On a fully adjusted basis, operating income improved 10% to $556 million (excluding Fluor 4Q15 effect).

Financial Costs

In 2016 financial costs decreased $82 million or 34%. FY15 financial costs included a $12 million loss related to a Euro-denominated intercompany loan that was covered in 4Q15, but did not generate FX losses in 2016. In 4Q16 the intercompany loan was fully paid and the hedge was unwinded, resulting in a $3 million gain. Additionally, during 2016 the Mexican Peso denominated debt reported a $16 million FX gain while the Company experienced a $27 million decrease in FX losses in the net liabilities. Finally, hyperinflationary economic impact in 2016 was reduced by $17 million and interest decreased by $7 million from 2015, due to FX variations.

Taxes

On a YoY basis, without considering the write off, the cash tax rate for the full year 2016 decreased from 51% to 48%, mainly due to the net income and net losses before taxes in Mexichem's companies explained before. Deferred taxes YoY decreased by $15 million due to the increase in tax losses in some of Mexichem's operations.

The cash tax rate for full year 2015 was 51%, while for full year 2016 in adjusted basis was 48%, a decline of 300 bps. However, when the cash tax is calculated based on the companies that generate net income before taxes, cash tax rate in 2015 was 28%, but 32% in 2016, an increase of 400 bps.

The FY16 reported effective tax rate was 34%, and in 2015 it was 32%, a 200 bps increase, related to higher income before taxes while full year 2016 adjusted effective tax rate was 31%.

Majority Income (Loss)

For the full year 2016, net income grew 76% to $238 million while adjusted net income grew 94% to $262 million.

Debt

Total financial debt as of December 31, 2016 was $2.3 billion plus $1.4 million in letters of credit with maturities of more than 180 days for a total financial debt of $2.3 billion, while cash and cash equivalents totaled $714 million, resulting in net financial debt of $1.6 billion.

The Net Debt / EBITDA ratio was 1.8x at December 31, 2016, while the Interest Coverage was 4.6x. The Net Debt /Adjusted EBITDA ratio was 1.7x and Adjusted Interest Coverage was 4.8x. Adjusted EBITDA in this case excludes the on-time charge accrued in 2Q16, the one-time benefit net of expenses accrued in 3Q16, and the benefit from our assembly insurance coverage included in the property policy at the PMV plant recognized in the 4Q16.

Financial Assets

On April 20th, 2016, an explosion occurred in the VCM plant inside the Petrochemical Complex Pajaritos, where two of the three facilities of PMV are located (VCM and Ethylene). The chlorine and caustic soda plant is located on a separate site. There was no damage to the chlorine-caustic soda plant, but there was business interruption in the supply of raw material. The VCM plant (Clorados III) is the one that sustained most of the damage, the major economic impact of which was the write-off of the asset and the shutdown of that plant.

Mexichem's assets including those in PMV are adequately insured at today's replacement value, while the related non-cash charge was calculated at book value. The Company's insurance coverage includes: i) environmental responsibility, ii) damage to property, iii) damage to assets during assembly process, iv) business interruption, v) liability for damage to third parties, and vi) liability of directors and officers.

In the 4Q16 PMV recognized a $20 million benefit from its assembly insurance coverage. PMV and Resins, Compounds and Derivatives has recognized income of $37 million for business interruption that offset fixed costs that were not absorbed and its margin.

During FY16 PMV recognized, $287 million related to asset write off, of which $276 million and $9 million were recognized in other expenses and other comprehensive income (equity), respectively; and $42 million related to amounts of indemnifications, legal expenses, and other costs, which represented a charge of $318 million. During the third quarter of 2016, PMV gathered sufficient information to decide to recognize the account receivable related to insurance coverage, which for the full year amounted $276 million related to property damage, assembly insurance coverage, third party expenses, and expenses incurred under directors' and officers' coverage. The onetime expenses were offset by the full year account receivable which generated a net expense effect of $42 million.

PMV has presented its claims to its insurance companies.

Finally, in 2016 PMV and Resins, Compounds and Derivatives recognized income of $51 million for business interruption that offset fixed costs that were not absorbed and its margin.

Contingent Asset

PMV together with its shareholders, Mexichem & Pemex, are evaluating several strategic options for the business in the future, reason why the Company adopted a conservative policy with respect to the monetary amount recognized in the account receivable, reflecting the stated cash value of the plant as of December 31st 2015. When the business plan is finalized, the exact dollar amount of the account receivable could change.

Contingent Liability

As a result of the VCM Plant (Clorados III) incident described in the contingent asset disclosure, PMV performed an environmental assessment to determine if any pollutants were deposited in areas surrounding the facility, delivered the report to the environmental authorities and is working with them in order to determine, if any, the environmental damages. Also PMV could be responsible for third party injuries, if any. Based on the information the Company has as of this report, there is no evidence that there are additional relevant liabilities.

As mention previously, depending on the decision taken by PMV and its shareholders, once the business future is decided, PMV will evaluate the impacts in the rest of its assets in Pajaritos Complex. The remaining fixed asset value of the PMV's plants inside Pajaritos Complex is $213 million.

Results by Business Group

Vinyl

For the full year 2016, the Vinyl Business Group's sales were down 5%, mainly as a result of the explosion that occurred on April, 20th 2016 in the VCM plant (Clorados III) in the Pajaritos Complex. Reported EBITDA was down 13%, from $313 million in 2015 to $272 million in 2016 mainly as a result of the PMV asset write-off associated with the explosion in the VCM plant (Clorados III). Adjusted EBITDA was $314 million with an adjusted EBITDA margin of 15.5%, 83 basis points higher than 14.6% margin in FY2015.

37% and 34% of Mexichem's sales (before eliminations) and Adjusted EBITDA, respectively

Fluent

In 2016 total reported revenues decreased 4% while on a constant currency basis, revenues increased 3%. Reported EBITDA grew 3%, mainly due to the increased profitability of all the three regional operations. EBITDA margin expanded 105 basis points year over year to 14.6%. Excluding the exchange rate translation effect of the U.S. dollar in Fluent Europe, US/AMEA and LatAm, which totaled $54 million in 2016, EBITDA would have increased 16% compared to 2015, with an EBITDA margin expansion of 171 bps to 15.2% compared to 13.5% in 2015.

53% and 45% of Mexichem's sales (before eliminations) and Adjusted EBITDA, respectively

Fluor

In 2016 revenues were $583 million, down 4%, mainly due to weaker pricing of fluorspar and lower volumes in the first nine months of the year. In 2016 EBITDA declined by 6%, or $13 million, to $228 million with an EBITDA margin of 39.1%.

11% and 25% of Mexichem's sales (before eliminations) and Adjusted EBITDA, respectively

About this Report

G4-17, G4-22, G4-23, G4-28, G4-32, G4-33

Mexichem's Sustainability Report communicates to its stakeholders the progress it has made on its triple-bottom-line approach to simultaneously creating economic, environmental, and social value in the period between January 1 and December 31, 2016 at all its operating sites in the three business groups; it excludes sales offices and joint ventures. We reaffirm the commitment of the Company with transparency. This report was drafted based on the Global Reporting Initiative (GRI) G4 Guidelines, in accordance Core option.

The information presented in this report was compiled and adapted to GRI indicators based on an analysis of the facts and data reported by all operating sites (plants) located in the Americas, Europe, Africa, the Middle East and Asia. The information relative to specific management approaches required by the methodology are indicated throughout the report with a (B) reference.

There have been no considerable changes that affect the comparability of the information reported, nor was it necessary to restate any of the information presented in prior reports.

For the sixth year in a row, we have relied on the services of Deloitte (Galaz, Yamazaki, Ruiz Urquiza, S.C.) for the third-party review of the 2016 Sustainability Report, ensuring the transparency and reliability criteria of the information.

Materiality

G4-18

Based on the guidelines of the Global Reporting Initiative (GRI G4), in 2015 Mexichem carried out a Materiality Analysis to define the content of this report and the Scope of the Aspects, as a reflection of the organization's economic, environmental and social impacts, and because of the impact they may have on our stakeholders' evaluations and decisions.

G4-19

List of material aspects

Product

- Design and innovation (R&D)
- Life cycle impact
  - Safe Management of Hazardous Substances
  - Product transparency
- Sustainability

Operations

- Occupational health and safety
- Energy consumption
- Water management
- Emissions reduction
- Chemicals transportation
- Waste management
- Biodiversity and ecosystems protection

Community

- Community engagement
- Social investment
- Local economic development
- Accident prevention, preparedness and response

Talent

- Culture
- Diversity
- Volunteering

Corporate Governance

Ethical conduct / Compliance

G4-20, G4-21

The analysis revealed 17 material issues. Four of these 17 issues have significant strategic relevance: impact on life cycle, occupational health and safety, commitment to the community, and culture. These four strategic issues will be prioritized in the Company's strategy as a way to strengthen compliance and manage risks. The rest of the issues are material depending on the business unit or geographic location.

For more information on the Materiality Analysis, please visit our 2015 Sustainability Report at: http://www.mexichem.com/sustainability/documents-center/#sustainability-reports

Relationship with Stakeholders

G4-24, G4-25, G4-26, G4-27

We identified our stakeholders' expectations through an analysis of operations and their internal or external impact, as well as Mexichem's strategy, targets and vision as an organization.

Investors: Return on their investment through constant, sustainable growth. Mechanisms and means of communication are:

- Annual financial and sustainability report
- Quarterly reports
- Meetings organized by brokerage firms for institutional investors
- Presentations for potential investors in North America, South America, and Europe to announce recent projects and news
- Website
- Scheduled formal meetings (one-on-one)
- Relevant releases made through the Mexican Stock Exchange (MSE) and National Securities Commission

Employees: Mexichem responds to the expectations of its employees by offering a work environment focused on development their talent and recognizing their greatest contributions. In recent years, this has led us to strengthen and introduce initiatives and global processes like the Mexichem Talent Model--the Company's framework for managing organizational competencies, global performance, variable compensation systems and salary structures based on international standards for promoting internal equality. These processes and initiatives have had a positive impact on the Company, improving employee relations and enabling us to recruit, retain and develop Mexichem's most valuable assets: Our People. Several means of communications have been established to keep them informed:

- Specific meetings
- Dialogues with unions and joint committees
- Print media, electronic and digital media such as an Intranet and Website, TV screens, internal newsletters, computer wallpapers, bulletin boards, corporate email accounts
- Surveys to facilitate constructive feedback
- Suggestion boxes

G4-DMA INDIRECT ECONOMIC IMPACTS (B)

Communities: Mexichem's corporate principles and values, consigned in its Code of Ethics, state the need for having local operations that contribute to development, welfare and improvement of the communities in its operating areas. Healthy relations with neighboring communities are promoted, as well as facilitation of community development opportunities represented by creation of job and employment opportunities, support for local suppliers and social investment for sustainable development.

We developed a guide for community relations and execution of social investment projects, which establishes general guidelines, responsibilities and intervention criteria. Some of the more common dialogue spaces are:

- Meetings with community leaders
- Local government and community work tables
- Academic events of interest to businesses and community
- Meetings with nonprofit organization and international organizations
- Reputation surveys

For more information about the guide, go to: http://www.mexichem.com/wp-content/uploads/2017/01/Guide-to-Implementing-Community-Relations-and-Social-Investment-Projects.pdf

Customers: Quality and compliance, competitive prices, business leverage, cooperating on strategic matters for the sustainability of the value chain. Satisfaction surveys help identify needs and improvement opportunities.

Suppliers: Long-term commercial partnerships, mutual support, prompt payment, and fair dealings. Mexichem works with suppliers who share the highest quality, integrity, and honesty levels, seeking mutual benefit by adding efficiency to the vertical integration of chains. The Company has a supplier assessment system that allows identification of common opportunity areas.

Governments: Shared value projects for community development.

Universities: support to the development of science and technology research, joint value creation in new products or applications' development, two-way flow of available knowledge (university to company and vice versa).

Communications Media: Timely press monitoring and access to industrial knowledge of public interest.

GRI G4 Content Index

Materiality Disclosures
MEXICHEM, S.A.B DE C.V.
Apr 2017 Service

GENERAL STANDARD DISCLOSURES

General standard disclosures	Page number	External assurance (p. 122-123)
STRATEGY AND ANALYSIS		
G4-1	2-11	
G4-2	2-11	
ORGANIZATIONAL PROFILE		
G4-3	14	
G4-4	14, 35, 38, 40	
G4-5	Investor information	
G4-6	22	
G4-7	Investor information	
G4-8	22, 35, 38, 40	
G4-9	16, 35, 38, 40, 49	
G4-10	49	
G4-11	49	
G4-12	28-30	
G4-13	26	
G4-14	70	
G4-15	96-99	
G4-16	97	
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	108	✓
G4-18	109	✓
G4-19	109	✓
G4-20	109	✓
G4-21	109	✓
G4-22	108	✓
G4-23	108	✓
STAKEHOLDER ENGAGEMENT		
G4-24	110	✓
G4-25	110	

GENERAL STANDARD DISCLOSURES

General standard disclosures	Page number	External assurance (p. 122-123)
G4-26	110	
G4-27	110	
REPORT PROFILE		
G4-28	108	
G4-29	2015	
G4-30	Annual	
G4-31	Investor information	
G4-32	108	
G4-33	108	
GOVERNANCE		
G4-34	44	✓
G4-35	44	
G4-36	31	
G4-37	31	
G4-38	44	
G4-40	44	
G4-41	44	
G4-43	31	
G4-45	31	
G4-48	31	
G4-51	44	
ETHICS AND INTEGRITY		
G4-56	18, 45	✓
G4-57	45	
G4-58	45	

SPECIFIC STANDARD DISCLOSURES

DMA and indicators	Page number	Identified omission(s)	Reason(s) for omission(s)	Explanation for omission(s)	External assurance (p. 122-123)
CATEGORY: ECONOMIC					
MATERIAL ASPECT: ECONOMIC PERFORMANCE					
G4-DMA	82				

SPECIFIC STANDARD DISCLOSURES

DMA and indicators	Page number	Identified omission(s)	Reason(s) for omission(s)	Explanation for omission(s)	External assurance (p. 122-123)
G4-EC1	16				
G4-EC2	82				
MATERIAL ASPECT: MARKET PRESENCE					
G4-DMA	50				
G4-EC5	50				
G4-EC6	50				
MATERIAL ASPECT: INDIRECT ECONOMIC IMPACTS					
G4-DMA	94				
G4-EC7	88-92				
G4-EC8	94				
MATERIAL ASPECT: PROCUREMENT PRACTICES					
G4-DMA	29				
G4-EC9	29 Local suppliers are considered those close to the facilities or within a geographical area of influence.	The percentage of procurement budget spent on local suppliers.	Not available	Mexichem is working on obtaining this information to report it in the next five years.	
CATEGORY: ENVIRONMENTAL					
MATERIAL ASPECT: MATERIALS					
G4-DMA	79				
G4-EN2	79				✓
MATERIAL ASPECT: ENERGY					
G4-DMA	72, 77				
G4-EN3	72-73				✓
G4-EN5	73				
G4-EN6	72				✓
G4-EN7	73				
MATERIAL ASPECT: WATER					
G4-DMA	74				
G4-EN8	74				

SPECIFIC STANDARD DISCLOSURES

DMA and indicators	Page number	Identified omission(s)	Reason(s) for omission(s)	Explanation for omission(s)	External assurance (p. 122-123)
G4-EN9	Mexichem is not aware that water extraction or discharge has significantly affected water sources. There are no impacts to the aquifers that receive waste water discharges during industrial operations, prior compliance of the laws and regulations of every country. In mining operations, water is managed with continuous water re-circulation systems to avoid waste water discharges.				
G4-EN10	76				✓
MATERIAL ASPECT: BIODIVERSITY					
G4-DMA	80				
G4-EN12	81				✓
G4-EN14	81				✓
MATERIAL ASPECT: EMISSIONS					
G4-DMA	70, 77				
G4-EN15	77				✓
G4-EN16	77				✓
G4-EN18	78				
G4-EN19	78				
G4-EN20	78				
G4-EN21	78				
MATERIAL ASPECT: EFFLUENTS AND WASTE					
G4-DMA	76, 79				
G4-EN22	76				
G4-EN23	79				✓
G4-EN24	Five accidental spills of chemical substances occurred totaling 77 m^3, which were controlled and the materials recovered or neutralized. There was no environmental impact or health risks involved.				
G4-EN25	79				

SPECIFIC STANDARD DISCLOSURES

DMA and indicators	Page number	Identified omission(s)	Reason(s) for omission(s)	Explanation for omission(s)	External assurance (p. 122-123)
G4-EN26	82				
MATERIAL ASPECT: PRODUCTS AND SERVICES					
G4-DMA	70				
G4-EN27	70				✓
MATERIAL ASPECT: COMPLIANCE					
G4-DMA	70				
G4-EN29	No fines or any significant sanctions were registered for violation of environmental standards.				✓
MATERIAL ASPECT: TRANSPORT					
G4-DMA	70				
G4-EN30	No environmental or logistics impacts were registered derived from transportation of products or personnel.				✓
MATERIAL ASPECT: OVERALL					
G4-DMA	70				
G4-EN31	70				
CATEGORY: SOCIAL					
SUB-CATEGORY: LABOR PRACTICES AND DECENT WORK					
MATERIAL ASPECT: EMPLOYMENT					
G4-DMA	49, 52				
G4-LA1	49				
G4-LA2	50				
MATERIAL ASPECT: LABOR/MANAGEMENT RELATIONS					
G4-DMA	52				
G4-LA4	49				
MATERIAL ASPECT: OCCUPATIONAL HEALTH AND SAFETY					
G4-DMA	53, 57				
G4-LA5	53				✓

SPECIFIC STANDARD DISCLOSURES

DMA and indicators	Page number	Identified omission(s)	Reason(s) for omission(s)	Explanation foromission(s)	External assurance (p. 122-123)
G4-LA6	56				✓
G4-LA7	57				
G4-LA8	57				
MATERIAL ASPECT: TRAINING AND EDUCATION					
G4-DMA	50				
G4-LA9	50				
G4-LA11	48				
MATERIAL ASPECT: DIVERSITY AND EQUAL OPPORTUNITY					
G4-DMA	50				
G4-LA12	45, 49, 51				
ASPECT: SUPPLIER ASSESSMENT FOR LABOR PRACTICES					
G4-DMA	52				
G4-LA15	52				
SUB-CATEGORY: HUMAN RIGHTS					
MATERIAL ASPECT: INVESTMENT					
G4-DMA	52				
G4-HR1	52				
G4-HR2	51				✓
MATERIAL ASPECT: NON-DISCRIMINATION					
G4-DMA	51				
G4-HR3	No discrimination incidents were reported during the year.				✓
MATERIAL ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING					
G4-DMA	52				
G4-HR4	52				
MATERIAL ASPECT: CHILD LABOR					
G4-DMA	52				
G4-HR5	No actions were required nor was any risk of incident detected with regard to child labor.				✓

SPECIFIC STANDARD DISCLOSURES

DMA and indicators	Page number	Identified omission(s)	Reason(s) for omission(s)	Explanation foromission(s)	External assurance (p. 122-123)
MATERIAL ASPECT: FORCED OR COMPULSORY LABOR					
G4-DMA	52				
G4-HR6	No Mexichem operations have been identified to be at risk of forced or compulsory labor.				
MATERIAL ASPECT: INDIGENOUS RIGHTS					
G4-DMA	94				
G4-HR8	No incidents were reported related to violation of the rights of indigenous communities close to our operating sites.				
MATERIAL ASPECT: ASSESSMENT					
G4-DMA	52				
G4-HR9	52				
MATERIAL ASPECT: SUPPLIER HUMAN RIGHTS ASSESSMENT					
G4-DMA	52				
G4-HR11	52				
SUB-CATEGORY: SOCIETY					
MATERIAL ASPECT: LOCAL COMMUNITIES					
G4-DMA	52, 94				
G4-SO1	88-92, 94				✓
MATERIAL ASPECT: ANTI-CORRUPTION					
G4-DMA	51				
G4-SO4	51				
SUB-CATEGORY: PRODUCT RESPONSIBILITY					
MATERIAL ASPECT: CUSTOMER HEALTH AND SAFETY					
G4-DMA	65				
G4-PR1	65				✓

SPECIFIC STANDARD DISCLOSURES

DMA and indicators	Page number	Identified omission(s)	Reason(s) for omission(s)	Explanation for omission(s)	External assurance (p. 122-123)
G4-PR2	There were no reported incidents involving a breach of regulations or voluntary codes concerning the health and safety impacts of products and services during their life cycle.				✓
MATERIAL ASPECT: PRODUCT AND SERVICE LABELING					
G4-DMA	63				
G4-PR3	63				
G4-PR4	No incidents were reported related to non-compliance regarding information and labeling of products or services.				
MATERIAL ASPECT: MARKETING COMMUNICATIONS					
G4-DMA	64				
G4-PR6	Some of Mexichem's products have been subject of controversy due to alleged or real health or environmental risks. Mexichem maintains safe production standards and promotes use of its products based on the best scientific information and available risk assessments, with the backing and compliance of the regulations that define the safety of these products for the expected uses and applications.				
G4-PR7	No incident was identified in violation of regulations related to communications, marketing, advertising and sponsorships.				
MATERIAL ASPECT: CUSTOMER PRIVACY					
G4-DMA	64				

SPECIFIC STANDARD DISCLOSURES

DMA and indicators	Page number	Identified omission(s)	Reason(s) for omission(s)	Explanation for omission(s)	External assurance (p. 122-123)
G4-PR8	We did not receive any complaints that might indicate privacy violations involving client information during the period reported.				
MATERIAL ASPECT: COMPLIANCE					
G4-DMA	63				
G4-PR9	There were no fines or violations related to supply or use of products.				

External Assurance

Deloitte.

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Independent Assurance Report on the 2016 Sustainability Report to Mexichem, S.A.B. de C.V., to the Management of Mexichem

Responsibilities of Mexichem and independent reviewer

The elaboration of the 2016 Sustainability Report (2016 SR) for the year ended December 31st, 2016, as well as its content is responsibility of the Management of Mexichem, who is also responsible for defining, adapting and maintaining the management and internal control systems from which information is obtained, and which are also free of material misstatement due to fraud or error. Our responsibility is to issue an independent report based on the procedures applied during our review.

This report has been prepared exclusively for the management of Mexichem in accordance with the terms of our agreement letter dated February 28th, 2017 and is not intended to be nor should it be used by someone other than this.

Scope of our work

The scope of our assurance was limited, and is substantially lower than a reasonable assurance work. Therefore, the security provided is also lower. This report in no case can be understood as an audit report.

We conducted our review of the 2016 SR under the following conditions and / or criteria:

a) The adaptation of the contents of the 2016 SR to the Global Reporting Initiative (GRI) Guidelines version 4 (G4) and according to the materiality study provided by Mexichem.
b) The review of the general and specific standard disclosures reported under the "in accordance Core option" and specified in the GRI Content Index of the 2016 SR.
c) The consistency of information contained in the 2016 SR with supporting evidence provided by the management.

We have complied with the independence and ethical requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), which it is based on the integrity, objectivity, professional competence and due care, confidentiality and professional behavior principles.

Assurance standards and procedures

We have performed our work in accordance with the International Auditing Standard ISAE 3000 Revised Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Our review work included the formulation of questions to the management as well as various areas of Mexichem that have participated in the elaboration of the 2016 SR and the application of certain analytical and sample screening tests that are described below:

a) Meetings with staff of Mexichem to learn the principles, systems and applied management approaches.
b) Analysis of the process to collect, validate and consolidate the data presented in the 2016 SR.
c) Analysis of scope, relevance and integrity of the information included in the 2016 SR in terms of the understanding of Mexichem and of the requirements that stakeholders have identified as material aspects.
d) Selected sample review from the evidence that supports the information included in the 2016 SR.
e) Onsite review of the indicators in Coatzacoalcos and Tlalnepantla offices.
f) Quality assurance performed by an independent partner of the project that verifies consistency between this report and the agreement letter, as well as work process quality and deliverables.

The following table details the general and specific standard disclosures reviewed according to the GRI Guidelines version 4:

G4 - 17	G4 - 22	G4 - EN2	G4 - EN14	G4 - EN29	G4 - HR3
G4 - 18	G4 - 23	G4 - EN3	G4 - EN15	G4 - EN30	G4 - HR5
G4 - 19	G4 - 24	G4 - EN6	G4 - EN16	G4 - LA5	G4 - SO1
G4 - 20	G4 - 34	G4 - EN10	G4 - EN23	G4 - LA6	G4 - PR1
G4 - 21	G4 - 56	G4 - EN12	G4 - EN27	G4 - HR2	G4 - PR2

These general and specific standard disclosures were selected for the independent review in accordance with the following criteria:

a) Materiality of Mexichem referred in the 2016 SR.
b) Information included in the 2016 SR.

Conclusion

Based on our work described in this report, the procedures performed and the evidence obtained, nothing comes to our attention that could make us believe that the indicators reviewed in the 2016 SR contains significant errors or has not been prepared under the "in accordance Core option" established in the GRI Guidelines version G4. For those specific standard disclosures where Mexichem did not report in a quantitative way, qualitative information such as procedures, policies, evidence of the activities was reviewed.

Action alternatives

Our action alternatives for strengthening future Reports, which do not modify the conclusions expressed in this report, are the following:

- Improve the management and validation process for those material topics for Mexichem and its business units.
- Enhance the reporting process of the quantitative indicators in order to have a complete fulfillment according to the Global Reporting Initiative Guidelines.
- Work on the alignment of the Report to the International Integrated Reporting Council framework.
- Update and improve the scope of the technological tools currently used for the sustainability data gathering process in order to have more reliable, accurate and timely information.

We have submitted a detailed report of action alternatives to the Environmental Corporate Manager of Mexichem concerning areas of improvement in the sustainability strategy (specifically for the verified general and specific standard disclosures) and the reporting process.

Rocío Canal G.

Rocío Canal Garrido
Partner of Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited
Sustainability

April 17th, 2017

Annual Report of the President of the Audit Committee to the Board of Directors

Pursuant to article 43, Section II of the Securities Market Act, I hereby present the corresponding report of activities of the Audit Committee of Mexichem S.A.B. de C.V.

This report has been presented to the Audit Committee of the Society, and has been validated in content, scope and conclusions to be submitted to the consideration and validation of the Board of Directors and the Annual General Meeting of Shareholders of Mexichem, S.A.B. de C.V. to be held in April, 2017 as pursuant to Article 28, Section IV, paragraph a) of the Securities Market Act.

The Annual General Meeting of Shareholders of the Society of April 28, 2016 under advice from the Board of Directors ratified the undersigned as Chairman of the Audit Committee.

During the year being reported, the Committee met during the course of the year on the following dates: (i) April 25, 2016; (ii) July 18, 2016; (iii) July 25, 2016; (iv) October 24, 2016; (v) December 6, 2016; and (vi) February 20, 2017. It should de duly noted that that since its meeting in October, 2016 this social entity meets exclusively as Audit Committee, having been made independent of the Corporate Practices Committee deriving from the resolutions issued by the Board of Directors in session on July 26, 2016.

These meetings were attended by the members of the Committee, the independent auditors, and the Mexichem officers who were asked to attend.

The resolutions adopted by the Audit Committee have been opportunely reported and submitted to the consideration of the Board of Directors, in the respective report presented to the latter superior social entity at its corresponding meetings. The activities and resolutions passed were documented in the respective minutes, with the previous approval of the committee. A file has been compiled from the minutes and documentation of every session.

I. Evaluation of the Internal Auditors' activities

The Audit Committee has been responsive to the needs of the Internal Audit department to ensure it has the necessary human and material resources and materials to adequately carry out its duties.

The committee was informed of the Continuous Monitoring project, an analysis of monitoring variations between real cost and standard cost in different products by company, by product and by level of review. In addition, a review was made of the progress of the Self-Assessment process and the 2017 Internal Audit Plan.

In this respect, satisfactory compliance of established work programs and activities for 2016 was achieved and the Work Plan and Budget for 2017 was also approved.

Furthermore, the members of the committee met with the Chairman of Internal Audit with no other company officers present to receive and discuss information deem

II. Financial Information

The Company's Financial Statements were discussed quarterly with the executive responsible for preparing and reviewing them, with no observations on the information presented. The Financial Statements were approved by the Committee before being sent to the Mexican Stock Exchange.

The financial reports to the Mexican Stock Exchange were analyzed at each of the regular quarterly sessions of the committee. Pertinent comments and suggestions were made and a recommendation of approval regarding their public disclosure was made to the Board of Directors.

At all the meetings of the Committee, the CFO presented a detailed report regarding the operations made by the society with derivative financial instruments and the corresponding reports to the Mexican Stock Exchange.

Likewise, we reviewed and discussed the Audited Financial Statements for the business year ended December 31, 2016. The statements were received without objections and approved by this Committee, who in turn, recommended approval by the Board of Directors and submission to the Shareholders' Assembly.

The committee revised and approved the different assumptions and estimates prepared by Senior Management, which allow validation of the independent auditors' conclusion, as expressed by their expert opinion on said 2016 Financial Statements, of the operating continuity of the Company.

The Society's budget for 2017 was revised and approved, making the recommendations deemed pertinent and resolving its submittal to the Board of Directors for approval.

III. Report of the Chief Executive Officer

The Committee received and approved the report of the Chief Executive Officer on the activities for fiscal year 2016, agreeing to recommend its approval to the Board of Directors for presentation to the Shareholders' Assembly.

IV. Evaluation of the Independent Auditors' performance

We continued to employ the services of Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte) as independent auditors for the Company. The fees for fiscal year 2016 were duly reviewed and approved.

We received the audited financial statements as of December 31, 2016 from the Independent Auditor, with a clean ruling and with no observations, stressing the cooperative attitude of all company divisions in executing this task.

Similarly, the work of the independent auditors Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte), and of Mr. Carlos M. Pantoja Flores, the managing partner, was evaluated and found to be satisfactory. The Independent Auditors confirmed their independence.

The members of this committee met with the independent auditors, with no other officers present, and obtained full cooperation in receiving any additional information required about matters dealt with, when requested.

V. Accounting Policies

The Committee reviewed and approved the accounting policies followed by Mexichem in terms of the information received in connection with new regulations.

The accounting and reporting policies followed by Mexichem are considered appropriate and sufficient.

In the period under consideration, the committee was informed of the progress regarding the proposal for change in accounting policy for valuation of fixed assets.

VI. Legal Report

The Committee received the report of the corporate council with regard to the status of pending legal matters and lawsuits.

VII. Material Events of the Year

The committee was informed by the Chairman of the Board of the status of the accident that occurred on April 20, 2016 at the Clorados III plant, property of Petroquímica Mexicana de Vinilo S.A. de C.V. (PMV), and recommended the Board not to charge the account receivable to the recovery of the accident at the PMV plant until there is a report in writing by the expert hired by the society that could lead an insurance expert to conclude that the causes of the accident do not fall within the exclusions of the insurance policies, and therefore the right of the society to collect from the insurance company exists with "practical certainty".

By December 31, 2016 sufficient elements had been collected to conclude that the claims to the insurance companies have become an account receivable; thus the amount related to damage to property, damage to third parties (civil liability) and executives and officers plus the amount for business interruption, was acknowledged in the statements as other revenue.

Acquisition of new businesses:

On October 18, 2016 Mexichem acquired 100% of the shares of Gravenhurst Plastic, Inc. a Canadian Ontario-based private company that produces plastic piping.

On November 25, 2016, Mexichem acquired 100% of the shares of Vinyl Compounds Holdings, Ltd. (VHCL), a leading company in PVC compounds that serves a wide range of industries, including: building and construction, production of pipes and fittings, footwear and consumer goods. VCHL is based in Derbyshire, UK.

On December 31, 2016, the equal-participation joint venture formalized on October 31, 2013 between Mexichem and Occidental Chemical Corporation (Oxychem), named Ingleside Ethylene LLC, for the construction of an ethylene cracker with a capacity of 550 thousand tons, is opened at the facilities of Oxychem at Ingleside, Texas, and will use the system of ducts and storage at Markham.

VIII. Conclusions

The recommendations of the Audit Committee have been or are being attended by the Administration.

During the period reported, the Audit Committee did not receive from Shareholders, Board Members, relevant directors, employees and in general from third parties, any observations regarding accounting, internal controls or themes related to the Internal or Independent Audit, different than those of the Administration during the preparation or revision of the respective documentation; nor were there any complaints about incidents considered irregular by the Administration.

The Audit Committee has closely followed up, within its competence and in accordance to the instructions received from higher social entities, the agreements of the Shareholders' Meetings and the Board of Directors in the period considered by this report.

In accordance with the work carried out, this recommends that the Board of Directors present the Audited Financial Statements of Mexichem, for the business year ended December 31, 2016, for approval of the Shareholders' Meeting.

C.P. Fernando B. Ruiz Sahagún
President of the Audit Committee
Mexichem, S.A.B. de C.V.

Annual Report of the President of the Corporate Practices Committee to the Board of Directors

Pursuant to article 43, Section I of the Securities Market Act, I hereby present the report on activities in my capacity as Chairman of the Corporate Practices Committee of Mexichem, S.A.B. de C.V.

This report has been presented to the Corporate Practices Committee of the Society, and has been validated in content, scope and conclusions to be submitted to the consideration and validation of the Board of Directors and the Annual General Meeting of Shareholders of Mexichem, S.A.B. de C.V. to be held in April, 2017 as pursuant to Article 28, Section IV, paragraph a) of the Securities Market Act.

The Annual General Meeting of Shareholders of the Society of April 28, 2016 under advice from the Board of Directors ratified the undersigned as Chairman of the Corporate Practices Committee.

During the year being reported, the Committee met during the course of the year on the following dates: (i) April 25, 2016; (ii) July 25, 2016; (iii) October 25, 2016; (iv) February 21, 2017. It should de duly noted that that in the first two meetings, this social entity met in its capacity of Audit and Corporate Practices Committee, and since its meeting in October, 2016 it sessions exclusively as Corporate Practices Committee.

All meetings have been attended by the Chairman of the Board of the society.

The resolutions adopted by the Audit Committee, have been opportunely reported and submitted to the consideration of the Board of Directors in the respective report presented to the latter superior social entity at its corresponding meetings. The activities and resolutions passed were documented in the respective minutes with the previous approval of the committee. A file has been compiled from the minutes and documentation of every session.

I. Transactions with related parties

At every one of the Committee sessions, we reviewed the report by Senior Management regarding the Society's balance of active and passive accounts with related parties in the period under consideration. We analyzed the characteristics and circumstances of the significant operations and recommended to the administration the measures that the committee deemed to be most adequate under the prevailing circumstances, and requested the elimination of inter-company account balances whenever possible.

II. Stock performance / Repurchase fund

We periodically followed the performance of the Company's stock at the Mexican Stock Exchange, as well as the analysis of the prevailing circumstances and the intervention of the Repurchase Fund of the Society.

III. Compensation for Executive Officers

The Committee reviewed the comprehensive compensation package of the Chief Executive Officer and other relevant members of senior management.

IV. Related parties

During the reported period, the Corporate Practices Committee did not receive or had knowledge of any request by any related parties for waiver of business benefits corresponding to the Society and/or to its subsidiaries.

V. Self-regulatory policies

During the period considered, the Committee did not receive any proposals for updating the self-regulatory policies of the society.

VI. Others

The Internal Rules of the Corporate Practices Committee were approved; they define its integration, operating rules, functions and attributions.

VII. Conclusions

During the period reported, the Corporate Practices Committee did not receive from Shareholders, Board Members, relevant directors, employees and in general from third parties, any observations regarding themes of its competence, different than those of the Administration during the preparation or revision of the respective documentation; nor were there any complaints about incidents considered irregular by Senior Management.

In view of the aforementioned, it can be concluded that during the period reported, the Corporate Practices Committee complied with the duties assigned to it by Article 42, Section I of the Securities Market Act.

Eugenio Santiago Clariond Reyes Retana
President of the Corporate Practices Committee
Mexichem, S.A.B. de C.V.

Mexichem, S.A.B. de C.V. and Subsidiaries (A Subsidiary of Kaluz, S.A. de C.V.)

Consolidated Financial Statements

for the Years Ended December 31, 2016, 2015 and 2014,
and Independent Auditors' Report Dated February 21, 2017

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Independent Auditors' Report to the Board of Directors and Stockholders of Mexichem, S.A.B. de C.V.

(Figures in millions of US dollars)

Opinion

We have audited the accompanying consolidated financial statements of Mexichem, S.A.B. de C.V. and Subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2016, 2015 and 2014, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, as well as the explanatory notes to the consolidated financial statements that include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as of December 31, 2016, 2015 and 2014, and its consolidated financial performance and consolidated cash flows, for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for p Professional Accountants (IESBA Code) and with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities under the IESBA Code and IMCP Code. We believe that the audit evidence obtained is sufficient and adequate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those which, in our professional judgment, have been the most significant in our audit of the current period's consolidated financial statements. These matters have been treated in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not express a separate opinion on these matters. We have determined that the matters below are key audit matters which must be described in our report.

i) *Explosion of the VCM "Pajaritos" Plant of the Subsidiary Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV), see Notes 2a and 26*

On April 20, 2016, an explosion occurred in the Pajaritos Petrochemical Complex, where two of the three plants of the subsidiary PMV, VCM and Ethylene, are located. The VCM plant (Clorados III) suffered the greatest damage and the recognition of the asset loss and the closing of the plant represent the most significant economic impact. PMV has the Chlorine and Soda production plant at a separate location. Its facilities were not damaged but business was interrupted in the provision of raw materials.

PMV assets are insured at current replacement value. Insurance coverage includes: (i) environmental liability, (ii) property damage, (iii) damage to assets in assembly process, (iv) business interruption, (v) third-party liability, and (vi) director and officer liability.

The following arise from this event: financial assets derived from the recording of the account receivable from insurance companies; recognition of the write-off or impairment of affected assets; liabilities and provisions for obligations and contingencies related to damage repair; and the assessment of options to continue with the segments of the various businesses, as well as plant reconstruction. They were recorded with the support documentation available as of the date of these financial statements, with the advice of independent experts, and the best and most significant elements available to Entity's Management.

The economic impact was the recording of the asset loss of $285 million ($276 million and $9 million under other revenues, net and other comprehensive income, respectively, in the consolidated statements of profit or loss and other comprehensive income) and costs related to the plant closing of $42 million, which represented a charge to results of $318 million. As of December 31, 2016, PMV gathered sufficient evidence to conclude that insurance claims have become an account receivable, thereby recognizing $275 million under other revenues, related to property damage, third party liability, and director and officer liability. Similarly, PMV and Mexichem Resinas Vinilicas, S.A. de C.V. recognized business interruption of $51 million. Assets and contingent liabilities arose from this event, as explained in Note 26.

PMV has documented and filed the claims mentioned above and, as of the date of these financial statements, has obtained payments of $7 million as an advance for business interruption in its Chlorine-Soda plant, as well as advances of $7 million for severance payments and legal expenses incurred by PMV as a result of the explosion in the Clorados III plant.

How our audit approached the key audit matter:

We focused our audit tests on verifying and ascertaining the following:

i) Identifying the book values of the various components of the affected plants in the perpetual files of PMV.

ii) The correct recording of write-off values of the fixed assets affected by the event (property, plant and equipment, construction in progress, and unamortized maintenance).

iii) Interviews with the Entity's Risk Management area to understand the scope of the insurance policy coverage in effect.

iv) Reading of official and Entity engaged expert reports to determine the root cause of the explosion and, consequently, the right to recognize a financial asset in favor of PMV in the consolidated financial statements.

v) Obtaining written opinions from the Entity's external legal counsel and advisors on the interpretation of insurance policy clauses to identify the rights to collect from insurance companies.

vi) Validation of the technical skills and independence of the specialists used by the Entity.

vii) Confirmation of the reasonableness of the liability and provision amounts recorded for damages and contingencies caused by the plant explosion and which were necessary to repair the damage.

viii) Adequate support for the files supporting the evidence of damage which give rise to the recognition of a financial asset in favor of PMV, resulting from claims to insurance companies.

ix) Verification of the composition of the account receivable from insurance companies regarding amount, description and coverage through formal claims and communication with insurance companies and an analysis thereof against insurance policies and the breakdown prepared by independent advisors.

x) We attended meetings of the Board of Directors and Audit Committee of the Entity and PMV and verified that the agreements and information presented were adequately recognized in the consolidated financial statements.

We believe that the Entity's records and disclosures regarding the main items which arose from the VCM explosion and are reported in Notes 2a and 26 to the accompanying consolidated financial statements are appropriate.

ii) Impairment of Long-Lived Assets, Goodwill and Intangible Assets, see Notes 4i, 4o and 4p

The Entity has identified various cash generating units related to the plants that serve geographic and/or business segments. An impairment analysis is prepared annually, considering tangible and intangible assets, as stated in IAS 36, which calculates discounted future flows to determine if there is asset value impairment. The risk exists that the assumptions used by the Entity Management to calculate future cash flows are not reasonable based on current and future conditions.

How our audit approached the key audit matter:

Our audit procedures included, among others:

i) Involving our internal specialists to:

- Critically assess whether the model used by the Entity Management to calculate the value in use of individual cash generating units complies with the requirements of IAS 36.
- Assess the reasonableness of the assumptions used by the Entity to determine appropriate discount rates in each case.
- Review the consistency of projected flows with audited historical information and that any nonrecurring effect, based on our knowledge of the business, is normalized.
- Selectively recalculate the projections to validate their calculations.

ii) Tests of internal controls and substantive procedures related to the information entered into the financial model to determine the recoverable amount of the cash generating units..

iii) We questioned the methodology and reasoning used by Entity Management to analyze impairment and concluded that the assumptions used are comparable to historical performance and future expected perspectives and ascertained that the discount rates used were adequate under the circumstances.

The results of our audit tests were reasonable. As stated in Notes 4i, 4o and 4p to the accompanying consolidated financial statements, in 2016 the Entity recognized an impairment of long-lived assets of $3 million in the consolidated statement of profit or loss and other comprehensive income. Apart from this amount, the Entity did not show any other indication of impairment requiring adjustments in the values of long-lived assets, goodwill and intangible assets.

iii) Allowance for Doubtful Accounts, see Note 9

The Entity recognizes the allowance for doubtful accounts for all accounts receivable deemed irrecoverable due to prior counterparty noncompliance experience and an analysis of its current financial position. Upon determining the recoverability of an account receivable, the Entity considers any changes in credit rating from the date on which the credit was originally granted to the end of the period. We have identified a risk of trade receivables which, due to their aging and particular credit rating, may not have been included in the allowance for doubtful accounts at yearend. This process requires solid knowledge of the customer portfolio and qualitative and quantitative judgments by Entity's Management.

How our audit approached the key audit matter:

Our audit procedures included, among others:

i) Understanding and assessment of the Entity's internal control over the classification, monitoring and analysis of the overdue receivables portfolio.

ii) Review of the application of general guidelines for the creation of the recorded allowances for potential losses.

iii) Substantive tests focused on the analysis of balance aging classification considering the date on which the collection right originated according to source documents.

iv) Inquiries with Management to obtain an understanding of the qualitative and quantitative reasons which impact customers' credit ratings and aging.

v) Tests focused on challenging old or unusual customer balances not included in the allowance for doubtful accounts and on understanding the reasons for their exclusion, together with documents supporting Management's judgment.

vi) Comparative, retrospective, and prospective analysis of portfolio behavior over time according to Entity's policies and the amounts of the allowances created.

The results of our audit tests regarding the judgment used by Entity's Management to determine and record the allowance for doubtful accounts, are reasonable.

iv) Reserve for Slow-Moving and Obsolete Inventories, see Note 10

The Entity performs certain analyzes to the inventories line item to determine any indication of production batches whose net realizable value is lower than cost or if it is impossible to sell, under current market conditions, production volumes, and product supply and demand. Inventory value reductions are composed of reserves representing inventory impairment. There is a risk that not all slow-moving and obsolete inventories are adequately reserved according to Management's judgment.

How our audit approached the key audit matter:

Our audit procedures included, among others

i) Test of Management controls over information used to calculate the reserve for slow-moving and obsolete inventories and their classification, monitoring, and analysis.

ii) Comparative, retrospective, and prospective analysis of inventory days and created reserve amounts.

iii) Interviews with Management to understand the new strategies and sales plans for aged or less demanded products.

iv) Review of the application of Entity Management's general guidelines for the creation and recording of the required reserves.

v) Application of substantive tests to corroborate the correct classification of unsold inventory batches or products, based on their aging and manufacture date.

vi) We ascertained that all slow-moving, old or obsolete product or batch amounts were included in the determination of the inventory reserve. We analyzed Management's reasons and evidence supporting the non-inclusion of such inventories in the reserve balance.

vii) Confirmation that the assumptions used by Management to calculate the reserve reflect current inventory behavior conditions.

The results of our audit tests regarding the judgment used by Entity´s Management to calculate and record the reserve for slow-moving and obsolete inventories, are reasonable.

v) Revenue Recognition, see Note 4dd

The Entity recognizes revenues at the fair value of the consideration received or to be received based on when ownership is transferred as a result of commercial conditions. There is a revenue cutoff risk due to the various agreements among the Entity's customer universe, as different sales negotiations result in different risk transfer moments, which may not be considered by the Entity for yearend revenue recognition purposes.

How our audit approached the key audit matter:

Our procedures included, among others:

i) Understanding of the Entity's internal controls to identify the different contractual and commercial agreements with customers and their parameterization in the accounting system to determine the unrealized sales amount at yearend.

ii) We analyzed agreements signed with customers, identifying the performance obligations established therein and ensuring that revenues are recognized only when risks have been transferred and the performance obligation has been fulfilled.

iii) Random review of merchandise shipments to confirm the commercial terms in the agreements and determine when the risks are transferred to the customers depending on such conditions (free on board, delivered at place, etc.), and consequently identify whether they have been correctly included as revenues at yearend.

The results of our audit tests regarding the judgment used by Entity's Management to record revenues once risks have been transferred and the performance obligation has been fulfilled, are reasonable.

vi) Deferred Income Taxes, see Note 23

The Entity recognizes deferred taxes on the temporary differences between the book value of the assets and liabilities included in the financial statements and the respective tax bases used to determine the tax result; benefits from tax loss carryforwards and certain tax credits are also included. Deferred tax assets are recognized only when there is a high likelihood that the Entity will apply such temporary differences against future tax profits. We have identified a possible risk in the valuation of deferred income tax assets mainly because the future tax profit forecasts may be incorrect due to: a) use of inappropriate or inadequately supported assumptions, b) consideration of operating assumptions outside the regular course of business, c) not considering a reasonable recovery period or, d) incorrect calculations. Similarly, there is a risk that the effective rates are not correctly reconciled by considering the effect of permanent items between the tax and accounting results.

How our audit approached the key audit matter:

Our audit procedures included, among others:

i) Involving our internal specialists to:

- Clearly understand the tax laws of every country in which the Entity operates.
- Review the tax and accounting result reconciliations of each subsidiary and identify temporary and permanent items.
- Recalculate the effective rates prepared by Entity's Management.
- Review cash flow projections to confirm the application of tax losses by the Entity's subsidiaries during the recovery term established and supported by relevant tax laws.

ii) Validation of future flows based on business trends and supported by the Entity's prior experience and historical results, confirming that existing tax losses will very probably be applied before their expiration.

iii) Assessment of current operating strategies and their impact on future flow projections.

During the year ended December 31, 2016, Entity's Management reserved tax loss carryforwards of $82 million because they would probably not be applied, thus affecting this year's effective rate reconciliation. As a result of our audit tests, we believe that the Entity has reasonably incorporated deferred assets, mainly generated by tax losses, in determining deferred income taxes. Similarly, it has corroborated the effective tax rate based on the respective permanent items.

Emphasis on an Issue

As a result of the explosion in the Pajaritos Petrochemical Complex, explained in subsection i) of the "*Key Audit Matters*" section, PMV, with the support of its stockholders, Mexichem and Pemex, is assessing several strategic options to define the future business structure, integrated in the salt-chlorine-soda-ethylene-VCM chain or individually segmenting each business and, based on the decisions approved, PMV will assess the impacts on its operations in the Pajaritos Petrochemical Complex. As of the date of this report, this assessment has not been concluded; however, the financial projections of the individual businesses show that it is not necessary to record any impairment effect.

Other Information

Entity's Management is responsible for other information, such as information included in the Annual Report which must be filed by the Entity in conformity with Title Four, Chapter One, Article 33, Section I, subsection b) of the General Provisions Applicable to Issuing Companies and other Mexican Stock Market Participants and the related Instructions (the Provisions). The Annual Report is expected to be available to us after the date of this audit report.

Our opinion on the consolidated financial statements does not cover other information and we do not express any form of assurance in this regard.

With regard to our audit of the consolidated financial statements, our responsibility will be to read the Annual Report, when available, and consider whether the information therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or if it appears to contain a material misstatement. Once we read the Annual Report, we will issue a statement as required by Article 33, Section I, subsection b), number 1.2 of the Provisions.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and reasonable presentation of the accompanying consolidated financial statements under IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, due to fraud or error.

When preparing the consolidated financial statements, Management is responsible for assessing the Entity's ability to continue as a Going Concern, disclosing any Going Concern issues and using the Going Concern basis of accounting unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative to do so.

The members of the Entity's Audit Committee are responsible for overseeing the Entity´s financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in conformity with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and asses the risks of material misstatement of the consolidated financial statements, due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, deceit, intentional omissions, misrepresentations, or override of internal control.
– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
– Conclude on the appropriateness of Management's use of the Going Concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a Going Concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a Going Concern.
– Evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a way that constitutes fair presentation.
– We obtained sufficient and appropriate audit evidence about the Entity's financial information and its business activities to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit group. We continue to be solely responsible for our audit opinion.

We are required to inform the Entity's Management and the Audit Committee, among other matters, of the planned scope and timing of the audit, including any significant internal control deficiencies that we identify during our audit.

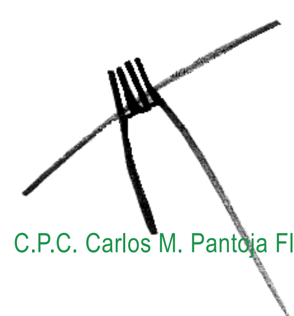
We are also required to provide a statement to the Entity's Management and the Audit Committee regarding our compliance with applicable ethical requirements for independence and notify any relationships or other matters which may be reasonably deemed to affect our independence and, if any, the respective safeguards.

The matters which have been communicated to those responsible for governance have been determined as the most significant in the audit of the consolidated financial statements and, consequently, are the key audit matters. We describe such matters in this audit report unless legal or statutory provisions bar the public disclosure of such matters or, in very rare situations, when we determine that a matter should not be communicated in our report because it is reasonable to expect that the adverse consequences of doing so would exceed the related public interest benefits.

Other Matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited



C.P.C. Carlos M. Pantoja Flores

February 21, 2017

Mexichem, S.A.B. de C.V. and Subsidiaries (A Subsidiary of Kaluz, S.A. de C.V.)

Consolidated Statements of Financial Position

As of December 31, 2016, 2015 and 2014

(Thousands of U.S. dollars)

	Notes	2016	2015	2014
ASSETS				
Current assets:				
Cash and cash equivalents	8	$ 713,607	$ 653,274	$ 619,525
Accounts receivable, Net	9	1,180,581	884,344	1,124,167
Due from related parties	21a	3,265	1,577	4,058
Inventories, Net	10	606,389	647,984	775,219
Prepaid expenses		35,311	48,169	48,322
Assets classified as held for sale		21,050	16,505	12,183
Total current assets		2,560,203	2,251,853	2,583,474
Non-current assets:				
Property, plant and equipment, Net	14 and 17	4,201,580	4,202,927	3,729,968
Investment in shares of associates and other entities	4l	30,909	31,232	33,354
Other assets, Net		64,294	69,378	79,143
Deferred income taxes	23b	66,025	186,989	169,122
Intangible assets, Net	15a	1,192,808	1,249,140	1,407,964
Goodwill	15b	690,183	678,157	723,220
Total non-current assets		6,245,799	6,417,823	6,142,771
Total assets		$ 8,806,002	$ 8,669,676	$ 8,726,245

	Notes	2016	2015	2014
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Bank loans and current portion of long-term debt	16	$ 57,693	$ 43,653	$ 61,736
Suppliers		653,076	565,746	678,664
Credit letters of suppliers		616,628	635,275	451,616
Due to related parties	21a	51,487	26,750	32,546
Other accounts payable and accrued liabilities		500,015	435,481	468,531
Provisions	19	8,739	16,996	22,183
Employee benefits		31,830	30,990	30,718
Short-term finance lease	17b	51,839	44,053	52,695
Derivative financial instruments	12 and 13	483	–	10,399
Liabilities associated with assets held for sale		13,207	19,617	7,343
Total current liabilities		1,984,997	1,818,561	1,816,431
Non-current liabilities:				
Bank loans and long-term debt	16	2,241,370	2,291,422	2,366,457
Employee benefits	18	170,973	154,972	221,533
Long-term provisions	19	16,955	27,157	34,262
Long-term other liabilities		25,973	23,180	34,341
Derivative financial instruments	12 and 13	99,162	68,482	61,765
Deferred income taxes	23b	286,889	476,130	481,689
Long-term finance lease	17b	69,513	116,757	170,085
Long-term income tax	23	12,616	14,234	49,943
Total non-current liabilities		2,923,451	3,172,334	3,420,075
Total liabilities		4,908,448	4,990,895	5,236,506
Stockholders' equity:				
Paid-in capital –				
Nominal	20a	256,482	256,482	256,482
Additional paid-in capital		1,474,827	1,474,827	1,474,827
Cumulative effect of restatement		23,948	23,948	23,948
		1,755,257	1,755,257	1,755,257
Earned capital –				
Retained earnings		574,442	850,836	795,298
Buy-back shares program reserve	20b	551,579	156,219	126,663
Other comprehensive income		97,829	140,050	368,813
		1,223,850	1,147,105	1,290,774
Controlling interest		2,979,107	2,902,362	3,046,031
Non-controlling interest		918,447	776,419	443,708
Total stockholders' equity		3,897,554	3,678,781	3,489,739
Total liabilities and stockholders' equity		$ 8,806,002	$ 8,669,676	$ 8,726,245

See accompanying notes to consolidated financial statements.

Mexichem, S.A.B. de C.V. and Subsidiaries (A Subsidiary of Kaluz, S.A. de C.V.)

Consolidated Statements of Profit or Loss and Other Comprehensive Income

For the years ended December 31, 2016, 2015 and 2014

(Thousands of U.S. dollars, except gain (loss) per share expressed in U.S. dollars)

	Notes	2016	2015	2014
Continuing operations:				
Net sales		$ 5,349,807	$ 5,612,392	$ 5,514,345
Cost of sales	22a	4,143,473	4,369,294	4,401,781
Gross profit		1,206,334	1,243,098	1,112,564
Selling and development expenses	22b	375,042	391,190	394,168
Administrative expenses	22c	332,021	356,337	347,420
Other income	22d	(14,968)	(20,255)	(37,628)
Exchange gain		(95,164)	(38,313)	(79,101)
Exchange loss		92,936	95,335	170,410
Interest expense		192,372	212,075	195,013
Interest income		(9,735)	(21,785)	(34,679)
Monetary position (gain) loss		(17,478)	(2,097)	6,381
Equity in income of associated entity		(2,873)	(3,080)	(2,729)
Profit before income taxes		354,181	273,691	153,309
Income tax expense	23d	121,921	88,415	41,701
Profit for the year from continuing operations		232,260	185,276	111,608
Discontinued operations:				
(Loss) gain from discontinued operations, Net	24b	(10,780)	(54,165)	3,005
Consolidated profit for the year		221,480	131,111	114,613
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to profit or loss:				
Property, plant and equipment revaluation		23,497	99,094	10,118
Impairment of assets as a result of the PMV claim		(8,527)	–	–
Impairment of fixed assets		–	–	(1,088)
Actuarial (losses) gains recognized during the year		(33,927)	40,497	(57,944)
Income taxes		5,687	(30,496)	11,361
		(13,270)	109,095	(37,553)

(Continued)

	Notes	2016	2015	2014
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations		(46,436)	(381,367)	(239,926)
Valuation of financial instruments		(10,453)	101,954	46,531
Income taxes		3,136	(30,586)	(13,959)
		(53,753)	(309,999)	(207,354)
Other comprehensive loss for the year		(67,023)	(200,904)	(244,907)
Consolidated comprehensive income (loss) for the year		$ 154,457	$ (69,793)	$ (130,294)
Consolidated net income for the year:				
Owners of the Entity		$ 238,399	$ 135,170	$ 124,559
Non-controlling interests		(16,919)	(4,059)	(9,946)
		$ 221,480	$ 131,111	$ 114,613
Comprehensive income (loss) attributable to:				
Owners of the Entity		$ 172,429	$ (62,504)	$ (117,981)
Non-controlling interests		(17,972)	(7,289)	(12,313)
		$ 154,457	$ (69,793)	$ (130,294)
Earnings per share attributable to owners of the Entity:				
From continuing operations		$ 0.11	$ 0.09	$ 0.05
From discontinued operations		$ (0.01)	$ (0.03)	$ –
Basic earnings per share		$ 0.11	$ 0.06	$ 0.05
Weighted average common shares outstanding		$ 2,100,000,000	$ 2,100,000,000	$ 2,100,000,000

(Concludes)

See accompanying notes to consolidated financial statements.

Mexichem, S.A.B. de C.V. and Subsidiaries (A Subsidiary of Kaluz, S.A. de C.V.)

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2016, 2015 and 2014

(Thousands of U.S. dollars)

	Paid-in capital			Accumulated results			Other comprehensive results					
	Nominal	Additional paid-in capital	Cumulative effect of restatement	Legal reserve	Retained earnings	Buy-back shares program reserve	Property, plant, and equipment revaluation	Cumulative translation effects of foreign operations	Valuation of financial financieros	Controlling interest	Non-controlling interest	Total stockholders' equity
Balances as of December 31, 2013	$ 256,482	$ 1,708,376	$ 23,948	$ 51,298	$ 631,875	$ 56,312	$ 485,324	$ 118,873	$ (33,932)	$ 3,298,556	$ 292,501	$ 3,591,057
Dividends declared in cash	–	–	–	–	(76,520)	–	–	–	–	(76,520)	–	(76,520)
Purchase of shares	–	–	–	–	(170)	(55,487)	–	–	–	(55,657)	–	(55,657)
Increase in buy-back shares program reserve	–	–	–	–	(141,838)	141,838	–	–	–	–	–	–
Transfer of equity accounts	–	(233,549)	–	–	233,549	–	–	–	–	–	–	–
Partial cancellation of the buy-back shares program reserve	–	–	–	–	16,000	(16,000)	–	–	–	–	–	–
Additional non-controlling equity derived from business acquisition	–	–	–	–	–	–	–	–	–	–	163,520	163,520
Other comprehensive (loss) profit of the year	–	–	–	–	(43,455)	–	5,902	(239,926)	32,572	(244,907)	(2,367)	(247,274)
Consolidated profit for the year	–	–	–	–	124,559	–	–	–	–	124,559	(9,946)	114,613
Balances as of December 31, 2014	256,482	1,474,827	23,948	51,298	744,000	126,663	491,226	(121,053)	(1,360)	3,046,031	443,708	3,489,739
Dividends declared in cash	–	–	–	–	(63,447)	–	–	–	–	(63,447)	–	(63,447)
Purchase of shares	–	–	–	–	(11,594)	(6,124)	–	–	–	(17,718)	–	(17,718)
Partial cancellation of the buy-back shares program reserve	–	–	–	–	110,725	(110,725)	–	–	–	–	–	–
Increase in buy-back shares program reserve	–	–	–	–	(146,405)	146,405	–	–	–	–	–	–
Additional non-controlling equity derived from business acquisition	–	–	–	–	–	–	–	–	–	–	340,000	340,000
Other comprehensive (loss) profit of the year	–	–	–	–	31,089	–	78,006	(378,137)	71,368	(197,674)	(3,230)	(200,904)
Consolidated profit for the year	–	–	–	–	135,170	–	–	–	–	135,170	(4,059)	131,111
Balances as of December 31, 2015	256,482	1,474,827	23,948	51,298	799,538	156,219	569,232	(499,190)	70,008	2,902,362	776,419	3,678,781
Dividends declared in cash	–	–	–	–	(105,000)	–	–	–	–	(105,000)	–	(105,000)
Purchase of shares	–	–	–	–	(14,237)	–	23,553	–	–	9,316	–	9,316
Dividends declared for mandatory reinvestment	–	–	–	–	(145,226)	–	145,226	–	–	–	–	–
Partial cancellation of the buy-back shares program reserve	–	–	–	–	173,419	–	(173,419)	–	–	–	–	–
Increase in buy-back shares program reserve	–	–	–	–	(400,000)	–	400,000	–	–	–	–	–
Additional non-controlling equity derived from business acquisition	–	–	–	–	–	–	–	–	–	–	160,000	160,000
Other comprehensive (loss) profit of the year	–	–	–	–	(23,749)	(7,317)	–	10,479	(45,383)	(65,970)	(1,053)	(67,023)
Consolidated profit for the year	–	–	–	–	238,399	–	–	–	–	238,399	(16,919)	221,480
Balances as of December 31, 2016	$ 256,482	$ 1,474,827	$ 23,948	$ 51,298	$ 523,144	$ 62,691	$ 551,579	$ 579,711	$ (544,573)	$ 2,979,107	$ 918,447	$ 3,897,554

See accompanying notes to consolidated financial statements.

Mexichem, S.A.B. de C.V. and Subsidiaries (A Subsidiary of Kaluz, S.A. de C.V.)

Consolidated Statements of Cash Flows

For the years ended December 31, 2016, 2015 and 2014

(Thousands of U.S. dollars)

	2016	2015	2014
Cash flows from operating activities:			
Consolidated net income for the year	$ 221,480	$ 131,111	$ 114,613
Adjustments for:			
Income tax expense	121,921	88,415	41,701
Loss (gain) from discontinued operations	10,780	54,165	(3,005)
Net labor obligation (gain) cost	(286)	6,033	11,989
Depreciation and amortization	369,515	394,595	409,810
Impairment of assets as a result of the PMV claim net of account receivable from insurance companies (see Note 22d.)	9,184	–	–
Gain on sale of fixed assets	(1,333)	(2,990)	(1,302)
Unrealized exchange (gain) loss	(32,297)	32,538	(55,787)
Impairment of fixed assets	3,322	–	1,088
Equity in income of associated entity	(2,873)	(3,080)	(2,729)
Interest income	(9,735)	(21,785)	(34,679)
Interest expense	192,372	212,075	195,013
	882,050	891,077	676,712
Changes in working capital:			
(Increase) decrease in:			
Accounts receivable	(1,576)	105,116	84,666
Inventories	33,684	102,325	49,543
Other assets	(21,290)	31,597	(58,638)
Discontinued operations	11,633	22,353	8,041
Increase (decrease) in:			
Suppliers	70,611	75,197	34,465
Related parties	(26,301)	(3,315)	38,046
Other liabilities	(203,438)	(102,319)	(52,064)
Discontinued operations	(37,128)	(45,248)	(10,348)
Interest received	9,735	21,785	34,679
Net cash provided by operating activities	717,980	1,098,568	805,102
Cash flows from investing activities:			
Acquisition of machinery and equipment	(488,277)	(710,967)	(517,700)
Proceeds from sale of machinery and equipment	22,128	57,469	17,738
Investments in other assets	–	(8,938)	(5,741)
Acquisition of subsidiaries, net of cash acquired	(41,991)	–	(831,045)
Net cash used in investing activities	(508,140)	(662,436)	(1,336,748)

(Continued)

	2016	2015	2014
Cash flows from financing activities:			
Loans	65,981	32,416	842,013
Loan repayments	(48,984)	(59,252)	(479,235)
Interest paid	(190,903)	(211,556)	(187,025)
Dividends paid	(54,236)	(64,642)	–
Purchase of shares	9,316	(17,718)	(55,657)
Net cash (used in) provided by financing activities	(218,826)	(320,752)	120,096
Adjustment to cash flows due to exchange rate fluctuations	69,319	(81,631)	(201,486)
Net increase (decrease) in cash and cash equivalents	60,333	33,749	(613,036)
Cash and cash equivalents at the beginning of the year	653,274	619,525	1,232,561
Cash and cash equivalents at the end of the year	$ 713,607	$ 653,274	$ 619,525

(Concludes)

See accompanying notes to consolidated financial statements.

Mexichem, S.A.B. de C.V. and Subsidiaries (A Subsidiary of Kaluz, S.A. de C.V.)

Notes to the consolidated financial statements

For the years ended December 31, 2016, 2015 and 2014

(Thousands of U.S. dollars)

1. Activities

Mexichem, S.A.B. de C.V. and Subsidiaries (the Entity or Mexichem), whose main address and place of business is in Río San Javier No.10, Fraccionamiento Viveros de Río, Tlalnepantla, C.P. 54060 Estado de Mexico, is an entity that holds the shares of a group of companies located in the American and European continents, some Asian countries and Africa. Mexichem is a leading supplier of goods and solutions in multiple sectors, from the petrochemical industry to construction, infrastructure, agriculture, health, transportation, telecommunications, and energy, among others. It is one of the largest manufacturers of plastic pipes and connectors worldwide and one of the largest chemical and petrochemical companies in Latin America. The strategic position of the Entity focuses on the chemical sector through four Business Groups: Vinyl, Energy, Fluor and Fluent.

2. Significant events

a. *Effect of the claim related to the VCM plant in the subsidiary Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) –* On April 20, 2016, there was an explosion in the Pajaritos Petrochemical Complex, where two of the three plants of the subsidiary PMV, VCM and Ethylene, are located. The VCM plant (Clorados III) suffered the greatest damage and the recognition of the asset loss and the closing of the plant represent the most significant economic impact. PMV has the Chlorine and Soda production plant at a separate location. Its facilities were not damaged but there was business interruption in the provision of raw materials. The economic impact was the recording of the asset loss of $285 million ($276 million and $9 million under other revenues, net and other comprehensive income, respectively, in the consolidated statements of profit and loss and other comprehensive income) and costs related to the plant closing of $42 million, which represented a charge to results of $318 million. As of December 31, 2016, PMV gathered sufficient evidence to conclude that insurance claims have become an account receivable, thereby recognizing $275 million under other revenues, related to property damage, third party liability, and director and officer liability. Similarly, PMV and Mexichem Resinas Vinílicas, S.A. de C.V. recognized business interruption of $51 million. Assets and contingent liabilities arose from this event, as explained in Note 26.

b. *Establishment and acquisition of new businesses –* During 2016, 2015 and 2014, Mexichem established and acquired the businesses described below:

   i. On October 18, 2016, Mexichem acquired 100% of the shares of Gravenhurst Plastic, Inc, a private Canadian plastic tube manufacturer located in Ontario. The value of this acquisition was $13 million, paid in cash.

   ii. On November 25, 2016, Mexichem acquired 100% of the shares of Vinyl Compounds Holdings, Ltd (VCHL), a leading PVC compound Company which serves a broad range of industries, including: building and construction, piping and stock manufacturing, footwear and consumer goods. VCHL is located in Derbyshire, United Kingdom. The value of this acquisition was 24 million pounds sterling, paid in cash.

   iii. As of December 31, 2016, the 50/50 joint venture formalized on October 31, 2013 between Mexichem and Occidental Chemical Corporation (OxyChem), called Ingleside Ethylene LLC, to build an ethylene cracker with an annual capacity of 1,200 million pounds (550 thousand tons), represents a total investment of $1,376 million. Such investment is located at the facilities of OxyChem in Ingleside, Texas, and will employ the duct and storage system located in Markham, Texas.

   iv. On May 12, 2015, Mexichem opened a new manufacturing plant in Hyderabad, India.
   The new plant produces high-pressure pipes and tubes for water, voice and data markets in the telecommunications and gas transportation industry. The new plant is the fourth Mexichem plant in India, together with two more located in Goa and another in Neemrana, close to Delhi. The location of the Hyderabad plant in southern India enable Mexichem to have a strategic positioning to make exports to Southeast Asia, deal with customers from southern India and exploit new business opportunities in the region. The opening of the plant is part of the ongoing strategy of Mexichem to become a globally and vertically integrated company, with a focus on specialty products and solutions.

   v. On December 1, 2014, Mexichem acquired 100% of the shares of VESTO PVC Holding GmbH (Vestolit), the sixth-largest company manufacturer of PVC in Europe. Vestolit is located in Marl, Germany and is the only European producer of high impact suspension PVC resin (HIS-PVC), for applications such as climate resistant windows, auto chassis coverings, ladies' purses, and plastic bins. Vestolit is the second largest producer in Europe of PVC paste for floors and walls. This acquisition had a value of €219 million in cash and assumed liabilities, equivalent to US $273.2 million.

   vi. On September 19, 2014, Mexichem acquired 100% of the shares of Dura-Line Holding Inc (Dura-Line). With this transaction Mexichem entered the high density polyethylene pipe business (HDPE), specialized in the telecommunications sector, with manufacturing plants headquartered in North America, India, Oman, Europe and South Africa. This acquisition had a value of US $630 million.

c. *Issuance of International Bond –*

On September 9, 2014, the issuance of a 30 year International Debt Bond was concluded under Rule 144ª / RegS for $750 million with a spread of 270 base points on U.S. treasury bonds. The International Bond is payable upon maturity. The resources were used mainly for the refinancing of the issue "MEXICHEM 11", which matures as of 2016, for funding of new business acquisitions.

d. *Advance repayment of Securitized Certificates –*

On September 23, 2014 Mexichem settled in advance the totality of the securitized certificates "MEXCHEM 11", for which purpose it paid the holders a price per instrument equal to the higher of the face value of the Securitized Certificates or the clean price calculated through the arithmetical average of the last 30 (thirty) days before the date of advance payment provided by independent price suppliers.

3. Basis of presentation

a. *Explanations for translation into English –* The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of IFRS. Certain accounting practices applied by the Entity that conform with IFRS may not conform with accounting principles generally accepted in the country of use.

b. *New and revised IFRSs issued but not yet effective*

The Entity has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]
Amendments to IAS 12	Income taxes[1]
Amendments to IAS 7	Statements of cash flows[1]
Amendments to IFRS 2	Classification and measurement of share-based payments[1]

1 Effective for annual periods beginning as of January 1, 2017, with early application permitted.
2 Effective for annual periods beginning on or after January 1st, 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after January 1st, 2019, with earlier application permitted.

IFRS 9, Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2015 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2016 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described below:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both, by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI.

  All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).

- Regarding the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income; unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Entity's management anticipates that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Entity's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of such effect until the Entity undertakes a detailed review.

IFRS 15 *Revenue from Contracts with Customers*

In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The basic principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Entity's management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Entity's consolidated financial statements. However, it is not practical to provide a reasonable estimate of such effect until the Entity performs a detailed review.

IFRS 16, Leases

IFRS 16 "Leases" was issued in January 2016 and supersedes IAS 17 "Leases" and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after January 1st, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use an asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use an asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental loan rate.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options. (This election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

The Entity is in the process of determining the potential impacts that will derive from the adoption of this standard in its consolidated financial statements, although by the nature of its operations it would not expect significant impacts.

Amendments to IAS 12 Income Taxes: Recognition of deferred tax assets related to unrealized losses, clarify how to account for deferred tax assets related to debt instruments measured at fair value.

IAS 12 establishes requirements for the recognition and measurement of current or deferred tax assets or liabilities. The amendments clarify the requirements for recognition of deferred tax assets related to unrealized losses, so as to address diversity in practice.

Entity Management does not expect significant impacts as a result of these amendments.

Amendments to IAS 7 Statements of Cash Flows: Provide disclosures

The objective of the amendments with disclosure initiative (Amendments to IAS 7) is for entities to provide disclosures which will allow financial statement users to assess changes derived from financing activities.

To achieve this goal, the IASB requires disclosure (as applicable) of the following changes in liabilities resulting from financing activities: (i) changes in financing cash flows; (ii) changes derived from obtaining or losing control over subsidiaries or other businesses; (iii) the effect of exchange rate variances; (iv) changes in fair value; and (v) other changes.

Entity Management expects certain impacts as a result of these amendments.

Amendments to IFRS 2 Classification and Measurement of Share-Based Payments

The amendments to IFRS 2, Share-Based Payments, clarify the classification and measurement of share-based payment transactions. The amendments include clarifications and changes related to the accounting for share-based payment transactions paid in cash; the classification of share-based payment transactions with net settlement characteristics; and accounting for changes in share-based payment transactions settled in cash or subject to settlement using equity instruments. Early application is permitted. The amendments are applied prospectively.

Entity Management expects certain impacts as a result of these amendments.

c. *Classification of costs and expenses –* These are presented according to their function because this is the practice of the industry to which the Entity belongs.

4. Summary of significant accounting policies

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. The standards include provisions known as IFRS, IAS, IFRIC and SIC.

b. *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

i. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. Fair value

Fair value is the price that would be received when and if the asset is sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

c. *Basis of financial statements consolidation*

The consolidated financial statements incorporate the financial statements of the Mexichem, S.A.B. de C.V. and its subsidiaries. Control is achieved when Mexichem:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

Mexichem reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When Mexichem has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. Mexichem considers all relevant facts and circumstances in assessing whether or not the Mexichem's voting rights in an investee are sufficient to give it power, including:

- The size of Mexichem holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by Mexichem, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Mexichem has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when Mexichem obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Net income (loss) and each component of other comprehensive income are attributed to the owners of Mexichem and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of Mexichem and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Mexichem's accounting policies.

All intragroup balances and transactions between Mexichem members are eliminated in full on consolidation.

Mexichem's shareholding interest in the subsidiaries as of December 31, per business group, is as follows:

		% Ownership		
Group	Country	2016	2015	2014
Vinyl:				
Mexichem Derivados, S.A. de C.V.	Mexico	100	100	100
Mexichem Compuestos, S.A. de C.V.	Mexico	100	100	100
Mexichem Resinas Vinilicas, S.A. de C.V.	Mexico	100	100	100
VESTO PVC Holding GmbH, Marl	Germany	100	100	100
Mexichem America, Inc.	USA	100	100	100
Mexichem Specialty Compounds, Inc	USA	100	100	100
Mexichem Specialty Compounds, Ltd	UK	100	100	100
Vinyl Compounds Holdings, Ltd	UK	100	–	–
Mexichem Resinas Colombia, S.A.S.	Colombia	100	100	100
Mexichem Speciality Resins, Inc.	USA	100	100	100
C.I. Mexichem Compuestos Colombia, S.A.S.	Colombia	100	100	100
Petroquimica Mexicana de Vinilo, S.A. de C.V.	Mexico	55.91	55.91	55.91
Ingleside Ethylene LLC	USA	50	50	50
Fluor:				
Mexichem Fluor, S.A. de C.V.	Mexico	100	100	100
Mexichem Fluor Comercial, S.A. de C.V.	Mexico	100	100	100
Fluorita de Mexico, S.A. de C.V.	Mexico	100	100	100
Mexichem Fluor Inc.	USA	100	100	100
Mexichem Fluor Canada Inc.	Canada	100	100	100
Mexichem UK Ltd	UK	100	100	100
Mexichem Fluor Japan Ltd.	Japan	100	100	100
Mexichem Fluor Taiwan Ltd.	Taiwan	100	100	100

Group	Country	% Ownership 2016	2015	2014
Fluent:				
Dura-Line Holdings, Inc.	USA	100	100	100
Mexichem Canada Holding, Inc	Canada	100	–	–
Mexichem Soluciones Integrales Holding, S.A. de C.V.	Mexico	100	100	100
Mexichem Amanco Holding, S.A. de C.V.	Mexico	100	100	100
Mexichem Soluciones Integrales, S.A. de C.V.	Mexico	100	100	100
Mexichem Guatemala, S.A.	Guatemala	100	100	100
Mexichem Honduras, S.A.	Honduras	100	100	100
Mexichem El Salvador, S.A.	El Salvador	100	100	100
Mexichem Nicaragua, S.A.	Nicaragua	100	100	100
Mexichem Costa Rica, S.A.	Costa Rica	100	100	100
Mexichem Panama, S.A.	Panama	100	100	100
Mexichem Colombia, S.A.S.	Colombia	100	100	100
Pavco de Venezuela, S.A.	Venezuela	100	100	100
Mexichem Ecuador, S.A.	Ecuador	95	95	95
Mexichem del Peru, S.A.	Peru	100	100	100
Mexichem Argentina, S.A.	Argentina	100	100	100
Mexichem Brasil Industria de Transformação Plastica, Ltda.	Brazil	100	100	100
Wavin N.V.	Netherlands	100	100	100
Wavin Nederland B.V.	Netherlands	100	100	100
Wavin Belgium N.V.	Belgium	100	100	100
Wavin (Foshan) Piping Systems Co. Ltd.	China	100	100	100
Wavin Ekoplastik s.r.o.	Czech Republic	100	100	100
Nordisk Wavin A/S	Denmark	100	100	100
Norsk Wavin A/S	Norway	100	100	100
Wavin Estonia OU	Estonia	100	100	100
Wavin-Labko Oy	Finland	100	100	100
Wavin France S.A.S.	France	100	100	100
Wavin GmbH	Germany	100	100	100
Wavin Hungary Kft.	Hungary	100	100	100
Wavin Ireland Ltd.	Ireland	100	100	100
Wavin Italia SpA	Italy	100	100	100
Wavin Latvia SIA	Latvia	100	100	100
UAB Wavin Baltic	Lithuania	100	100	100
Wavin Metalplast-BUK Sp.zo.o.	Poland	100	100	100
Wavin Romania s.r.l.	Romania	100	100	100
OOO Wavin Rus	Russia	100	100	100
Wavin Balkan d o.o.	Serbia	100	100	100
Wavin Slovakia spol s.r.o.	Slovakia	100	100	100
AB Svenska Wavin	Sweden	100	100	100
Pilsa A.S.	Turkey	100	100	100
Wavin Ltd.	UK	100	100	100
Warmafl oor (GB) Ltd.	UK	100	100	100
Wavin Ukrain O.O.O.T.O.V.	Ukraine	100	100	100

Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of Mexichem.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

d. *Recognition of the effects of inflation* – The Entity recognizes the effect of inflation for entities that operate in highly-inflationary economies, which is when inflation over the preceding three years is greater than 100%. Mexichem in 2016, 2015 and 2014 recognized the effects of inflation in its Venezuelan operations.

e. *Translation of financial statements of foreign subsidiaries* – The individual financial statements of each subsidiary of the Entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). To consolidate the financial statements of foreign subsidiaries are translated from the functional currency into U.S. dollars (the reporting currency), considering the following methodology:

Foreign operations whose functional currency is not the same as the currency in which transactions are recorded, translate their financial statements using the following exchange rates: i) the closing exchange rate in effect at the balance sheet date for assets and liabilities and ii) historical exchange rates for stockholders' equity and (iii) month average for revenues, costs and expenses. Translation effects are recorded in other comprehensive profit (loss). Exchange rate differences resulting from financial instruments that are initially recognized in other comprehensive income are reclassified to profit or loss when the net foreign investment is partially or fully sold. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For foreign entities that operate in a hyperinflationary economy, their financial statements are first restated in currency of purchasing power as of the date of the consolidated statement of financial position, using the price index of the country of origin of the functional currency and then they are translated using the official exchange rate of closing for all items. The transaction in Venezuela was converted at the exchange rate of 673.76, 198.69 and 12.00 bolivars per dollar as of December 31st, 2016, 2015 and 2014, respectively.

A summary of the main financial statement line items of this operation follows:

	2016	2015	2014
Total assets	$ 25,636	$ 17,570	$ 125,670
Stockholders' equity	$ 11,510	$ 6,959	$ 66,710
Net sales	$ 15,498	$ 6,019	$ 62,386
Net income	$ 9,074	$ (668)	$ 7,629

The exchange rate differences are recognized in profit or loss in the period in which they arise except for exchange differences on foreign currency loans relating to assets under construction qualifying for capitalization of interest, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency loans.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing exchange rate.

Transactions denominated in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to functional currency at the exchange rate prevailing at the date of the financial statements. Exchange rate fluctuations are recorded in profit and loss.

When there are several exchange rates available, that in which the future cash flows can be settled is used.

The subsidiaries with different functional currency to the U.S. dollar are the following:

Entity	Functional currency	Country	Business Group
VESTO PVC Holding GmbH, Marl	Euro	Germany	Vinyl
Mexichem Specialty Compounds	Pound sterling	UK	Vinyl
Vinyl Compounds Holdings	Pound sterling	UK	Vinyl
Mexichem UK	Pound sterling	UK	Fluor
Mexichem Fluor Japan	Japanese Yen	Japan	Fluor
Mexichem Soluciones Integrales	Mexican peso	Mexico	Fluent
Mexichem Canada Holding	Canadian dollar	Canada	Fluent
Mexichem Guatemala	Guatemalan Quetzal	Guatemala	Fluent
Mexichem Honduras	Honduran lempiras	Honduras	Fluent
Mexichem Nicaragua	Nicaraguan Cordoba	Nicaragua	Fluent
Mexichem Costa Rica	Costa Rican colon	Costa Rica	Fluent
Mexichem Panama	Panamanian Balboa	Panama	Fluent
Mexichem Colombia	Colombian peso	Colombia	Fluent
Pavco de Venezuela	Venezuelan bolivar	Venezuela	Fluent
Mexichem Argentina	Argentine peso	Argentina	Fluent
Mexichem Brasil Industria de Transformação Plastica	Brazilian real	Brazil	Fluent
Wavin N.V. and subsidiaries	Multicurrency	Europe	Fluent

f. *Cash and cash equivalents* – Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments, highly liquid and easily convertible into cash. Cash is stated at nominal value and cash equivalents are measured at fair value.

g. *Inventories* – Inventories are stated at the lower of cost and net realizable value (estimated selling price less all estimated costs of completion necessary to make the sale). Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, being valued on average costs method. Reductions in the value of inventories are recognized via reserves which represent the impairment of inventory.

h. *Assets classified as held for sale* – Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Entity is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Entity will retain a non-controlling interest in its former subsidiary after the sale.

When the Entity is committed to a sale plan involving disposal of an investment, or a portion of an investment in an associate or joint venture, the investment, or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Entity discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Entity discontinues the use of the equity method at the time of disposal when the disposal results in the Entity losing significant influence over the associate or joint venture (see Note 3l for definition of significant influence).

After the disposal takes place, the Entity accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Entity uses the equity method (see the accounting policy regarding investments in associates or joint ventures above).

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

i. *Property, plant and equipment* – Property, plant and equipment are initially recorded at acquisition cost.

Property, plant and equipment are subsequently presented at their revalued amounts, representing fair value from calculations made by independent expert appraisers, less accumulated depreciation and accumulated impairment losses. The revaluations are carried out when there are significant changes in the economic conditions in the countries in which the Entity operates.

Revaluations resulting in increases in the value of property, plant and equipment are recognized within the revaluation reserve within other comprehensive income. To the extent, such increase represents the reversal of a decrease from revaluation of the same asset previously recognized in profit or loss, such increase is credited to profit or loss to the extent of the decrease previously expensed.

Revaluations resulting in decreases in the value of property, plant and equipment are recognized within profit or loss of the period, to the extent they exceed the balance, if any, held in the revaluation reserve for property relating to a previous revaluation of that asset. These effects are recognized net of their deferred income tax effects.

The cost of debt incurred during the period of construction and installation of qualifying property, plant and equipment, are capitalized.

The gain or loss arising from the sale or retirement of an item of property, plant and equipment, is calculated as the difference between the proceeds received from the sale and the carrying value of the asset, which is recognized in profit or loss.

Properties that are in the process of construction for purposes of production are recorded at cost less any impairment loss recognized. Cost includes professional fees and, in the case of qualifying assets, the costs of loan capitalized in accordance with the accounting policy of the Entity. The depreciation of these assets is initiated when assets are ready for their planned use. As of December 31, 2016, the Entity determined impairment of $3,322, recording an allowance for impairment of machinery and equipment. As of December 31, 2015, there was no indication of impairment. As of December 31, 2014, the Entity determined impairment of $1,088, recording an allowance for impairment of machinery and equipment.

Depreciation on property, plant and equipment is recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction less their residual values, over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The remaining averages useful lives of property, plant and equipment are:

	Years
Buildings and constructions	19
Machinery and equipment	9
Furniture and fixtures	4
Vehicles	4 to 16

j. *Leasing* – Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, are assets so specific that only the lessee can use it without making substantial changes or lease presents most of the economic life of the asset. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Entity's general policy on loan costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

k. *Loan cost* – Loan costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific loans pending their expenditure on qualifying assets is deducted from the loan costs eligible for capitalization. All other loan costs are recognized in profit or loss in the period in which they are incurred.

l. *Investment in the shares of associates and other entities* – An associated entity is an Entity over which significant influence is held and is initially recognized based on the fair value of its identifiable assets and liabilities at the incorporation or acquisition date. If indications of impairment are detected, investments in associated entities are subjected to impairment tests.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Following its initial recognition, the comprehensive income of associated entities and the distribution of profits or capital reimbursements are presented in the consolidated financial statements by using the equity method unless the investment is classified as held for sale, in which case it is recorded in conformity with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. When the equity held by Mexichem in the losses of the associated entity exceeds the investment value, the recognition of equity in these losses is discontinued. Additional losses are recognized when Mexichem has the legal obligation to settle payments in the name of its associated entity.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Entity's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Entity's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Entity's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Entity discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Entity retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Entity measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part of an interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Entity accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Investment in associate in 2016, 2015 and 2014 corresponds to 40% of GF Wavin AG (Switzerland), and 25% of Salzg. Westfalen GmbH (Germany), equivalent to $30,909, $31,232 and $33,354, in these years, and an equity income of $(2,873), $(3,080) and $(2,729), respectively.

Interest in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When an entity undertakes its activities under joint operations, the Entity as a joint operator recognizes in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its revenue from the sale of its share of the output arising from the joint operation.
- Its share of the revenue from the sale of the output by the joint operation.
- Its expenses, including its share of any expenses incurred jointly.

The Entity accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group Entity transacts with a joint operation in which a group Entity is a joint operator (such as a sale or contribution of assets), the Entity is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Entity's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When an entity transacts with a joint operation in which a group Entity is a joint operator (such as a purchase of assets), the Entity does not recognize its share of the gains and losses until it resells those assets to a third party.

m. *Intangible assets –* Corresponds to non-compete agreement, the use of trademarks, intellectual property and customer portfolios. Intangible assets with finite useful lives are amortized over the straight-line method based on their remaining useful lives. Those that have indefinite useful life are not amortized, but are subject to annual impairment testing or more frequently if there is any indication that they may have been impaired. The estimated useful life, the residual value and amortization method are reviewed at the end of each year, with the effect of any changes in estimates being accounted for on a prospective basis.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, which is the fair value at the acquisition date less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

n. *Government grants –* Government grants are not recognized until there is reasonable assurance that the Entity will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Entity should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

o. *Goodwilll –* The Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Entity's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Entity's policy for goodwill arising on the acquisition of an associate and a joint venture is described at Note 4l below.

p. *Impairment of tangible and intangible assets other than goodwill –* The Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Intangible assets having an indefinite useful life are tested for impairment at least annually or sooner if an indication that the asset may have been impaired exists.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, only to the extent the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

q. *Business combinations* - Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given and liabilities incurred or assumed. Acquisition-related costs are recognized in profit or loss as incurred.

The acquirer's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "*Business combinations*" are recognized at their fair value at the acquisition date, except that:

i. Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes* and IAS 19, *Employee Benefits*, respectively;

ii. Liabilities or equity instruments related to the replacement by the Entity of an acquirer's share-based payment awards are measured in accordance with IFRS 2, *Share-based Payment;* and

iii. Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment; the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquirer's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

The measurement period is the date of acquisition until the Entity obtains all information on the facts and circumstances that existed at the date of acquisition, which is subject to a maximum of one year.

In the case of a payment made for an acquisition that includes an asset or liability derived from a contingent payment agreement and which is valued at fair value at the acquisition date, subsequent changes to that fair value are adjusted based on the acquisition cost whenever they are classified as adjustments of the valuation period. All other changes to the fair value of the contingent payment, classified as an asset or liability according with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, are directly recognized in results. However, changes to the fair value of a contingent payment classified as capital are not recognized.

When a business combination is achieved in stages, the Entity's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (the date when the Entity obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

r. *Financial instruments* – Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

s. *Financial assets* – All financial assets are recognized and derecognized on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: "financial assets at fair value through profit or loss", "held-to-maturity investments", "available-for-sale financial assets" and "loans and accounts receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method – The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value financial asset through profit and loss.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as a fair value through profit and loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It is part of a contract containing one or more embedded derivatives, and IAS 39, *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as fair value through profit and loss.

Financial assets at fair value through profit and loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other income" line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in Note 12.

Held-to-maturity investments

Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

Available-for-sale financial assets

Listed shares held by the Entity that are traded in an active market are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 12.

Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the valuation of investments on available for sale securities for such investments with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the valuation of investments on available for sale securities is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Entity's right to receive the dividends is established.

The fair value of available-for-sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Loans and accounts receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and accounts receivables". Loans and accounts receivables are measured at amortized cost using the effective interest method, less any impairment. The allowance for doubtful accounts is recognized in results when there is objective evidence that the accounts receivable are considered to be impaired. Interest income is recognized by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on payments.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Entity derecognizes a financial asset when the contractual rights to the cash flows from the asset expires, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized loan for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Entity retains an option to repurchase part of a transferred asset), the Entity allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities at fair value through profit and loss

Financial liabilities are classified as at fair value through profit and loss when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at fair value through profit and loss.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at fair value through profit and loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It is part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined hybrid contract (asset or liability) to be designated as at fair value through profit and loss.

Financial liabilities at fair value through profit and loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest on the financial liability and is included in the "other income" line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in Note 12.

Other financial liabilities

Other financial liabilities (including loans and trade and other payables) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

t. *Derivative financial instruments –* Due to the Entity's national and international operations, it is exposed to the risks of fluctuation of prices in raw materials in the chemical industry, as well as interest rate risks related to the financing of its projects. The Entity's policy is to use certain hedges to mitigate the volatility of the prices of certain raw materials and interest rate and foreign exchange rate risks in its financing activities, all of which are related to its business.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The Entity designates certain hedging instruments as fair value, of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecasted transactions or hedges of foreign exchange risk on firm commitments (cash flow hedges), hedges of net investment in a foreign business.

Embedded derivatives

The Entity reviews all executed contracts to identify embedded derivatives which have to be separated from the host contract for purposes of their accounting valuation and recognition. When an embedded derivative is identified in other financial instruments or in other contracts (host contracts), they are treated as separate derivatives when their risks and characteristics are not strictly related to those of the host contracts, and when such contracts are not recorded at fair value through profit and loss.

u. *Hedge accounting –* The Entity designates certain hedging instruments, which include foreign currency derivatives, interest rates and commodities and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Entity documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 13 sets out details of the fair values of the derivative instruments used for hedging purposes.

Cash flow hedges

The Entity documents the relationship of the hedge and the objective and strategy of management of risk for the Entity. Such documentation will include the method the Entity will use to measure the effectiveness of the instrument to hedge the risk of changes in the fair value cash flows of the item being hedged.

The Entity recognizes all of the assets or liabilities arising from transactions with derivative financial instruments in the consolidated statements of financial position at fair value, regardless of its intent for holding them. The fair value is determined based on recognized market prices and when not listed on a market, based valuation techniques accepted in the financial markets. The decision to enter into hedges is based on the conditions of the markets and expectations in the national and international economic environments.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The loss or gain relating to the ineffective portion is recognized immediately in profit or loss, and is included in the "other income" line item.

Amounts previously recognized in the other comprehensive income and accumulated in stockholders' equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from stockholders' equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Entity revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in stockholders' equity at that time remains in stockholders' equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in stockholders' equity is recognized immediately in profit or loss.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the consolidated statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Entity revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated under the heading translation effects of foreign operations. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the "other income" line item.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation effects are reclassified to profit or loss in the same way that the exchange rate differences relating to the foreign operation.

v. *Provisions* – Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, it´s carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

w. *Restructuring* – The Entity recognizes a provision for restructuring when it has developed a detailed formal plan for the restructuring, and has raised a valid expectation in those affected by it, either by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Entity.

x. *Contingent liabilities acquired in a business combination* – Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less cumulative amortization recognized in accordance with IAS 18, Revenue.

y. *Short-term employee benefits* – All employee benefits expected to be settled within 12 months after the end of the annual reporting period, in which employees provide services related to:

(a) Wages and salaries and social security contributions;
(b) Rights related to paid time off and sick leave;
(c) Profit sharing and incentives; and
(d) Non-monetary benefits to current employees.

z. *Buy-back shares program reserve* – Purchases and sales of shares are recorded directly in the buy-back shares program reserve at their acquisition cost. Any profit or loss generated is recorded in retained earnings.

aa. *Income taxes* – Income tax expense represents the sum of current income tax and deferred income tax.

i. Current taxes on income – The current tax calculated refers to income tax (ISR) and is recorded in results of the year that it is incurred.

ii. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and interest in joint operations, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Special mining charge

For purposes of recognition in the financial statements of the holders of mining concessions or allotments, this charge should be treated as a tax on income, because it is determined based on a remnant of the Entity's revenues and expenses. Consequently, IAS 12 "Income Taxes" should be used to determine and recognize the liabilities and assets derived from taxes on income with regards to what is consider current and deferred tax. Furthermore, within the statement of comprehensive income or loss, it should be presented as part of the tax on income for the period or, as the case may be, as part of the other comprehensive income with which it is related.

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss whether in other comprehensive income or directly in stockholders' equity. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

bb. *Cost for direct employee benefits and retirement* - Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

The Entity presents the first two components of defined benefit costs in profit or loss in the line item. Gains and losses for reduction of service are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plan.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or when the entity recognizes any related restructuring costs.

Employee or third-party contributions to defined benefit plans

The discretionary contributions made by employees or third parties reduce the service cost by the payment of such contributions to the plan.

When the formal terms of the plan specify that there will be employee or third-party contributions, the respective accounting depends on whether the contributions are related to the service, as follows:

- If the contributions are not related to the service (for example, contributions are required to reduce the deficit which arises from the losses in the plan assets or from the actuarial losses), which are reflected in the new measurement of the net liability (asset) for defined benefits.
- If the contributions are related to the services, they reduce the service costs. Based on the contribution amount which depends on the number of years of service, the Entity reduces the service cost by attributing the contributions to the years of service, using the attribution method required by IAS 19, paragraph 70, for the gross benefits.

cc. *Share-based payments*

In 2015, Mexichem initiated a compensation plan known as Long-Term Incentive Plan (LTIP), for a group of executives, whose purpose is to align executive compensation with the interests of shareholders, by conditioning the payment of this incentive upon the Entity's financial performance. In accordance with this program, Mexichem annually grants a determined amount of phantom shares aligned with the value of the real shares of the Entity, based on two vehicles: payments based on restricted phantom shares and payments based on phantom shares for performance, which may be exercised for payment provided that the financial objectives of Mexichem are achieved under the conditions established in the plan.

Each year the value of the LTIP is granted to the active executives selected, who have been rendering services for at least six months at the time of the allocation. The amount of the allocation will be based on the value of the share calculated according to the average price of the daily close of the period from July 1 through December 31 of the year immediately prior to the allocation.

Payments based on restricted phantom shares: of the total value assigned, 40% is paid in three equal annual installments only if Mexichem's annual performance conditions, established in the plan, are fulfilled and eligible personnel is active at the time of payment. The amount payable is calculated based on the average daily closing price of the month prior to that in which restricted phantom shares are paid.

Payment based on phantom shares for performance: 60% of the total value will be paid in the third year of the allocation, only if the financial performance targets of Mexichem accumulated for the three years are achieved, as established in the plan,. The amount payable is calculated based on the average price of the daily close of the month immediately prior to that in which the phantom shares for performance are paid.

The liability is accrued insofar as the employees render their services during the labor period. Payments are only made to employees active in payroll when the exercise of phantom shares is approved.

The methodology used to project share prices is in accordance with the Black & Scholes methodology, calculated in Mexican pesos, and payable in the local currency of each entity at the Exchange rate in effect at the settlement date.

Current options represent liability instruments. The information on the share option plan is as follows:

	LTIP restricted	LTIP for performance	Total
Balance, December 31, 2014	$ –	$ –	$ –
Charge to profit and loss and adjustments	1,327	1,990	3,317
Balance, December 31, 2015	$ 1,137	$ 1,990	$ 3,317
Charge to profit and loss and adjustments	642	678	1,320
Balance, December 31, 2016	$ 1,779	$ 2,668	$ 4,447

Valuation of options at fair value and accounting recognition

The current options qualify as liability instruments and are valued at their fair value estimated at the financial statements date, with the changes in valuation recognized in the statement of income and other comprehensive results. The fair value of the options was determined considering the remaining life of the instruments and expected dividend, volatility, and interest rate assumptions based on fair market conditions, in accordance with the Black & Scholes methodology.

dd. *Revenue recognition –* Revenues is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, and other similar discounts.

Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The significant risks and benefits derived from ownership of the goods have been transferred to the buyer.
- No implication is maintained in the ongoing management of the sold goods, in the degree usually associated to ownership, nor is effective control over such goods maintained.
- The amount of revenue can be measured reliably.
- The economic benefits associated to the transaction are likely to be received; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Income from dividends and interest income

Income from dividends from investments is recognized once established the shareholders' right to receive this payment has been established (provided that it is probable that the economic benefits will flow to the Entity and the amount of revenue can be measured reliably).

Interest income is recognized as accrued, the value may be reliably assessed and the economic benefits are likely to flow to the Entity.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Third-party consideration revenues

Consideration paid by third parties is recognized when due, determining the root cause of the accident through independent expert appraisers.

ee. *Earnings per share –* (i) The basic earnings per common share from continuing operations is calculated by dividing the profit or loss attributable to owners (controlling interest) by the weighted average number of common outstanding shares during the year; (ii) basic earnings (losses) per common share from discontinued operations is calculated by dividing the net income from discontinued operations by the weighted average number of common shares outstanding during the year.

ff. *Reclassifications –* Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2015 and 2014 have been reclassified to conform to the presentation of the 2016 consolidated financial statements, such as: (i) the presentation of freight paid by the Entity under cost of sales which was previously recorded under selling and development expenses of $314,162 and $281,134, respectively, in the consolidated statements of profit and loss and other comprehensive income, because this is the industry practice and is aligned to the conditions and circumstances of customer contracts in which Mexichem acts as principal, and (ii) segment information presented in Note 27 has been reclassified, presenting under other assets the elimination of investment in shares per business group, which was previously presented under consolidated eliminations. This reclassification does not affect the total consolidated asset amount.

5. Critical accounting judgments and key sources of estimation uncertainty

In the application of accounting policies, the Entity's management is required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities. The estimates and associated assumptions are based on experience and other factors that are considered as relevant. Actual results could differ from estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the review period and future periods if the revision affects both the current period and subsequent periods.

Critical accounting judgments and key sources of uncertainty when determining estimates included in the consolidated financial statements, and which could have a significant risk adjustment to the carrying value of assets and liabilities during the next financial period are as follows:

a. The Entity reviews the estimated useful life of property, plant and equipment at the end of each annual period. Based on a detailed analysis the Entity's management made certain changes to the useful life of certain components of property, plant and equipment. The level of uncertainty associated with useful life estimates relates to changes in the market behavior and the use of assets in production volumes and technology development.

b. For impairment testing of assets, the Entity is required to estimate the value-in-use of its property, plant and equipment, as well as the determination of its cash-generating units, in the case of certain assets. The value-in-use calculations require the Entity to determine the future cash flows for its cash-generating units and an appropriate discount rate to calculate their present value. The Entity forecasts it´s cash flows based on income projections using market assumptions, determination of prices and volumes of production and sale.

c. The Entity uses estimates to determine allowance for obsolete inventories and allowance for doubtful accounts. Factors that the Entity considers for allowance for obsolete inventory are production and sales volumes and changes in the demand for certain of its products. The factors which the Entity considers in the allowance for doubtful accounts are mainly the risk of the financial situation of the customer, unguaranteed accounts and considerable delays in collection considering established credit limits.

d. The Entity periodically assesses the estimates of its mineral reserves (fluorite and salt), which represent the Entity's estimate of the remaining amount not exploited in its mines, which may be produced and sold for profit. Such estimates are based on engineering estimates derived from samples and assumptions of market prices and production costs in each of the respective mines. The Entity updates the estimate for mineral reserves at the beginning of each year.

e. Discount rate used to determine the book value of the Entity's defined benefits obligations. The Entity's defined benefits obligations are discounted at the rate established in the market rates for high-quality corporate bonds at the end of the reporting period. Professional judgment must be used to establish the criteria for the bonds that should be included for the population from which the yield curve is derived. The most important criteria considered for the selection of the bonds include the size of the issue of the corporate bonds, their rating and the identification of the atypical bonds which are excluded.

f. The Entity is subject to transactions or contingent events for which it uses professional judgment in the development of estimates of probability of occurrence. Factors that are considered in these estimates are the current legal situation at the date of the estimate and, the opinion of the legal advisors.

g. Control over PMV – Note 4c states that PMV is a subsidiary of Mexichem, which holds 55.91% of the stock of PMV. Based on the contractual agreements between Mexichem and the other investor, Mexichem has the power to direct the relevant activities of PMV through the approval of the annual business plan, on which basis it has control over PMV.

h. PMV accident – Note 2a. describes the revenues and expenses generated by the accident in the VCM plant in the subsidiary PMV. Accordingly, as of December 31, 2016, costs have been recognized in relation to settlements paid to affected employees and families, third party and environmental liability of $42 million, as well as an account receivable of $275 million related to property damage, third party liability, and director and officer liability, given that the necessary elements for recording have been fulfilled in accordance with the Entity policy described in Note 4dd. above, plus business interruption of $51 million.

i. Control over Ingleside Ethylene LLC – Note 4c states that Ingleside Ethylene LLC is a subsidiary of Mexichem, which holds 50% of the stock of Ingleside Ethylene LLC. Based on the contractual agreements between Mexichem and the other investor, as a result of its participation in the Entity's Board of Directors, Mexichem takes the decisions regarding the control over the company's operation and management.

6. Business combination

a. *Business acquisitions* – During 2016 and 2014, Mexichem acquired several businesses, which were recorded using the acquisition method. The results of these businesses have been included in the accompanying consolidated financial statements from the date of the acquisition. The most significant acquisitions and that are mentioned in detail in Note 2 are follows:

- Mexichem acquired 100% of the shares of Gravenhurst Plastics, Inc, in $13 million.
- Mexichem acquired 100% of the shares of Vinyl Compounds Holdings, Ltd, in 24 million pounds sterling.
- Mexichem acquired 100% of the shares of Vestolit at a value of €219 million.
- Mexichem acquired 100% of the shares of Dura-Line at a value of $630 million.

With the aforementioned acquisitions, Mexichem continues its strategy to provide greater value with respect to its basic raw materials, thereby strengthening its position in the American continent and becoming a global Entity with operations in America, Europe and Asia.

b. *Consideration transferred*

2016	Cash
Vinyl Compounds Holdings, Ltd	$ 13,006
Gravenhurst Plastics, Inc	30,042
	$ 43,048

2014	Cash	Net liabilities assumed	Total
Dura-Line	$ 630,000	$ –	$ 630,000
Vestolit	258,231	14,950	273,181
	$ 888,231	$ 14,950	$ 903,181

The costs associated with the acquisition have been excluded from the consideration transferred and have been recognized as an expense in the period within "other revenues, net" in the consolidated statements of profit or loss and other comprehensive income.

c. *Assets acquired and liabilities assumed at the acquisition date*

The Entity has not concluded the identification and measurement of the assets acquired and liabilities assumed in its acquisitions at the end of 2016, based on their fair values at the acquisition date. Therefore, the amounts presented in this note regarding 2016 acquisitions are temporary and will be retroactively adjusted once the measurement period concludes. In regard to 2014 acquisitions, the measurement period concluded in 2015 and the values are final.

2016	Vinyl Compounds Holdings, Ltd	Gravenhurst Plastics, Inc	Total
Assets:			
Cash and cash equivalents	$ 723	$ 334	$ 1,057
Accounts receivable and other	7,744	2,896	10,640
Inventories	5,016	1,744	6,760
Property, plant and equipment	7,655	1,431	9,086
Identified intangible assets	19,942	8,360	28,302
Liabilities:			
Suppliers and other accounts payable	(15,881)	(1,974)	(17,855)
Deferred income taxes	(4,963)	(2,257)	(7,220)
Total net assets	$ 20,236	$ 10,534	$ 30,770

2014	Dura-Line	Vestolit	Total
Assets:			
Cash and cash equivalents	$ 18,861	$ 38,325	$ 57,186
Accounts receivable and other	109,898	40,617	150,515
Inventories	62,918	36,589	99,507
Property, plant and equipment	103,454	288,376	391,830
Identified intangible assets	281,885	45,655	327,540
Other long-term assets	–	9,377	9,377
Liabilities:			
Suppliers and other accounts payable	(107,808)	(186,571)	(294,379)
Deferred income taxes	(5,564)	(33,513)	(39,077)
Total net assets	$ 463,644	$ 238,855	$ 702,499

d. *Goodwill on acquisitions*

2016	Consideration transferred	Value of the acquired net assets	Goodwill
Vinyl Compounds	$ 30,042	$ 20,236	$ 9,806
Gravenhurst	13,006	10,534	2,472
	$ 43,048	$ 30,770	$ 12,278

2014	Consideration transferred	Net liabilities assumed	Value of the acquired net assets	Goodwill
Dura-Line	$ 630,000	$ –	$ 463,644	$ 166,356
Vestolit	258,231	14,950	238,855	34,326
	$ 888,231	$ 14,950	$ 702,499	$ 200,682

Goodwill generated from the acquisitions results from the fact that the consideration paid for the business combination effectively included amounts in relation to the benefits of the expected synergies, revenue growth and further development of the market. These benefits are not recognized separately from goodwill, because they do not meet the criteria for recognition of identifiable intangible assets.

e. *Net cash flow from acquisition of subsidiaries*

	2016
Consideration paid in cash	$ 43,048
Less: balances of cash and cash equivalents acquired	(1,057)
Net	$ 41,991

	2014
Consideration paid in cash	$ 888,231
Less: balances of cash and cash equivalents acquired	(57,186)
Net	$ 831,045

f. *Supplementary financial information from the acquisition date*

The following table presents the net sales and comprehensive income of Vinyl Compunds, Gravenhurts Plastic, Dura-Line and Vestolit from the acquisition date included in the condensed consolidated statement of comprehensive income for the year ended December 31, 2016 and 2014 respectively.

2016	Net sales	Net (loss) income
Vinyl Compounds	$ 3,221	$ (216)
Gravenhurst	3,832	179
Total	$ 7,053	$ (37)

2014	Net sales	Net (loss) income
Dura-Line	$ 182,644	$ 1,684
Vestolit	30,867	(5,724)
Total	$ 213,511	$ (4,040)

g. *Effect of acquisitions in the Mexichem results (unaudited)*

The following table presents the consolidated net sales and comprehensive income of Mexichem for the years ended December 31, 2016 and 2014 as if the acquisitions of Vinyl Compounds, Gravenhurst Plastics, Inc., Dura-Line and Vestolit had occurred as of January 1, 2016 and 2014 respectively.

2016	Net sales	Net income
Total	$ 5,404,162	$ 228,764

2014	Net sales	Net income
Total	$ 6,513,399	$ 57,668

7. Transactions which did not result in cash flows

During the year 2016, 2015 and 2014, the Entity performed the following nonmonetary financing and investing activities which are not reflected in the consolidated statements of cash flows:

- In 2016, the Entity acquired machinery and equipment of $28,900 through a financial lease.
- In 2015, the Entity acquired $2,000 of machinery and equipment under a financial lease.
- In 2014:

In the fourth quarter it acquired 100% of Vestolit. From the payment of such acquisition, 12 million euros ($15 million) did not result in a cash outflow because of the corresponding to liabilities of Vestolit assumed by Mexichem. The acquisition was made for a price of €219 million ($273 million), of which it paid in cash €207 million ($258 million) and assumed net liabilities for €12 million ($15 million), as indicated in Note 6.

The Entity acquired $44 million of machinery and equipment under a financial lease.

8. Cash and cash equivalents

	2016	2015	2014
Cash	$ 325,184	$ 371,502	$ 394,627
Cash equivalents:			
Government paper in Mexican pesos	–	3,000	–
Bank paper in Mexican pesos	19,685	50,264	202,909
Time deposits	248,721	148,480	–
Bank deposit certificates in Mexican pesos	120,017	80,208	21,989
	$ 713,607	$ 653,274	$ 619,525

9. Accounts receivable

	2016	2015	2014
Customers	$ 837,291	$ 828,042	$ 948,489
Less - Allowance for doubtful accounts	(34,445)	29,263	28,367
	802,846	798,779	920,122
Accounts receivable from insurance companies (PMV)	326,812	–	–
Recoverable and other taxes	50,923	85,565	204,045
	$ 1,180,581	$ 884,344	$ 1,124,167

Trade receivables –

The average credit period on sales of goods is 49 days as of December 31, 2016. In general, no interest is charged on trade receivables unless some agreement is reached for restructuring payments. The Entity has recognized an allowance for doubtful debts of 4% against all receivables determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Before accepting any new customer, the Entity uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year or whenever evidence of possible losses exists.

Customer's receivables which are not past due or impaired, have the best credit rating attributable based on the credit rating systems used by the Entity. Due to the number of customers; no single customer represents more than 1.9% of the receivables balance.

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Entity has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is more than 60 days outstanding) are still considered recoverable. In certain cases the Entity has secured certain accounts receivable and does not maintain any collateral or credit improvements on these balances, or the legal right to offset them against any amount which the Entity might owe to the counterparty.

	2016	2015	2014
60-90 days	$ 14,523	$ 12,789	$ 13,431
91-120 days	15,598	22,335	27,969
Total	$ 30,121	$ 35,124	$ 41,400
Average age (days)	49	46	53

Movement in the allowance for doubtful debts:

	2016	2015	2014
Balance at the beginning of the year	$ 29,263	$ 28,367	$ 35,733
Charge to results	10,156	8,355	7,374
Applications	(3,449)	(5,085)	(12,559)
Translation effects	(1,525)	(2,374)	(2,181)
Balance at the end of the year	$ 34,445	$ 29,263	$ 28,367

In determining the recoverability of a trade receivable, the Entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

10. Inventories

	2016	2015	2014
Finished products	$ 371,690	$ 408,700	$ 483,212
Raw materials	188,297	197,157	224,876
Goods in-transit	35,737	33,085	54,288
Spare parts	40,829	41,834	45,936
	636,553	680,776	808,312
Less - Allowance for obsolete and slow-moving inventory	(30,164)	(32,792)	(33,093)
	$ 606,389	$ 647,984	$ 775,219

At December 31 of 2016, 2015 and 2014 the inventories recognized in the cost of goods sold for consumption of inventories during the period regarding continuous operations was $3,869, $4,082 and $4,105 million respectively. During 2016, 2015 and 2014, there were not write-downs of inventory to net realizable value.

The movement in the allowance for obsolete and slow-moving inventory is:

	2016	2015	2014
Balance at beginning of the year	$ 32,792	$ 33,093	$ 33,720
Charge to results	1,703	10,125	6,739
Applications	(3,838)	(7,076)	(5,128)
Business combination	785	–	1,832
Translation effects	(1,278)	(3,350)	(4,070)
Balance at end of the year	$ 30,164	$ 32,792	$ 33,093

11. Derivative financial instruments

The Entity has exposure to market risks, operating risks and financial risks arising from the use of financial instruments that involves interest rates, credit risks, liquidity risks and exchange rate risks, which are managed centrally. The Board of Directors establishes and monitors policies and procedures to measure and manage those risks, which are described below.

a. *Capital management* – The Entity manages its capital to ensure that it will continue as an "ongoing business", while it maximizes returns to its shareholders through the optimization of the balances of debt and equity. The Entity is not exposed to any externally imposed capital requirements.

The Entity's management reviews, on monthly basis, it´s net debt position and it´s cost of debts and their relationship with Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA), is presented as part of the Entity's financial projections that is part of its business plan presented to the Board of Directors and shareholders of the Entity. The Entity has a policy to maintain a ratio of debt, net of cash and cash equivalents, of not more than two times EBITDA. (Pro Forma EBITDA considering the last 12 months of the businesses acquired in the year).

The net indebtedness ratio of the reporting period is as follows:

	2016	2015	2014
Net debt with cost	1,586,850	1,703,211	1,808,668
EBITDA Pro Forma (12 months)	892,748	910,421	881,042
Indebtedness ratio	1.78	1.87	2.05
EBITDA Pro Forma (12 months)	892,748	910,421	881,042
Total interest expenses	192,372	212,075	195,013
Interest coverage ratio	4.64	4.29	4.52

Net debt with cost includes in 2016 and 2015 $1,394 and $21,410, respectively, related to letters of credit and suppliers at over 180 days, which for financial restriction purposes is considered as financial debt.

The ratio of net debt to EBITDA is as follows:

	2016	2015	2014
Net debt with financial institutions	1,586,850	1,703,211	1,808,668
UAFIDA **	883,754	910,421	818,414
Ratio of net debt to EBITDA	1.80	1.87	2.21
UAFIDA **	883,754	910,421	818,414
Interest on debt	182,637	190,290	160,334
Interest coverage rate	$ 4.84	$ 4.78	$ 5.10

** For purposes of this calculation is considered the actual UAFIDA, UAFIDA only includes businesses acquired from its date of incorporation.

b. *Interest rate risk management* – The Entity is mainly exposed to interest rate risks because it has entered into debt at variable rates. The risk is managed by the Entity through the use of interest rate swap contracts when the variations of projected rates exceed a range of 100 to 200 basis points per quarter. The Entity's hedging activities are regularly monitored so that they align with interest rates and their related risk, ensuring the implementation of the most profitable hedging strategies.

The Entity's exposures to interest-rate risk are mainly related to changes in the Mexican Interbank TIIE and Libor with respect to the Entity's financial liabilities. The Entity prepares sensitivity analyses based on its exposure to interest rates on its variable-rate debt with financial institutions that is not hedged. The analyses are prepared assuming that the ending period balance as at year end was an outstanding balance during the whole year. The Entity internally reports to the Board of Directors about its interest rate risks.

If the TIIE and Libor interest rates have had an increase of 100 basis points in each reporting period and all the other variables had remained constant, income before taxes for the year in 2016, 2015 and 2014 would have decreased by $2 million, $2 million and $4 million, respectively. This is mainly attributable to the exposure of the Entity to LIBOR and TIIE interest rates on their long-term loans.

c. *Credit risk management* – Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss for the Entity, and stems mainly from trade accounts receivable and liquid funds. Credit risk with respect to cash and cash equivalents and derivative financial instruments is limited because counterparties are banks with high credit ratings assigned by credit rating agencies. The maximum exposure to credit risk is primarily represented by the balance of financial assets in the trade accounts receivable. The Entity sells products to customers in different economic environments primarily in Mexico, South America, Europe and United States of America, that demonstrates their economic solvency.

The total accounts receivable from all segments of business are comprised of more than 30,000 customers, which such customers do not represent a concentration of credit risk individually. However, the accounts receivable balance represents the maximum credit risk exposure to the Entity. The Entity periodically evaluates the financial condition of its customers and purchases collection insurance for export sales, while domestic sales generally require a guarantee. The Entity does not believe that there is a significant risk of loss from a concentration of credit with respect to its customer base and believes that any potential credit risk is adequately covered by its allowance for doubtful accounts, which represents its best estimate of impairment losses on receivables.

d. *Liquidity risk management* – Ultimate responsibility for liquidity risk management rests with management of the Entity, which has established appropriate policies for the control of such risk through the monitoring of working capital, allowing management of the Entity's short-, medium-, and long-term funding requirements. The Entity maintains cash reserves and available credit lines, continuously monitoring projected and actual cash flows, reconciling the profiles of maturity of financial assets and financial liabilities.

The following table details the remaining contractual maturities of the Entity's non-derivative financial assets and financial liabilities, based on contractual repayment periods. The table has been designed based on un-discounted projected cash flows of financial assets and liabilities based on the date on which the Entity must make payments and expects to receive collections. The table includes both projected cash flows related to interest and capital on financial debt in the consolidated statements of financial position and the interest that will be earned on financial assets. Where the contractual interest payments are based on variable rates, the amounts are derived from interest rate curves at the end of the period. The contractual maturity is based on earliest date in which the Entity is required to make payment.

As of December 31, 2016	Weighted average effective interest rate	3 months	6 months	1 year	Between 1 and 3 years	More than 3 years	Total
Bank loans	5.68%	$ 95,870	$ 24,986	$ 227,397	$ 467,991	$ 3,767,179	$ 4,583,423
Suppliers and credit letters	1.00%	688,091	580,219	1,394	-	-	1,269,704
Other accounts payable and others		437,354	41,378	85,849	38,588	–	603,169
Finance lease	5.36%	11,847	15,361	32,514	69,311	23,772	152,805
Derivative financial instruments (Net cash flow)		483	–	–	63,877	35,285	99,645
Total		1,233,645	661,944	347,154	639,767	3,826,236	6,708,746
Cash and cash equivalents		713,607	–	–	–	–	713,607
Trade accounts receivable and others		1,122,516	47,712	13,618	–	–	1,183,846
Total		1,836,123	47,712	13,618	–	–	1,897,453
Net		$ 602,478	$ (614,232)	$ (333,536)	$ (639,767)	$ (3,826,236)	$ (4,811,293)

As of December 31, 2015	Weighted average effective interest rate	3 months	6 months	1 year	Between 1 and 3 years	More than 3 years	Total
Bank loans	5.64%	$ 47,509	$ 12,846	$ 84,111	$ 304,535	$ 4,140,073	$ 4,589,074
Suppliers and credit letters	1.00%	783,692	395,919	21,410	–	–	1,201,021
Other accounts payable and others		297,990	88,125	93,113	29,259	21,077	529,564
Finance lease	5.27%	11,368	11,664	28,231	116,079	12,115	179,457
Derivative financial instruments (Net cash flow)		–	–	–	–	68,482	68,482
Total		1,140,559	508,554	226,865	449,873	4,241,747	6,567,598
Cash and cash equivalents		653,274	–	–	–	–	653,274
Trade accounts receivable and others		796,570	58,898	30,453	–	–	885,921
Total		1,449,844	58,898	30,453	–	–	1,539,195
Net		$ 309,285	$ (449,656)	$ (196,412)	$ (449,873)	$ (4,241,747)	$ (5,028,403)

As of December 31, 2014	Weighted average effective interest rate	3 months	6 months	1 year	Between 1 and 3 years	More than 3 years	Total
Bank loans	5.81%	$ 98,733	$ 11,096	$ 80,308	$ 312,002	$ 3,360,294	$ 3,862,433
Suppliers and credit letters	1.00%	807,490	285,571	36,558	331	330	1,130,280
Other accounts payable and others		375,072	109,928	38,260	34,341	34,262	591,863
Finance lease	5.48%	22,318	15,329	30,743	121,339	79,867	269,596
Derivative financial instruments (Net cash flow)		295	–	10,104	–	61,765	72,164
Total		1,303,908	421,924	195,973	468,013	3,536,518	5,926,336
Cash and cash equivalents		619,525	–	–	–	–	619,525
Trade accounts receivable and others		951,653	170,556	5,886	119	11	1,128,225
Total		1,571,178	170,556	5,886	119	11	1,747,750
Net		$ 267,270	$ (251,368)	$ (190,087)	$ (467,894)	$ (3,536,507)	$ (4,178,586)

The amounts included for debt with financial institutions includes both fixed and variable interest rate instruments. The financial liabilities at variable rates are subject to change if the changes in variable rates differ from the estimates of rates determined at the end of the reporting period is presented at fair value.

The Entity expects to meet its obligations with the cash flows from operations and resources received from the maturity of financial assets. In addition, as of December 31, 2016 the Entity has access to a line of revolving credit with a balance not executed of $1,500 million and of 23.2 million euros.

e. *Foreign exchange risk management* – The Entity carries out transactions denominated in foreign currency; consequently, it is exposed to fluctuations in exchange rates, which are managed within the parameters of the approved policies, using, where appropriate, forward exchange rate contracts, when considered effective.

The carrying values of monetary assets and monetary liabilities denominated in foreign currency at the end of the period are as follows (foreign currencies in thousands):

	Assets			Liabilities		
	2016	2015	2014	2016	2015	2014
Euros	157,970	675,750	358,379	1,134,734	1,271,234	1,242,382
Brazilian real	369,330	427,402	422,383	219,793	239,141	91,030
Mexican pesos	2,491,061	2,220,211	5,461,428	7,245,894	8,370,724	3,939,579
Colombian pesos	205,452,231	155,713,132	145,422,806	201,012,783	279,169,550	248,126,129

– Foreign currency sensitivity analysis

The following table details the sensitivity of Mexichem to increases and decreases of 10% in the Mexican pesos against the relevant foreign currencies. The 10% represents the rate of sensitivity used when the exchange rate risk is reported internally to key management personnel, and represents the evaluation of the management on possible change in the exchange rates. The sensitivity analysis includes only the monetary items denominated in foreign currency and adjusts their conversion with a 10% fluctuation at the end of the period. The sensitivity analysis includes external loans as well as loans from foreign operations inside the Entity where the loan is denominated in a currency other than the U.S. dollar. A negative or positive figure, respectively, (as shown in the following table) indicates a (decrease) or increase in the results derived from a 10% weakening of the foreign currency against the foreign currency in question:

	2016	2015	2014
Euros	102,463	65,122	107,548
Brazilian real	(4,588)	(1,746)	(12,475)
Mexican pesos	23,881	35,563	(10,340)
Colombian pesos	148	3,889	4,293

Sensitivity analyses is not representative of the inherent foreign exchange risk, which may not necessarily reflect the exposure during the year.

At December 31, the exchange rate of U.S. dollar in the main countries in which the Entity operates, existing at the date of the financial statements were as follows:

	2016	2015	2014
Argentina	15.89	12.98	8.55
Brazil	3.25	3.90	2.65
Colombia	3,001.71	3,149.47	2,392.46
Mexico	20.66	17.20	14.71
United Kingdom	0.81	0.67	0.64
European Union (Euro)	0.95	0.91	0.82
Venezuela	673.76	198.69	12.00

f. *Financial risk management objectives* – The Mexichem's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Entity through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk, liquidity risk and interest rate risk of cash flow.

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Entity's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on a continuous basis. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

g. *Market risk* – The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see subsection e. of this Note) and interest rates (see subsection b. of this Note). The Entity enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

- Mexican peso-US dollar and US dollar-Euro Cross Currency Swaps to mitigate the exposure in debts in Mexican pesos and intercompany debt in Euros.
- Foreign currency Principal Only Swaps to hedge exchange risks arising in the translation of the Entity's investment in foreign operations into Euros, which is the functional currency.
- Euro-Turkish Lira exchange rate forward to mitigate intercompany debt exposure.

Market risk exposures are measured using a sensitivity analysis.

There has been no change to the Entity's exposure to market risks or the manner in which these risks are managed and measured.

h. *Cross Currency Swap* – According to the cross currency swap contracts, the Entity agrees to exchange Peso-Dollar flows calculated on the amounts of the notional values and interest rates established in such contracts. To hedge bank debt exposure in Mexican pesos and with related parties in Euros, respectively.

Principal Only Swaps – According to the cross country swap contracts, the Entity agrees to exchange Dollar-Euro cash flows on the principal and a fixed rate in dollars, as established in such contracts, which enable the Entity to mitigate the risk of fluctuations in the exchange rates due to the exposure generated by its Mexican peso debt and the investment in Euros for the acquisition of its subsidiaries in Europe, Wavin and Vestolit. The fair value of the cross currency swaps at the end of the reporting period is determined by discounting the future cash flows using the curves and exchange rates in effect at the date of the determination.

Mexichem is an entity whose functional currency is the US dollar. Mexichem issued: i) debt for 3,000 million Mexican pesos at 10 years, with a fixed rate of 8.12%, ii) debt for 3,000 million of Mexican pesos at eight years, at 0.825 percentage points above the variable Interbank Interest Rate (TIIE), and iii) debt for 750 million of Mexican pesos at 30 years, at a fixed rate of 5.875%. Furthermore, Mexichem acquired two foreign companies: Wavin and Vestolit for the amount of €612 million and €125 million, respectively.

The aforementioned cross currency swaps have been formally designated as hedge transactions for accounting purposes, as follows:

Mexichem currently has six US dollar-Euro Principal Only-Swaps, which are designated as net investment hedge relationships of European subsidiaries.

Similarly, the Entity has three Mexican peso-US dollar Cross Currency Swaps which have been designated as cash flow hedge relationships to hedge the Entity's exchange fluctuations related to the revaluation of debt in Mexican pesos. Up to December 23, 2016, there was one US dollar-Euro Cross Currency Swap designated as a cash flow hedge relationship to hedge the Entity's exchange fluctuations related to the revaluation of debt with its subsidiary Wavin in Europe, whose functional currency is the Euro. Such debt was repaid early as well as the related hedge.

In June 2015, the Entity recognized four of the above swaps turning them into two Principal Only Swaps and changing the currency to US dollar-Euro; therefore, the relationship turned into a foreign net investment hedge in Euros

Furthermore, in September 2015 a novation was negotiated for the 2 remaining Peso-Dollar Cross Currency Swaps, leaving 3 Peso-Dollar Cross Currency Swaps.

Additionally, the Entity negotiated 5 Dollar-Euro Principal Only-Swaps, which were also designated as net investment hedge relationships of their subsidiaries abroad in euros.

Mexichem has evaluated and measured the effectiveness, and concluded that the hedge strategy is highly effective as of December 31, 2016, 2015 and 2014. The Entity uses the ratio analysis method, based on the hypothetical derivative model to simulate the behavior of the element hedged. Such method consists of comparing the changes in the fair value of the hedge instruments with the changes in the fair value of the hypothetical derivative that would result in a perfect coverage of the element hedged.

As of December 31, 2016, 2015 and 2014, the fair value of the currency swaps represents a liability of $100 million, $68 million and $62 million, respectively. The effect recognized in equity for the hedge of the investment in the foreign subsidiaries is $88 million, $98 million and $47 million, with a deferred income tax effect of $26 million, $29 million and $13 million, respectively. With regard to the portion covering the debt in Mexican pesos, the effect of the change in fair value is $28 million, $27 million and $43 million, respectively, and is recognized in results of the period to cover the revaluation of the hedged item. The amount to be carried to results of the period during the next 12 months will depend on the behavior in the exchange rates.

12. Fair value of financial instruments

The fair value of financial instruments presented below has been determined by the Entity using information available in the markets or other valuation techniques that use assumptions that are based on market conditions existing at each consolidated statement of financial position date, but require judgment with respect to their development and interpretation. As a result, the estimated amounts presented below are not necessarily indicative of the amounts that the Entity could obtain in a current market exchange. The use of different assumptions and/or estimation methods could have a material effect on the estimated amounts of fair value.

The financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable are:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Entity considers that the carrying amount of cash, cash equivalents, accounts receivable and accounts payable from third parties and related parties, the current portion of bank loans approximate their fair values because they have short-term maturities. The Entity's long-term debt is recorded at amortized cost and incurs interest at fixed and variable rates that are related to market indicators.

To obtain and disclose the fair value of long-term debt, the Entity uses quoted market prices or inputs or quoted prices on similar instruments. Other techniques are used to determine the fair value of other financial instruments such as cash flow projections, considering the dates of the cash flows in market curves, discounting such cash flows using discount rates that reflect the credit risk of the counterparty as well as the Entity's own credit risk over the referenced period. The fair value of interest rate swaps is calculated as the present value of estimated future net cash flows. The fair value of currency futures is determined using the exchange rate futures quotes listed at the date of the consolidated statement of financial position.

a. Fair value of the Entity's financial assets and liabilities which are measured at fair value on a recurring basis.

Some of the Entity's financial assets and liabilities are valued at fair value at the close of each year. The following table provides information on how the fair values of the financial assets and liabilities are determined (specifically, the valuation techniques and the entry data used).

Financial Assets/liabilities	31/12/16	Fair value 31/12/15	31/12/14	Fair value hierarchy	Principal valuation techniques and entry data
1) Fixed interest rate swap (see Note 13)	$ –	$ –	Liabilities $ (3,354)	Level 2	Discounted cash flow. The future cash cash flows are estimated on the basis of forward interest rates (based on observable yield curves at the end of the reporting period) and contractual interest rates, discounted at a rate which reflects the credit risk of various counterparties.
2) Exchange rate and interest rate Swap (see Note 13)	Liabilities (79,131)	Liabilities (60,341)	Liabilities (75,803)	Level 2	The Entity uses the ratio analysis method under the hypothetical derivative market model to simulate the behavior of the hedged element, which consists of comparing changes in the fair value of the hedge instruments with the changes in the fair value of the hypothetical derivative which would result in a perfect coverage of the hedged item.
3) Principal-only swap EUR/USD (see Note 13)	Liabilities (20,031)	Liabilities (8,141)	Assets 17,392	Level 2	The Entity uses the ratio analysis method under the hypothetical derivative model to simulate the behavior of the hedged element, which consists of comparing the changes in the fair value of the hedge instruments with the changes in the fair value of the hypothetical derivative which would result in a perfect coverage of the hedged item.

(Continued)

Financial Assets/liabilities	31/12/16	Fair value 31/12/15	31/12/14	Fair value hierarchy	Principal valuation techniques and entry data
	Liabilities		Liabilities		
4) Contracts forward USD to MXN (see Note 13)	(483)	–	(10,399)	Level 2	Discounted cash flow. Future cash flows are estimated on the basis of the forward exchange rates (based on observable exchange rates of the forward at the end of the reporting period) and the rates of the forward contract, discounted at a rate which reflects the credit risk of several counterparties.
	–	–	–		
	(99,645)	(68,482)	(72,164)		
Less- current portion	(483)	–	(10,399)		
Total	$ (99,162)	$ (68,482)	$ (61,765)		

(Concludes)

b. The carrying amounts of financial instruments by category and their related fair values at December 31 are as follows:

	2016		2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:						
Cash and cash equivalents	$ 713,607	$ 713,607	$ 653,274	$ 653,274	$ 619,525	$ 619,525
Loans and accounts receivable:						
Customers and other current assets	1,183,846	1,176,272	885,921	885,921	1,128,225	1,128,225
Accounts payable	(1,994,225)	(1,994,225)	(1,913,132)	(1,913,132)	(1,966,369)	(1,966,369)
Bank loans and current portion of long-term debt	(2,299,063)	(1,915,606)	(2,335,075)	(1,971,958)	(2,428,193)	(1,993,152)
Total	$ (2,395,835)	$ (2,019,952)	$ (2,709,012)	$ (2,345,895)	$ (2,646,812)	$ (2,211,771)

As of December 31, 2016, 2015 and 2014, the hierarchy of the fair value of cash and cash equivalents for $713,607, $653,274 y $619,525, respectively, is Level 1.

The fair values shown at December 31, 2016, 2015 and 2014 do not differ from carrying values, except bank loans including current portion of the long-term debt, as the values observed in the market are very similar to those recorded as of such date.

During the period, there were no transfers between Level 1 and 2.

13. Derivative financial instruments

a. *Exchange rate Swap*

An EUR/TRY exchange rate forward was obtained in 2016 with Ak Bank, effective from May 27, 2016 to January 27, 2017, with a motional amount of EUR$8 million. The agreed upon exchange rate is 3.534 Turkish Lira per Euro.

During 2015, most of the forwards contracted (Dollar to Mexican pesos) matured, and in September 2015, those which remained in effect as of that date were canceled in advanced. Variances in the fair value were recognized in results of the period to match the revaluation of the item hedged, in the amount of $20,968.

During 2014 forwards were contracted (US dollar to Mexican peso) with Morgan Stanley, BNP Paribas, JPMorgan, HSBC, Bank of America and Deutsche Bank, in effect from February 2014 to October 2015, for a notional amount of $238 million, with approximate monthly maturities of $17 million. The exchange rates agreed ranges from 13.52 to 14.33 Mexican pesos per one U.S. dollar and the fair value as of December 31, 2014 of the forwards described in this subsection is $10,399.

b. *Interest rate and exchange rate Swap*

Swap contract transactions performed in 2016, 2015 and 2014 represent a hedge from an economic standpoint; for accounting purposes they were classified as for hedging and trading purposes. The fair value as of December 31, 2016, 2015 and 2014 was $99,162, $68,482 and $61,765, respectively. The variations in fair value were recognized in comprehensive income under the headings of interest, exchange gain and loss in the respective period.

Up to December 23, 2016, there was one US dollar-Euro Cross Currency Swap designated as a cash flow hedge relationship to hedge the Entity's exchange fluctuations related to the revaluation of debt with its subsidiary Wavin in Europe, whose functional currency is the Euro. Such debt was early amortized, as well as the related hedge, recognizing exchange gain of $3.4 million

The following exchange and interest rates swaps were contracted with different financial institutions, as follows:

Derivatives	Financial institution	Starting date	Ending date	2016 Notional amount		Amount Swap /Forward		Interest rate paid/Exchange rate agreed	Interest rate / Exchange rate at the close	Fair value at December 2016	
Exchange rate and interest rate Swap	Morgan Stanley	09/October/2014	05/March/2021	MXN$	750,000,000	EUR$	56,775,170	3.88% / 13.2100	5.2385% /20.664	$	(20,216)
Exchange rate and interest rate Swap	Bancomer	10/September/2016	05/March/2021	MXN$	750,000,000	USD$	56,775,170	4.18% / 13.2100	5.2385% /20.664		(20,503)
Exchange rate and interest rate Swap	HSBC	23/January/2015	05/March/2021	MXN$	1,500,000,000	USD$	112,612,613	3.57% / 13.3200	5.2385% /20.664		(38,412)
Principal-Only swap EUR/USD	Morgan Stanley	10/June/2016	17/March/2022	USD$	96,993,210	EUR$	100,279,164	1.6006% / 0.9672	20.664		(13,162)
Principal-Only swap EUR/USD	Santander	11/June/2016	17/March/2022	USD$	97,402,597	EUR$	101,050,000	1.7200% / 0.9639	20.664		(12,025)
Principal-Only swap EUR/USD	HSBC	17/September/2015	17/September/2024	USD$	132,000,000	EUR$	104,761,905	1.4350% / 1.2600	20.664		13,329
Principal-Only swap EUR/USD	Bancomer	05/May/2016	18/March/2025	USD$	228,316,800	EUR$	204,000,000	1.7087% / 1.1192	20.664		3,008
Principal-Only swap EUR/USD	Banamex	03/December/2016	17/March/2025	USD$	121,011,000	EUR$	114,000,000	1.7500% / 1.0615	20.664		(6,160)
Principal-Only swap EUR/USD	Barclays	03/December/2016	17/March/2025	USD$	121,011,000	EUR$	114,000,000	1.5500% / 1.0615	20.664		(5,021)
Exchange rate Forward	Ak Bank	27/May/2016	27/January/2017	EUR$	8,000,000	TRY$	28,272,000	3.534	3.5239		(483)
										$	(99,645)

Derivatives	Financial institution	Starting date	Ending date	2015 Notional amount		Amount Swap /Forward		Interest rate paid/Exchange rate agreed	Interest rate / Exchange rate at the close	Fair value at December 2015	
Exchange rate and interest rate Swap	Morgan Stanley	09/October/2013	05/March/2021	MXN$	750,000,000	EUR$	56,775,170	3.88% / 13.2100	4.142% /17.2065	$	(15,576)
Exchange rate and interest rate Swap	Bancomer	10/September/2015	05/March/2021	MXN$	750,000,000	USD$	56,775,170	4.18% / 13.2100	4.142% /17.2065		(16,119)
Exchange rate and interest rate Swap	HSBC	23/January/2014	05/March/2021	MXN$	1,500,000,000	USD$	112,612,613	3.57% / 13.3200	4.142% /17.2065		(28,833)
Principal-Only swap EUR/USD	Morgan Stanley	10/June/2015	17/March/2022	USD$	96,993,210	EUR$	100,279,164	1.6006% / 0.9672	17.2065		(13,102)
Principal-Only swap EUR/USD	Santander	11/June/2015	17/March/2022	USD$	97,402,597	EUR$	101,050,000	1.7200% / 0.9639	17.2065		(11,420)
Principal-Only swap EUR/USD	HSBC	17/September/2014	17/September/2024	USD$	132,000,000	EUR$	104,761,905	1.4350% / 1.2600	17.2065		15,310
Principal-Only swap EUR/USD	Bancomer	05/May/2015	18/March/2025	USD$	228,316,800	EUR$	204,000,000	1.7087% / 1.1192	17.2065		8,873
Principal-Only swap EUR/USD	Banamex	03/December/2015	17/March/2025	USD$	121,011,000	EUR$	114,000,000	1.7500% / 1.0615	17.2065		(3,790)
Principal-Only swap EUR/USD	Barclays	03/December/2015	17/March/2025	USD$	121,011,000	EUR$	114,000,000	1.5500% / 1.0615	17.2065		(4,012)
Exchange rate and interest rate Swap	Bank of Tokyo	30/October/2015	30/April/2018	USD$	126,159,280	EUR$	115,700,000	4.1775% / 1.0904	0.67%/17.2065		187
										$	(68,482)

				2014				
Derivatives	Financial institution	Starting date	Ending date	Notional amount	Amount Swap /Forward	Interest rate paid/Exchange rate agreed	Interest rate / Exchange rate at the close	Fair value at December 2014
Fixed interest rate swap	Rabo Bank, ABN Amro y BNP	July 10, 2008	October 19, 2015	EUR$ 50,000,000	–	4.55%	0.24%	$ (542)
Fixed interest rate swap	Danske Bank	September 14, 2010	October 16, 2015	EUR$ 25,000,000	–	2.29%	0.33%	(607)
Fixed interest rate swap	ABN Amro	November 18, 2010	October 16, 2015	GBP$ 20,000,000	–	3.08%	0.67%	(2,205)
Exchange rate and interest rate Swap	Santander	April 1, 2013	March 9, 2022	MXN$ 1,500,000,000	EUR$ 90,525,045	5.10% / 16.5700	8.12% /17.9059	(23,817)
Exchange rate and interest rate Swap	Morgan Stanley	April 8, 2013	March 9, 2022	MXN$ 500,000,000	EUR$ 29,976,019	4.98% / 16.6800	8.12% /17.9059	(7,580)
Exchange rate and interest rate Swap	Morgan Stanley	April 24, 2013	March 9, 2022	MXN$ 500,000,000	EUR$ 31,446,541	4.38% / 15.9000	8.12% /17.9059	(8,290)
Exchange rate and interest rate Swap	Morgan Stanley	May 24 2013	March 9, 2022	MXN$ 500,000,000	EUR$ 30,879,447	4.55% / 16.1920	8.12% /17.9059	(7,861)
Exchange rate and interest rate Swap	Morgan Stanley	October 9, 2013	March 5, 2021	MXN$ 1,500,000,000	USD$ 113,550,340	3.88% / 13.2100	4.123% /14.7180	(15,331)
Exchange rate and interest rate Swap	HSBC	January 23, 2014	March 5, 2021	MXN$ 1,500,000,000	USD$ 112,612,613	3.57% / 13.3200	4.123% /14.7180	(12,924)
Principal-only swap EUR/USD	Banamex	September 17, 2014	September 17, 2024	USD$ 210,000,000	EUR$ 166.666,667	1.5300% / 1.2600	14.718	5,390
Principal-only swap EUR/USD	Bancomer	September 17, 2014	September 17, 2024	USD$ 200,000,000	EUR$ 158,730,159	1.5480% / 1.2600	14.718	6,050
Principal-only swap EUR/USD	Deutsche Bank	September 17, 2014	September 17, 2024	USD$ 110,000,000	EUR$ 87,301,587	1.4880% / 1.2600	14.718	1,223
Principal-only swap EUR/USD	Deutsche Bank	September 17, 2014	September 17, 2024	USD$ 66,000,000	EUR$ 52,380,952	1.4880% / 1.2600	14.718	2,038
Principal-only swap EUR/USD	HSBC	September 17, 2014	September 17, 2024	USD$ 132,000,000	EUR$ 104,761,905	1.4350% / 1.2600	14.718	2,691
Forward USD to MXN	BNP PARIBAS	February 14, 2014	January 15, 2015	USD$ 24,000,000	MXN$ 324,012,000	13.5005	14.718	(168)
Forward USD to MXN	JP Morgan	February 21, 2014	January 21, 2015	USD 18,000,000	MXN$ 243,045,000	13.5025	14.718	(127)
Forward USD to MXN	Morgan Stanley	June 11, 2014	July 31, 2015	USD$ 51,000,000	MXN$ 689,520,000	13.5200	14.718	(14)
Forward USD to MXN	JP Morgan	August 26, 2014	December 30, 2014	USD$ 10,000,000	MXN$ 134,000,000	13.4000	14.718	–
Forward USD to MXN	JP Morgan	December 30, 2014	November 30, /2015	USD$ 26,730,000	MXN$ 369,542,250	13.8250	14.718	(1,925)
Forward USD to MXN	Morgan Stanley	August 26, 2014	December 29, 2014	USD$ 15,000,000	MXN$ 201,000,000	13.4000	14.718	–
Forward USD to MXN	Morgan Stanley	December 29, 2014	December 29, 2015	USD$ 33,999,996	MXN$ 467,839,945	13.7600	14.718	(2,691)
Forward USD to MXN	HSBC	August 26, 2014	July 30, 2015	USD$ 14,400,000	MXN$ 193,680,000	13.4500	14.718	(792)
Forward USD to MXN	JP Morgan	November 21, 2014	October 22, 2015	USD$ 14,400,000	MXN$ 197,589,600	13.7215	14.718	(931)
Forward USD to MXN	Bank of America	November 21, 2014	October 22, 2015	USD$ 31,200,000	MXN$ 428,376,000	13.7300	14.718	(2,047)
Forward USD to MXN	BNP Paribas	November 21, 2014	October 22, 2015	USD$ 14,400,000	MXN$ 197,727,840	13.7311	14.718	(921)
Forward USD to MXN	Deutsche Bank	November 28,2014	October 30, 2015	USD$ 12,000,000	MXN$ 164,760,000	13.7300	14.718	(783)
								$ (72,164)

14. Property, plant and equipment

	Balances as of December 31, 2015	Additions	Acquisitions through business combinations	Fixed asset sales / discontinued	Transferred from property, plant and equipment	Sinister on plant and impairment effect	Valuation effect	Translation effect	Balances as of December 31, 2016
Investment:									
Land at fair value	$ 355,741	$ 46	$ 20	$ (4,712)	$ –	$ –	$ 7,246	$ (8,711)	$ 349,630
Buildings at fair value	1,012,171	6,774	199	(7,734)	32,522	(1,119)	16,083	(25,502)	1,033,394
Machinery and equipment at fair value	4,706,891	48,330	11,009	(123,474)	131,087	(289,344)	14,713	(77,855)	4,421,357
Furniture and fixtures	119,997	4,492	128	(4,654)	5,433	(6)	64	(5,821)	119,633
Vehicles at fair value	43,095	281	648	(754)	578	–	183	1,063	45,094
Construction in-progress	1,272,755	548,896	–	(950)	(169,620)	1,356	–	3,438	1,655,875
Total investment	7,510,650	608,819	12,004	(142,278)	–	(289,113)	38,289	(113,388)	7,624,983
Depreciation:									
Buildings	501,867	38,679	–	(6,194)	–	(181)	7,388	(17,502)	524,057
Machinery and equipment	2,691,521	251,210	2,551	(110,099)	–	(926)	7,077	(57,937)	2,783,397
Furniture and fixtures	95,932	9,075	94	(4,580)	–	(4)	151	(6,243)	94,425
Vehicles	18,403	2,896	273	(610)	–	–	176	386	21,524
Total accumulated depreciation	3,307,723	301,860	2,918	(121,483)	–	(1,111)	14,792	(81,296)	3,423,403
Net investment	$ 4,202,927	$ 306,959	$ 9,086	$ (20,795)	$ –	$ (288,002)	$ 23,497	$ (32,092)	$ 4,201,580

	Balances as of December 31, 2014	Additions	Acquisitions through business combinations	Fixed asset sales / discontinued	Transferred from property, plant and equipment	Impairment effect	Valuation effect	Translation effect	Balances as of December 31, 2015
Investment:									
Land at fair value	$ 383,500	$ 917	$ –	$ (6,386)	$ 24	$ –	$ 54,570	$ (76,884)	$ 355,741
Buildings at fair value	1,051,787	4,410	–	(14,488)	20,129	–	31,659	(81,326)	1,012,171
Machinery and equipment at fair value	4,557,898	53,597	–	(83,721)	226,574	–	256,632	(304,089)	4,706,891
Furniture and fixtures	140,549	3,269	–	(12,595)	4,424	–	3,440	(19,090)	119,997
Vehicles at fair value	46,496	351	–	(4,144)	931	–	59	(598)	43,095
Construction in-progress	614,779	926,453	–	(2,757)	(252,082)	–	–	(13,638)	1,272,755
Total investment	6,795,009	988,997	–	(124,091)	–	–	346,360	(495,625)	7,510,650
Depreciation:									
Buildings	510,234	32,668	–	(7,115)	–	–	15,734	(49,654)	501,867
Machinery and equipment	2,430,162	257,407	–	(46,327)	–	–	227,918	(177,639)	2,691,521
Furniture and fixtures	113,436	7,128	–	(12,223)	–	–	3,539	(15,948)	95,932
Vehicles	14,298	8,065	–	(3,947)	–	–	75	(88)	18,403
Total accumulated depreciation	3,068,130	305,268	–	(69,612)	–	–	247,266	(243,329)	3,307,723
Assets classified as held for sale	3,089	5,413	–	(8,502)	–	–	–	–	–
Net investment	$ 3,729,968	$ 689,142	$ –	$ (62,981)	$ –	$ –	$ 99,094	$ (252,296)	$ 4,202,927

	Balances as of December 31, 2013	Additions	Acquisitions through business combinations	Fixed asset sales / discontinued	Transferred from property, plant and equipment	Impairment effect	Valuation effect	Translation effect	Balances as of December 31, 2014
Investment:									
Land at fair value	$ 397,070	$ –	$ 8,987	$ (4,687)	$ 2,898	$ (4)	$ 3,601	$ (24,365)	$ 383,500
Buildings at fair value	1,071,567	3,212	42,747	(24,164)	45,170	(1,063)	7,748	(93,430)	1,051,787
Machinery and equipment at fair value	4,223,340	52,548	343,214	(59,115)	251,206	(21)	5,571	(258,845)	4,557,898
Furniture and fixtures	150,568	2,848	1,301	(7,494)	8,044	–	15	(14,733)	140,549
Vehicles at fair value	44,328	74	36	(1,127)	3,863	–	90	(768)	46,496
Construction in-progress	302,595	619,566	17,909	(3,045)	(311,181)	–	–	(11,065)	614,779
Total investment	6,189,468	678,248	414,194	(99,632)	–	(1,088)	17,025	(403,206)	6,795,009
Depreciation:									
Buildings	494,266	37,556	1,080	(20,740)	–	–	4,252	(6,180)	510,234
Machinery and equipment	2,408,801	267,758	21,284	(54,695)	–	–	2,581	(215,567)	2,430,162
Furniture and fixtures	124,678	5,745	–	(7,219)	–	–	8	(9,776)	113,436
Vehicles	12,046	3,068	–	(542)	–	–	66	(340)	14,298
Total accumulated depreciation	3,039,791	314,127	22,364	(83,196)	–	–	6,907	(231,863)	3,068,130
Assets classified as held for sale	3,071	67	–	–	–	–	–	(49)	3,089
Net investment	$ 3,152,748	$ 364,188	$ 391,830	$ (16,436)	$ –	$ (1,088)	$ 10,118	$ (171,392)	$ 3,729,968

a. *Fair value of property, plant and equipment*

The fair value of the land was determined at fair market value for continued use: This is the monetary amount which can most probably be obtained from selling a good in a competitive, open market, under all the conditions for a fair sale, between a buyer and seller each of whom are acting prudently and duly informed, and assuming that such amount is not affected by an improper incentive; in this definition there is an implicit completion of the sale on a determined date, the goods are considered installed and for their continued use and will continue operating where they are currently located.

The fair value of property, plant and equipment was determined by using the cost method which reflects the cost of a market participant for the construction of usable goods and of comparable age, adjusted for obsolescence.

There were no changes in the valuation technique during the year.

The hierarchy of the fair value of property, plant and equipment as of December 31, 2016, 2015 and 2014 is Level 2.

15. Intangible assets and goodwill

a. *Intangible assets –*

	Useful life	2016	2015	2014
Non - compete agreements	5	$ 1,800	$ 2,921	$ 16,269
Customer portfolio	25	650,473	681,760	780,121
Use of trademark	Indefinite/definitive	402,570	411,889	432,688
Intellectual property	10	113,555	119,574	137,691
Other intangibles	5	24,410	32,996	41,195
		$ 1,192,808	$ 1,249,140	$ 1,407,964

Cost	Non – compete agreement	Customer portfolio	Use of trademarks	Intellectual property	Other intangibles	Total
Balances as of December 31, 2013	$ 182,000	$ 744,885	$ 345,058	$ 160,900	$ 102,667	$ 1,535,510
Acquisitions through business combinations	770	185,255	123,138	16,902	1,475	327,540
New developments and investments	–	–	–	–	7,358	7,358
Effect of foreign currency exchange differences	–	(27,025)	(19,282)	–	(5,928)	(52,235)
Balances as of December 31, 2014	182,770	903,115	448,914	177,802	105,572	1,818,173
Acquisitions through business combinations	–	–	–	–	–	–
New developments and investments	–	–	–	1,586	7,352 8,938	
Effect of foreign currency exchange differences	–	(69,344)	(19,732)	(7,311)	(10,324)	(106,711)
Balances as of December 31, 2015	182,770	833,771	429,182	172,077	102,600	1,720,400
Acquisitions through business combinations	1,745	20,734	239	5,584	–	28,302
Disposal of damage assets	–	(17,450)	–	–	–	(17,450)
New developments and investments	–	–	–	1,868	298	2,166
Effect of foreign currency exchange differences	–	(20,590)	(7,173)	(1,800)	(962)	(30,525)
Balances as of December 31, 2016 (cost)	$ 184,515	$ 816,465	$ 422,248	$ 177,729	$ 101,936	$ 1,702,893

Amortization	Non – compete agreement	Customer portfolio	Use of trademark	Intellectual property	Other intangibles	Total
Balances as of December 31, 2013	$ 145,900	$ 83,199	$ 15,159	$ 31,492	$ 51,574	$ 327,324
Amortization	20,601	39,795	1,067	8,619	12,803	82,885
Balances as of December 31, 2014	166,501	122,994	16,226	40,111	64,377	410,209
Amortization	13,348	29,017	1,067	12,392	5,227	61,051
Balances as of December 31, 2015	179,849	152,011	17,293	52,503	69,604	471,260
Disposal of damage assets	–	(17,450)	–	–	–	(17,450)
Amortization	2,866	31,431	2,385	11,671	7,922	56,275
Balances as of December 31, 2016 (amortization)	182,715	165,992	19,678	64,174	77,526	510,085
Net assets at December 31, 2016	$ 1,800	$ 650,473	$ 402,570	$ 113,555	$ 24,410	$ 1,192,808

b. *Goodwill –*

	2016	2015	2014
Dura-Line Holdings, Inc	$ 166,356	$ 166,356	$ 166,356
Mexichem Resinas Vinílicas, S.A. de C.V.	101,176	101,176	101,176
Mexichem Amanco Holding, S.A. de C.V.	96,338	93,334	112,506
Mexichem Speciality Resins, Inc.	65,546	65,546	65,546
Mexichem Resinas Colombia, S.A.S.	54,593	54,593	54,593
Mexichem Specialty Compounds, Inc	52,805	52,805	52,805
Fluorita de México, S.A. de C.V.	45,682	45,682	45,682
Wavin N.V.	25,802	26,867	32,417
VESTO PVC Holding GmbH	27,097	28,216	34,326
Others	54,788	43,582	57,813
Total	$ 690,183	$ 678,157	$ 723,220
Cost			
Balance at the beginning of the year	$ 678,157	$ 723,220	$ 536,513
Additional recognized amounts of business combinations which occurred during the year (Note 6d)	12,278	–	200,682
Effect of differences in foreign currency exchange rates	(252)	(45,063)	(13,975)
Balance at the end of the year	$ 690,183	$ 678,157	$ 723,220

16. Bank loans and long-term debt

At the end are integrated as follows:

	2016	2015	2014
Summary of agreements of loans in U.S. dollars, euros, yen and rupees:			
Issuance of an International Bond for the amount of $750 million, which accrues semiannual interest at the fixed 5.875% rate. Principal will be settled through a single payment at maturity in September 2044.	$ 750,000	$ 750,000	$ 750,000
Issuance of an International Bond for the amount of $750 million, which accrues semiannual interest at the fixed 4.875% rate. Principal will be settled through a single payment at maturity in September 2022.	750,000	750,000	750,000
Issuance of an International Bond for the amount of $400 million, which accrues semiannual interest at the fixed 6.75% rate. Principal will be settled through a single payment at maturity in September 2042.	400,000	400,000	400,000
Issuance of $350 million bond that bears semi-annual interest at a fixed 8.75% rate. Principal is repaid in one installment at maturity in November 6, 2019; in September 2012, an amount of $267.1 million was prepaid.	82,882	82,882	82,882
HSBC Line of credit of US$100 million, bearing quarterly interest at Libor plus 1.50 %. Principal is paid in one installment at maturity in April 2020.	44,000	–	–
Mizuho Corporate Bank Unsecured loan documented with a promissory note of 2,700 billion yen that bear quarterly interest at a fixed rate of 2.17%. It was restructured on March 31, 2016 with three semiannual payments of the balance at that date by 1,620 million yen from June 31, 2016. Maturity is on June 30, 2017.	4,619	13,440	13,556
Lines of working capital of 138.1 million Turkish Lira, with terms ranging from one day to one year and an average weighted yearend interest rate of 11.38%.	8,862	7,485	15,907

	2016	2015	2014
Citibank			
Revolving credit for 767.7 million Rupees, earning interest at a rate of 10.25% to 10.75%. Maturity was October 15, 2015	–	–	12,052
Others	14,540	8,077	11,087
Loans in Mexican pesos:			
Securitization certificate for 3,000 million of Mexican pesos bearing interest each semester at a fixed rate of 8.12%. Principal on these loans is settled in March 2022 in a single payment.	145,180	174,353	203,832
HSBC			
Unsecured loans of 2,500 million of Mexican pesos documented with promissory notes, which bear quarterly interest at the TIIE rate plus 1.50%. On May 29, 2015, it was restructured per an amount of 243.1 million Mexican pesos documented with promissory note bearing quarterly interest at the TIIE rate plus 1.25%. The maturing on April, 29 2017.	2,941	10,594	22,530
Bancomext			
Unsecured loan of 3,000 million bearing quarterly interest at TIIE plus 0.825%. Principal is amortized semiannually from September 5, 2016, through March 2021.	133,687	178,389	208,550
	2,336,711	2,375,220	2,470,396
Less: Current portion of bank loans and current portion of long–term debt	(57,693)	(43,653)	(61,736)
Less: Debt issuance costs	(37,648)	(40,145)	(42,203)
	$ 2,241,370	$ 2,291,422	$ 2,366,457

Maturities of long-term debt as of December 31, 2016, net of the related placement expenses, are as follows:

Payable during –	
2018	$ 32,053
2019	113,221
2020	73,708
2021	14,854
2022	895,180
2022 and thereafter	1,112,354
	$ 2,241,370

As of December 31, 2016 some of the credits establish specific covenants, which have been fulfilled and are calculated on consolidated figures of Mexichem and on consolidated figures of Wavin, the most important of which are as follows:

a. Certain restrictions regarding the application of new liens.
b. Maintain a consolidated interest hedge ratio of at least between 3.0 and 1.0.
c. Maintain an index of leverage on the profit before interest, taxes, depreciation and amortization not greater than 3.0 to 1.0.
d. Insure and maintain property, plant and equipment in good working condition.
e. Comply with all applicable laws, rules, regulations and provisions.

17. Obligations from financial leases

a. *Lease agreements*

The Entity leases certain manufacturing equipment through a financial lease, with an average five-year lease term and options to purchase the equipment for a nominal amount at the end of the lease. The Entity's obligations derived from financial leases are guaranteed by the lessors' ownership of the leased assets.

The underlying interest rates in all financial lease agreements are an annual average rate of 5.36%, 5.27% and 5.48% in 2016, 2015 and 2014, respectively.

b. *Financial liabilities from leases*

	Minimum lease payments			Present value of minimum lease payments		
	2016	2015	2014	2016	2015	2014
Up to one year	$ 59,722	$ 51,263	$ 68,391	$ 51,839	$ 44,053	$ 52,695
Between 1 and 3 years	69,310	116,079	121,339	57,176	105,437	99,839
Three years or more	23,772	12,115	79,867	12,337	11,320	70,246
	152,804	179,457	269,597	121,352	160,810	222,780
Less future financing charges	31,452	18,647	46,817	–	–	–
Present value of minimum lease payments	$ 121,352	$ 160,810	$ 222,780	$ 121,352	$ 160,810	$ 222,780

	2016	2015	2014
Included in the financial statements as:			
Short-term financial leases	$ 51,839	$ 44,053	$ 52,695
Long-term financial leases	69,513	116,757	170,085
	$ 121,352	$ 160,810	$ 222,780

	Present value of minimum lease payments by item	
	2016	2015
Building	$ 13,427	$ 17,054
Machinery and equipment	104,546	140,159
Furniture and fixtures	2,355	1,573
Vehicles	1,024	2,024
	$ 121,352	$ 160,810

18. Employee benefits

a. *Defined contribution plans*

In the Mexican subsidiaries are carried out payments on integrated salary of its employees to the contribution plan defined by concept of statutory retirement savings system.

Some subsidiaries have defined contribution retirement benefit plans for certain eligible employees. Plan assets are maintained separate from Entity assets in funds, under the control of trustees. If the employee abandons the plan before ten years, he does not acquire all contributions and the amount payable by the Entity is reduced by the lost contribution amount.

Employees in certain subsidiaries have a retirement benefit plan managed by local governments. To finance the plan, subsidiaries are obligated to contribute a specific percentage of the employees' consideration to the retirement benefit scheme. The Entity's only legal obligation in regard to these plans is to make the specified contributions.

Benefits of defined contribution plans are paid monthly.

b. *Defined benefit plans*

In certain subsidiaries the Entity sponsors funded defined benefit plans for qualifying employees of its subsidiaries. The defined benefit plans are administered by a separate Fund that is legally separated from the Entity. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund.

The Entity's Mexican subsidiaries manage a plan that also covers seniority premium, which consists of a one-time payment of 12 days for each year worked based on the last wage, limited to twice the minimum wage established by law. The related liability and the annual cost of benefits are calculated by an independent actuary in accordance with the bases defined in the plans, using the projected unit credit method.

The Entity manages defined contributions plans for employees that qualify in it´s Mexican subsidiaries. According to these plans, the employees are entitled to withdrawal final benefits on reaching the age of retirement that is 65 years old; with 10 or more years of service. There is also the option of early retirement when the sum of years working plus sum employee age 55 years; with 10 or more years of service. No other post-retirement benefits are awarded.

The plans typically expose the Entity to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estates. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2016 by independent actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2016	2015	2014
Discount rate(s)	3.47%	3.96%	3.07%
Expected rate(s) of salary increase	2.77%	2.63%	2.14%
Expected yield on defined contribution plan assets	3.47%	3.96%	3.07%
Average longevity at retirement age for current pensioners (years)			
– Males	21.1	21.4	21.1
– Females	23.0	23.6	23.5
Expected return on plan assets			
Average longevity at retirement age for current employees (years)			
– Males	22.3	22.7	22.9
– Females	24.5	25.1	25.3

Amounts recognized in comprehensive income in respect of these defined benefit plans are as follows:

	2016	2015	2014
Service cost:			
Current service cost	$ 5,126	$ 6,782	$ 13,244
Past service cost and (gain)/loss from settlements	(8,764)	(5,473)	(4,718)
Net interest expense	3,352	4,724	3,463
Components of defined benefit costs recognized in profit or loss	$ (286)	$ 6,033	$ 11,989
Remeasurement on the net defined benefit liability:			
Return on plan assets (excluding amounts included in net interest expense)	$ (38,148)	$ 3,309	$ (65,676)
Actuarial (gains) and losses arising from changes in demographic assumptions	69,724	(38,844)	119,784
Actuarial (gains) and losses arising from changes in financial assumptions	4,545	(4,732)	4,059
Actuarial (gains) and losses arising from experience adjustments	(2,194)	(230)	(223)
Components of defined benefit costs recognized in other comprehensive income	33,927	(40,497)	57,944
Total	$ 33,641	$ (34,464)	$ 69,933

In 2015, Wavin Netherlands adjusted the values of its provision as a result of the change from a defined benefits plan to a defined contribution collective plan, generating a net reduction in the labor liability of $38.7 million, which mainly affected other comprehensive results. During 2016 and 2015 the costs of past services and (gains)/losses for settlements include the early reduction of obligations due to restructuring and amendments to the pension plans for $(8,764) and $(5,473), respectively, in the operations of Vestolit, Wavin UK and Wavin Netherlands in 2015 and in Wavin UK, Ireland and Netherlands in 2014.

The current service and financial cost net of the year are included in benefits spending to employees in the consolidated statement of profit or loss and other comprehensive income, both in selling and development expenses as in administrative expenses.

The remeasurement of the net defined benefit liability is included in other comprehensive income.

The amount included in the consolidated statement of financial position arising from the Entity's obligation in respect of its defined benefit plans is as follows:

	2016	2015	2014
Present value of funded defined benefit obligation	$ (458,608)	$ (448,784)	$ (931,822)
Fair value of plan assets	287,635	293,812	710,289
Net liability arising from defined benefit obligation	$ (170,973)	$ (154,972)	$ (221,533)

Movements in the present value of the defined benefit obligation in the current year were as follows:

	2016	2015	2014
Opening defined benefit obligation	$ 448,784	$ 931,822	$ 777,808
Current service cost	5,126	6,782	13,244
Interest cost	13,350	19,843	29,636
Remeasurement (gains)/losses:			
Actuarial (gains) and losses arising from changes in financial assumptions	74,521	(8,014)	120,047
Actuarial (gains) and losses arising from changes in financial assumptions	5,614	(521)	1,545
(Gains) / losses actuarial arising from past adjustments	(3,096)	(4,384)	2,311
Past service cost, including losses/(gains) on curtailments	(8,764)	(5,473)	(4,718)
Liabilities assumed in a business combination	–	–	91,256
Exchange differences on foreign plans	(59,454)	(79,185)	(74,091)
Benefits paid	(17,533)	(18,469)	(27,531)
Contributions from plan participants	60	50	2,315
Movements to a defined contribution plan	–	(393,667)	–
Closing defined benefit obligation	$ 458,608	$ 448,784	$ 931,822

Movements in the fair value of the plan assets in the current year were as follows:

	2016	2015	2014
Opening fair value of plan assets	$ 293,812	$ 710,289	$ 697,612
Interest income	9,998	15,117	26,173
Remeasurement (gains)/losses:			
Return on plan assets (excluding amounts included in net interest expense)	38,148	(3,308)	65,676
Contributions from the employer	5,189	8,450	13,136
Contributions from plan participants	52	50	2,313
Exchange differences on foreign plans	(45,745)	(59,694)	(66,260)
Assets acquired in a business combination	–	–	(22,064)
Benefits paid	(13,819)	(14,730)	(2,981)
Administrative cost	–	(1,354)	(3,316)
Movements to a defined contribution plan	–	(361,010)	–
Closing fair value of plan assets	$ 287,635	$ 293,812	$ 710,289

The fair value of the plan assets at the end of the reporting period for each category, are as follows:

	2016	2015	2014
Equity investments	$ 84,860	$ 127,159	$ 299,229
Debt investments	164,915	149,947	382,082
Others	37,860	16,706	28,978
Total	$ 287,635	$ 293,812	$ 710,289

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets.

As of December 31, 2016, 2015 and 2014, the plan assets include ordinary shares of the Entity with an accumulated fair value of $86, $654 and $932, respectively.

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate is 1% higher or lower, the defined benefit obligation would decrease $12,764 and increase $16,267, respectively.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Each year an Asset-Liability-Matching study is performed in which the consequences of the strategic investment policies are analyzed in terms of risk-and-return profiles. Investment and contribution policies are integrated within this study. Main strategic choices that are formulated in the actuarial and technical policy document of the Fund are:

Asset mix based on 69% equity instruments, 16% debt instruments and 15% cash.

There has been no change in the process used by the Entity to manage its risks from prior periods.

The main categories of plan assets, and the expected return rate in each category at the end of the reporting period, are:

	Expected return		
	2016	2015	2014
Equity instruments	1.02%	1.71%	1.29%
Debt instruments	2.45%	2.25%	1.78%
Weighted average expected return	3.47%	3.96%	3.07%

The overall expected rate of return is a weighted average of the expected returns on various categories of plan assets. The evaluation of management on expected returns is based on historical performance trends and analysts' predictions on the market for assets over the life of the related obligation.

The history of experience adjustments made, is as follows:

	2016	2015	2014
Present value of defined benefit obligation	$ 458,608	$ 448,784	$ 931,822
Fair value of plan assets	(287,635)	(293,812)	(710,289)
Net liability	$ 170,973	$ 154,972	$ 221,533
Adjustments based on experience on plan liabilities	$ 1,808	$ (4,270)	$ 63,275
Adjustments based on experience on plan assets	$ (39,754)	$ (3,301)	$ (120,509)

19. Provisions

	Legal	Restructuring	Guarantees	Other	Total
Balance at December 31, 2013	$ 14,201	$ 24,021	$ 9,224	$ 28,138	$ 75,584
(Credit) debit to results	(179)	(11,823)	–	6,273	(5,729)
Applications	(223)	(358)	–	(4,542)	(5,123)
Translation effects	(1,585)	(2,679)	(1,029)	(2,994)	(8,287)
Balance at December 31, 2014	12,214	9,161	8,195	26,875	56,445
(Credit) debit to results	4,291	12,439	336	(5,707)	11,359
Applications	(3,390)	(9,446)	(2,582)	(1,340)	(16,758)
Translation effects	(3,159)	(721)	(735)	(2,278)	(6,893)
Balance at December 31, 2015	9,956	11,433	5,214	17,550	44,153
(Credit) debit to results	(484)	4,859	932	(1,558)	3,749
Applications	(5,802)	(10,458)	(1,028)	(3,421)	(20,709)
Translation effects	1,052	(736)	(145)	(1,670)	(1,499)
Balance at December 31, 2016	$ 4,722	$ 5,098	$ 4,973	$ 10,901	$ 25,694
Current	$ 235	$ 5,098	$ 2,539	$ 867	$ 8,739
Non-current	4,487	–	2,434	10,034	16,955
Balance at December 31, 2016	$ 4,722	$ 5,098	$ 4,973	$ 10,901	$ 25,694

The provisions recognized are generated during the normal course of business and are common in the industry in which these business activities take place. Commercial, tax and labor lawsuits are recorded based on the opinion of the Entity's internal and external attorneys, these contingencies have a risk level of less than probable and higher than remote of resulting in unfavorable verdicts for the Entity. In any case, the Entity considers that these legal proceedings will not have an adverse material effect on its consolidated financial position.

Restructuring – Provisions are created based on the plans announced in the Entity to those that will be affected by it. It is expected that they will be created within a term of one to two years as of the date of their dissemination.

Guarantees – A provision is recognized for the products sold on the basis of the claims received and the historical data related to the costs of the warranty. The reserve amount covers an estimated five-year period, mainly in the Wavin operations.

Legal – Legal provisions referred to risks identified in the Entity. The majority of the cash outlays related to legal provisions are expected to occur within one to five years.

Other provisions – The other provisions are generated in the normal course of the business, and are expected to be disbursed within a term of one to five years.

20. Stockholders' equity

a. *Paid-in capital*

At December 31, 2016, 2015 and 2014, common stock is represented by 2,100,000,000 common, nominative shares with voting rights and at no par value, which have been fully paid-in. Fixed capital is represented by nominative Class I shares without withdrawal rights. Variable capital is represented by nominative Class II shares at no par value which must not exceed 10 times the Entity's minimum fixed capital. At December 31, 2016, 2015 and 2014 the number of shares and amount of common stock are composed as follows:

	Number of shares	Amount
Capital subscribed –		
Class I	308,178,735	$ 37,598
Class II	1,791,821,265	218,884
	2,100,000,000	$ 256,482

Basic earnings per share are equal to the diluted earnings per share because the Entity does not have potential shares that may result in the dilution of earnings per share.

b. *Buy-back shares program reserve*

At a Stockholders' Ordinary General Meeting held on April 28, 2016, the stockholders approved a partial cancellation of the repurchase fund balance which was not used from April 30, 2015 through April 27, 2016 of $173,419; similarly, the stockholders agreed to increase such reserve by $400,000 to achieve a total of $551,581 as the maximum amount of resources which the Entity may use to purchase its own shares or credit instruments representing such shares. Any related gain or loss is recorded in retained earnings. As of December 31, 2016, 2015 and 2014, the reserve balance was $551,579, $156,219 and $126,663, respectively; as of such dates, the Entity has 877; 48,585,778 and 37,397,647 of its own shares, respectively.

At a Stockholders' Ordinary General Meeting held on April 30, 2015, the stockholders approved a partial cancellation of the repurchase fund balance which was not used from April 30, 2014 through April 29, 2015 of $110,725; similarly, the stockholders agreed to increase such reserve by $146,405 to achieve a total of $325,000.

At a Stockholders' Ordinary General Meeting held on April 29, 2014, the stockholders approved an increase to the repurchase reserve of $141,838 for a total of $305,320. Similarly, at a Stockholders' Ordinary General Meeting held on November 28, 2015, the stockholders approved a partial cancellation of this reserve of $16,000, for a total of $289,320.

c. *Earned capital*

At a Stockholders' Ordinary General Meeting held on December 7, 2016, the stockholders approved the payment of a cash dividend of $105 million, applied to retained earnings and the net tax income account (CUFIN) generated before December 31, 2013, payable in four installments during 2017.

Similarly, they approved the payment of an additional dividend for mandatory reinvestment in Entity shares at a rate of 0.025 shares per outstanding share at that date, i.e., one new share per every 40 outstanding shares. The CUFIN balance will not be decreased by such distribution. The difference between the dividend amount paid and the value of the reinvested shares generated a loss of $24 million, which was recorded under retained earnings.

At the Stockholders' Ordinary General and Special Meeting held on November 30, 2015, it was approved the declaration and payment of dividends for the amount of $63,447 (1,050 million of Mexican pesos), applied to the retained earnings account and net tax income account (CUFIN) generated prior to December 31, 2013, equivalent to 0.50 Mexican pesos per share; such dividend will be paid in four settlements during 2016.

At the Stockholders' Ordinary General Meeting held on April 29, 2014 it was agreed to make a transfer of accumulated income for the amount of $233,549 to the share issuance premium.

At the Stockholders' Ordinary and Special Meeting held on November 28, 2014 it was approved the declaration and payment of dividends for the amount of US$76,520 (1,050 million of Mexican pesos), applied to the retained earnings account and net tax income account (CUFIN) generated prior to December 31, 2013, equivalent to 0.50 Mexican pesos per share. Such dividend was paid in four payments during 2015.

Stockholders' equity, except for restated paid-in capital and tax retained earnings will be subject to income tax payable by the Entity at the rate in effect upon distribution.

Any tax paid on such distribution may be credited against annual and estimated income tax of the year in which the tax on dividends is paid and the following two fiscal years.

Retained earnings include the statutory legal reserve. In Mexico, the General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. At December 31, 2016, 2015 and 2014, the legal reserve was $51,928 in each period.

Dividends paid from profits generated as of January 1, 2014 to Mexican resident individuals and foreign residents may be subject to an additional 10% income tax, which must be withheld by the Entity.

The balances of the stockholders' equity tax accounts as of December 31, are:

	2016	2015	2014
Contributed capital account	$ 1,292,820	$ 1,502,129	$ 1,719,503
CUFIN	398,478	413,249	488,405

21. Balances and transactions with related parties

a. Balances due from and payable to related parties are as follows:

	2016	2015	2014
Due from related parties:			
Elementia, S.A. de C.V.	$ 1,157	$ 212	$ 1,568
Pochteca Materias Primas, S.A. de C.V.	810	964	1,381
Mexalit Industrial S.A de C.V.	539	–	–
Eternit Colombiana, S.A.	431	178	424
Elementia Servicios Administrativos, S.A. de C.V.	121	–	–
Controladora GEK, S.A. de C.V.	8	–	109
Fenix Fluor Limited	–	221	548
Others	199	2	28
	$ 3,265	$ 1,577	$ 4,058
Due to related parties:			
Kaluz, S.A. de C.V.	$ 49,447	$ 26,355	$ 32,089
Others	2,040	395	457
	$ 51,487	$ 26,750	$ 32,546

b. The Entity carried out the following transactions with related parties:

	2016	2015	2014
Revenues from –			
Sales	$ 7,336	$ 7,640	$ 8,364
Administrative services	1,036	1,610	1,667
Interest	–	–	1,760
	$ 8,372	$ 9,250	$ 11,791
Expenses from –			
Administrative services	$ 10,507	$ 14,724	$ 16,237
Donations	1,347	1,364	1,810
Purchases	445	1,270	813
Others	678	582	1,019
	$ 12,977	$ 17,940	$ 19,879

c. The compensation paid to management and other key members of management during the year was as follows:

	2016	2015	2014
Short-term benefits	$ 7,695	$ 6,080	$ 5,654
Postretirement benefits	729	583	463
Terminated benefits	659	337	1,100
	$ 9,083	$ 7,000	$ 7,217

22. Cost of sales and operating expenses

a. *Cost of sales*

	2016	2015	2014
Changes in inventories of finished goods and work in progress and raw materials and consumables used	$ 3,868,661	$ 4,082,188	$ 4,104,976
Depreciation	274,812	287,106	296,805
	$ 4,143,473	$ 4,369,294	$ 4,401,781

b. *Selling and development expenses:*

	2016	2015	2014
Salaries, wages and other benefits	$ 179,842	$ 183,849	$ 191,894
Repair and maintenance	4,220	3,919	4,759
External services	34,665	31,706	23,614
Lease	17,000	17,379	21,098
Advertising and marketing	22,724	25,263	28,813
Commissions on sales	21,293	21,619	19,946
Taxes and duties	1,942	1,229	1,391
Insurance	3,006	3,174	2,748
Telephony	200	244	172
Packaging materials	5,688	3,236	2,226
Allowance for doubtful accounts	11,437	8,355	7,374
Others	41,040	59,721	57,212
Depreciation	16,098	14,909	14,752
Amortization	15,887	16,587	18,169
	$ 375,042	$ 391,190	$ 394,168

c. *Administrative expenses:*

	2016	2015	2014
Salaries, wages and other benefits	$ 145,901	$ 151,367	$ 134,477
External services	41,577	44,592	48,087
Taxes and duties	7,184	9,223	13,108
Telephone	2,388	2,787	3,068
Repair and maintenance	13,315	14,279	14,985
Insurance	6,207	7,394	7,448
Lease	9,085	9,437	10,308
Administrative services affiliates	10,507	14,724	16,237
Depreciation	17,591	17,240	15,729
Amortization	45,127	58,753	64,355
Others	33,139	26,541	19,618
	$ 332,021	$ 356,337	$ 347,420

d. *Other income*

	2016	2015	2014
Expenses:			
Asset write-off due to accident (PMV)	$ 276,153	$ –	$ –
Accident expenses (PMV)	41,668	–	–
Fixed asset impairment	3,322	–	–
Expenses related to acquisitions	–	–	5,307
Loss on items hedged with forwards	–	20,968	–
Donations	1,863	3,081	1,810
Other	3,364	–	–
	326,370	24,049	7,117
Income:			
Accounts receivable from insurance companies (PMV)	$ (275,496)	$ –	$ –
Account receivable related to business interruption (PMV)	(51,316)	–	–
Anticipated reduction of labor obligations	–	(6,582)	(4,718)
Recovery of expenses and claims	(5,333)	(10,327)	(10,131)
Gain on insurance claim	–	(6,933)	–
Gain on sale of fixed assets	(1,333)	(2,990)	(1,302)
Gain on sale of waste materials	(2,309)	(2,372)	(3,547)
Severance by arbitration	–	–	(16,775)
Extraordinary income	(3,280)	(6,417)	(6,290)
Others	(2,271)	(8,683)	(1,982)
	(341,338)	(44,304)	(44,745)
Other income, net	$ (14,968)	$ (20,255)	$ (37,628)

23. Income taxes

ISR is based on tax profit, which differs from the profit reported in the consolidated statement of profit and loss and other comprehensive income, due to prior year taxable revenue, expense, or deductible line items and items which are never taxable or deductible. The Entity's liability for current income tax payable using the tax rates enacted or substantially enacted at the end of the reporting period in the countries in which the Entity and its subsidiaries operate.

a. *ISR*

The income tax rates applicable in 2014 in the countries where the Entity operates are as follows:

	%		%
Argentina	35	Japan	36
Austria	25	Latvia	15
Belgium	33	Lithuania	15
Brazil	34	Mexico	30
Bulgaria	10	Netherlands	25
Canada	27	Nicaragua	30
China	25	Norway	25
Colombia	39	Oman	12
Costa Rica	30	Panama	25
Croatia	20	Peru	28
Czech Republic	19	Poland	19
Denmark	22	Romania	16
Ecuador	22	Russia	20
El Salvador	30	Serbia Republic	15
Estonia	20	Slovakia	22
Finland	20	South Africa	28
France	33	Sweden	22
Germany	34	Switzerland	24
Guatemala	25	Taiwan	17
Honduras	25	Turkey	20
Hungary	19	U.K.	20
India	34	Ukraine	18
Ireland	13	U.S.A.	42
Italy	28	Venezuela	34

b. *Deferred taxes*

At December 31, the main items comprising the liability balance of deferred income tax are as follows:

	2016	2015	2014
Property, plant and equipment	$ 465,158	$ 472,302	$ 450,786
Inventories	1,015	765	2,817
Liabilities deductible upon payment	(18,393)	(17,349)	(31,534)
Tax loss carry forwards	(368,998)	(204,216)	(189,375)
Intangible assets	102,933	95,161	125,976
Others	39,149	(57,522)	(46,103)
	220,864	289,141	312,567
Deferred tax asset	66,025	186,989	169,122
Deferred tax liability	$ 286,889	$ 476,130	$ 481,689

c. *A reconciliation of beginning and ending amount of the net deferred tax liability is as follows:*

	2016	2015	2014
Beginning balance	$ 289,141	$ 312,567	$ 386,556
Income tax provision applied to results	(67,374)	(52,468)	(69,623)
Effect of assets and liabilities of acquired companies	7,220	-	39,077
Effect of foreign currency conversion	(300)	(32,040)	(40,862)
Discontinued operations	1,000	-	17
Effect on capital of other comprehensive income entries	(8,823)	61,082	(2,598)
	$ 220,864	$ 289,141	$ 312,567

d. *Reconciliation of the legal and effective rates*

Taxes on income and the reconciliation of the legal and effective rates expressed in amounts and as a percentage of profit before income taxes are as follows:

	2016	%	2015	%	2014	%
Profit before income taxes	$ 354,181	34.42	$ 273,691	32.30	$ 153,309	27.20
Permanent items that modified the tax base:						
Accruable (deductible) annual adjustment for inflation	67,232	5.84	35,433	4.00	11,686	2.36
Non-accruable income	(4,507)	(0.39)	(16,888)	(1.91)	(24,511)	(4.94)
Non-deductible items	38,694	3.36	31,825	3.59	17,343	3.50
Tax losses recognized of previous years	81,638	9.75	13,321	1.50	28,891	5.83
Effect of changes in tax rate	234	0.02	857	0.10	14,770	2.98
Mining tax and others	18,320	1.59	2,330	0.26	3,791	.76
Fixed asset and other tax incentives	(23,327)	(2.03)	(22,196)	(2.51)	(7,494)	(1.51)
Foreign exchange tax and translation effect, net	(133,612)	(14.26)	(30,855)	(3.48)	(64,166)	(12.94)
Others	(2,331)	(0.20)	(1,339)	(0.14)	1,260	0.24
Total permanent items	42,341	3.68	12,488	1.41	(18,430)	(3.72)
Base profit for income taxes	$ 396,522	30.75	$ 279,210	30.89	$ 134,879	30.92
Current income tax	$ 189,295		$ 140,883		$ 111,993	
Deferred income tax	(67,374)		(52,468)		(69,623)	
Total tax	$ 121,921		$ 88,415		$ 41,701	
Effective rate		34.42%		32.30%		27.20%
Average legal rate		30.75%		30.89%		30.92%

The benefits of tax loss carry forwards, restated for inflation as permitted by tax law in certain countries, for which the deferred income tax asset has been partially recognized, may be recovered subject to certain requirements. The years of expiration of the tax losses and recoverable asset tax of the individual entities and their restated amounts as of December 31, 2016 are as follows:

Year of expiration	Tax loss carry forwards
2018	$ 5,606
2019	535
2021	81,881
2022	13,439
2023	37,861
2024	149,951
2025	261,066
2026	623,559
Without expiration	313,490
	$ 1,487,388

24. Discontinued operations

a. Asset disposal plan for O & G and M & I in the United States – During 2016, Mexichem decided to close its Oil & Gas (O & G) and Municipal & Infrastructure (M & I) operations in the United States. In recent years, the O & G and M & I markets have faced major challenges due to the drop in prices and low margins, mainly originated by an increase in supply and the number of competitors. Accordingly, such operations in the United States are no longer competitive.

The Entity is currently selling the assets of these US operations and analyzing the best option to close the sale.

b. Asset disposal in the UK – During 2015, Mexichem decided to close its Hydrofluoric Acid (HF) operation in the UK, and discontinue its participation in the company Fenix Fluor Limited, which produces chlorodifluormethane. In the last few years, the (HF) market has faced major challenges due to the drop in its prices, mainly in Europe, as a result of excess demand, and imports from China as well as the closure of operations of its main customers, which meant that the Mexichem HF plant in Rocksavage was no longer competitive.

c. *Analysis of profits for the year from discontinued operations*

The combined results of the discontinued operations included in the statement of income and other items of comprehensive income are detailed below. The comparative profits and cash flows derived from the discontinued operations have been presented again to include the operations classified as discontinued in the current period.

	At December		
	2016	2015	2014
Sales	$ 31,320	$ 110,823	$ 71,090
Costs of sales	(36,898)	(111,370)	(72,134)
Other income (expenses)	–	–	6,450
Severance by arbitration	(8,951)	(59,635)	(793)
Financial (costs) income	113	738	142
Income tax	3,636	5,279	(1,750)
Net loss from discontinued operations	$ (10,780)	$ (54,165)	$ 3,005

25. Operating lease arrangements

As of December 31, 2016, 2015 and 2014, the Entity has contractual commitments for operating leases related to machinery and equipment and operating leases for real estate in the amount of $62,926, $85,789 and $67,360, respectively.

Maturities of contractual commitments at December 31, 2016, are as follows:

Years	Amount
2017	$ 10,779
2018	11,982
2019	12,220
2020	11,008
2021 and thereafter	16,937
	$ 62,926

Operating lease concept	Amount 2016	Amount 2015
Building	$ 32,047	$ 33,319
Machinery and equipment	28,158	41,374
Furniture and fixtures	459	6,531
Vehicles	2,262	4,565
	$ 62,926	$ 85,789

26. Assets and contingent liabilities

On April 20, 2016, there was an explosion in the Pajaritos Petrochemical Complex, where two of the three plants of PMV, VCM and Ethylene, are located. The Chlorine and Soda production plant is at a separate location and was not damaged. The VCM plant (Clorados III) suffered the greatest damage; therefore, the economic impact was the recording of asset loss and the closing of the plant.

Assets:

a. On April 20, 2016, there was an explosion in the Pajaritos Petrochemical Complex, where two of the three plants of PMV, VCM and Ethylene, are located. The Chlorine and Soda production plant is at a separate location and was not damaged. The VCM plant (Clorados III) suffered the greatest damage; therefore, the economic impact was the recording of asset loss and the closing of the plant.

   PMV, together with its stockholders (Mexichem and Pemex), is assessing various strategic options for the business in the future. Accordingly, it decided to adopt a conservative policy related to the monetary amount recognized in the account receivable, reflecting the actual cash value of the plant as of December 31, 2015. When the business plan is finalized, the amount of the account receivable from the insurance company may change.

Contingent liabilities:

a. As a consequence of the accident at the VCM plant (Clorados III) described above, PMV performed an environmental assessment to determine whether any pollutants were deposited in the areas surrounding the plant. This assessment was delivered to environmental authorities and they are working together to determine if there is environmental damage. Similarly, PMV may be liable for damages to third parties, if any. With the information available as of the date of these financial statements, there is no evidence that such liability is material.

   As discussed above, depending on the decision made by PMV and its stockholders, once the future of the business is decided, PMV will assess the impacts on the rest of its assets in the Pajaritos Complex.

b. The subsidiary Mexichem Brasil Industria de Transformação Plástica, Ltda. (formerly Amanco Brasil, Ltda.) was notified in 2016 by the Brazilian Economic Defense Administrative Council (CADE) of alleged breaches by such Company and certain executives to the economic competition standards of that country between 2003 and 2009. Mexichem is fully committed to compliance with local regulations in every country in which it operates. As of the date of these consolidated financial statements, due to the phase of this administrative process, Mexichem Management is unable to estimate the obligation, if any, resulting from this procedure.

27. Information by industry segment

Segment information is presented according to the business group, which are grouped according to the vertical integration of their raw materials; the Entity's operating decisions are made based on such segmentation for purposes of assigning resources and assessing the performance of each segment.

The Entity's operating segments are included in the four business groups: Vinyl, Energy, Fluor and Fluent. The main goods of such segments are: resins and polyvinyl chloride compounds (PVC), fluorite, fluoro compounds, hydrofluoric acid, cooling gases and medical propellants, as well as PVC, polyethylene (PE) and polypropylene (PP), high-density polyethylene (HDPE) and geosynthetic piping and connections, among others.

Below is a summary of the most significant line items of the consolidated financial statements for each business group:

	December 31, 2016						
	Vinyl	Energy	Fluor	Fluent	Holding Entity	Eliminations	Consolidated
Net sales	$ 2,031,795	$ 1,601	$ 582,858	$ 2,892,097	$ 21,509	$ (180,053)	$ 5,349,807
Cost of sales	1,766,709	1,459	352,148	2,182,767	3,387	(162,997)	4,143,473
Gross profit	265,086	142	230,710	709,330	18,122	(17,056)	1,206,334
General expenses	138,513	248	63,028	439,880	67,482	(17,056)	692,095
Other expenses (income) related parties	44,258	(27)	14,720	14,586	(73,537)	–	–
Exchange loss (gain), Net	(31,472)	(139)	(6,151)	(14,578)	50,112	–	(2,228)
Interest expense	35,308	14	5,595	52,965	138,884	(40,394)	192,372
Interest income	(1,221)	(3)	(5,515)	(7,308)	(36,082)	40,394	(9,735)
Monetary position loss	–	–	–	(17,478)	–	–	(17,478)
Income from dividends	–	–	(70)	(617)	(96,765)	97,452	–
Equity in income of associated	(826)	–	8	(2,047)	(8)	–	(2,873)
Profit before income taxes	80,526	49	159,095	243,927	(31,964)	(97,452)	354,181
Income taxes	24,682	272	56,470	78,193	(37,696)	–	121,921
Profit for the year from continuing operations	55,844	(223)	102,625	165,734	5,732	(97,452)	232,260
Discontinued operations	–	–	(3,818)	(6,962)	–	–	(10,780)
Consolidated profit (loss) of the year	$ 55,844	$ (223)	$ 98,807	$ 158,772	$ 5,732	$ (97,452)	$ 221,480

	December 31, 2015						
	Vinyl	Energy	Fluor	Fluent	Holding Entity	Eliminations	Consolidated
Net sales	$ 2,139,962	$ 245	$ 607,545	$ 3,026,592	$ 17,955	$ (179,907)	$ 5,612,392
Cost of sales	1,837,725	232	381,711	2,317,695	–	(168,069)	4,369,294
Gross profit	302,237	13	225,834	708,897	17,955	(11,838)	1,243,098
General expenses	143,167	(353)	48,402	456,176	91,718	(11,838)	727,272
Other expenses (income) related parties	53,520	–	16,231	12,073	(81,248)	(576)	–
Exchange loss (gain), Net	(17,345)	(39)	(5,028)	4,455	74,403	576	57,022
Interest expense	29,639	5	6,523	89,689	140,176	(53,957)	212,075
Interest income	(1,658)	–	(5,270)	(17,668)	(51,146)	53,957	(21,785)
Monetary position loss	–	–	–	(2,097)	–	–	(2,097)
Income from dividends	–	–	(18)	(629)	(81,032)	81,679	–
Equity in income of associated	486	–	–	(3,566)	–	–	(3,080)
Profit before income taxes	94,428	400	164,994	170,464	(74,916)	(81,679)	273,691
Income taxes	55,302	–	58,155	44,791	(69,833)	–	88,415
Profit for the year from continuing operations	39,126	400	106,839	125,673	(5,083)	(81,679)	185,276
Discontinued operations	–	–	(48,869)	(5,296)	–	–	(54,165)
Consolidated profit (loss) of the year	$ 39,126	$ 400	$ 57,970	$ 120,377	$ (5,083)	$ (81,679)	$ 131,111

	December 31, 2014						
	Vinyl	Energy	Fluor	Fluent	Holding Entity	Eliminations	Consolidated
Net sales	$ 1,907,775	$ –	$ 637,364	$ 3,193,831	$ 33,147	$ (257,772)	$ 5,514,345
Cost of sales	1,723,920	–	396,885	2,517,656	–	(236,680)	4,401,781
Gross profit	183,855	–	240,479	676,175	33,147	(21,092)	1,112,564
General expenses	107,489	–	53,016	501,374	63,173	(21,092)	703,960
Other expenses (income) related parties	59,006	–	17,612	5,127	(81,927)	182	–
Exchange loss (gain), Net	(6,070)	–	478	24,306	72,777	(182)	91,309
Interest expense	26,098	–	6,422	83,936	119,740	(41,183)	195,013
Interest income	(2,962)	–	(4,440)	(19,372)	(49,088)	41,183	(34,679)
Monetary position loss	–	–	–	6,381	–	–	6,381
Income from dividends	–	–	(3)	(516)	(109,412)	109,931	–
Equity in income of associated	1,055	–	(5)	(3,779)	–	–	(2,729)
Profit before income taxes	(761)	–	167,399	78,718	17,884	(109,931)	153,309
Income taxes	20,786	–	54,817	26,322	(60,224)	–	41,701
Profit for the year from continuing operations	(21,547)	–	112,582	52,396	78,108	(109,931)	111,608
Discontinued operations	–	–	2,860	85	–	60	3,005
Consolidated profit (loss) of the year	$ (21,547)	$ –	$ 115,442	$ 52,481	$ 78,108	$ (109,871)	$ 114,613

The accounting policies of the segments being reported are the same as the accounting policies of the Entity described in Note 4. This represents the valuation reported to the officer who takes the operating decisions for purposes of distribution of resources and evaluation of the performance of the business group.

	December 31, 2016						
	Vinyl	Energy	Fluor	Fluent	Holding Entity	Eliminations	Consolidated
Current assets:							
Cash and cash equivalents	$ 127,472	$ 813	$ 124,235	$ 304,083	$ 157,004	$ –	$ 713,607
Accounts receivable, Net	611,299	(2,687)	112,421	466,636	(7,088)	–	1,180,581
Other current assets	240,496	2,162	333,082	418,588	393,351	(742,714)	644,965
Assets classified as held for sale	–	–	7,566	13,484	–	–	21,050
Total current assets	979,267	288	577,304	1,202,791	543,267	(742,714)	2,560,203
Property, plant and equipment, Net	2,679,949	8,344	389,516	1,121,736	2,035	–	4,201,580
Other assets, Net	623,165	7,597	157,794	1,430,387	4,849,495	(5,024,219)	2,044,219
Total assets	$ 4,282,381	$ 16,229	$ 1,124,614	$ 3,754,914	$ 5,394,797	$ (5,766,933)	$ 8,806,002
Current liabilities:							
Bank loans and current portion of long-term debt	$ 18,707	$ –	$ 19,473	$ 19,513	$ –	$ –	$ 57,693
Suppliers and credit letters	785,279	2	40,997	437,575	5,851	–	1,269,704
Other current liabilities	544,422	773	48,906	352,422	454,789	(756,919)	644,393
Liabilities classified as held for sale	–	–	12,216	991	–	–	13,207
Total current liabilities	1,348,408	775	121,592	810,501	460,640	(756,919)	1,984,997
Bank loans and long-term debt	95,699	–	51,652	2,977	2,091,042	–	2,241,370
Other non-current liabilities	547,664	114	201,979	643,348	(76,266)	(634,758)	682,081
Total liabilities	$ 1,991,771	$ 889	$ 375,223	$ 1,456,826	$ 2,475,416	$ (1,391,677)	$ 4,908,448

	December 31, 2015						
	Vinyl	Energy	Fluor	Fluent	Holding Entity	Eliminations	Consolidated
Current assets:							
Cash and cash equivalents	$ 128,778	$ 77	$ 98,071	$ 254,181	$ 172,167	$ –	$ 653,274
Accounts receivable, Net	283,084	(5)	125,863	484,233	(8,831)	–	884,344
Other current assets	269,751	307	349,241	423,497	444,090	(789,156)	697,730
Assets classified as held for sale	–	–	11,533	4,972	–	–	16,505
Total current assets	681,613	379	584,708	1,166,883	607,426	(789,156)	2,251,853
Property, plant and equipment, Net	2,620,435	5,078	420,104	1,157,053	257	–	4,202,927
Other assets, Net	620,781	–	179,868	1,440,082	3,139,702	(3,165,537)	2,214,896
Total assets	$ 3,922,829	$ 5,457	$ 1,184,680	$ 3,764,018	$ 3,747,385	$ (3,954,693)	$ 8,669,676
Current liabilities:							
Bank loans and current portion of long-term debt	$ 16,103	$ –	$ 17,879	$ 9,671	$ –	$ –	$ 43,653
Suppliers and credit letters	709,595	1	38,957	451,244	1,224	–	1,201,021
Other current liabilities	490,786	156	67,111	374,147	449,357	(827,287)	554,270
Liabilities classified as held for sale	–	–	19,617	–	–	–	19,617
Total current liabilities	1,216,484	157	143,564	835,062	450,581	(827,287)	1,818,561
Bank loans and long-term debt	83,445	–	84,320	5,771	2,117,886	–	2,291,422
Other non-current liabilities	496,332	91	209,364	750,607	71,596	(647,078)	880,912
Total liabilities	$ 1,796,261	$ 248	$ 437,248	$ 1,591,440	$ 2,640,063	$ (1,474,365)	$ 4,990,895

	December 31, 2014						
	Vinyl	Energy	Fluor	Fluent	Holding Entity	Eliminations	Consolidated
Current assets:							
Cash and cash equivalents	$ 149,468	$ 13	$ 46,035	$ 243,093	$ 180,916	$ –	$ 619,525
Accounts receivable, Net	338,630	108	175,883	595,422	14,124	–	1,124,167
Other current assets	320,958	–	272,868	678,497	687,886	(1,132,610)	827,599
Assets classified as held for sale	–	–	2,796	9,387	–	–	12,183
Total current assets	809,056	121	497,582	1,526,399	882,926	(1,132,610)	2,583,474
Property, plant and equipment, Net	1,963,821	–	484,416	1,281,461	270	–	3,729,968
Other assets, Net	488,586	–	160,449	1,340,209	3,874,553	(3,450,994)	2,412,803
Total assets	$ 3,261,463	$ 121	$ 1,142,447	$ 4,148,069	$ 4,757,749	$ (4,583,604)	$ 8,726,245
Current liabilities:							
Bank loans and current portion of long-term debt	$ 22,530	$ –	$ 9,038	$ 30,168	$ –	$ –	$ 61,736
Suppliers and credit letters	543,975	–	49,317	535,600	1,388	–	1,130,280
Other current liabilities	474,360	123	119,749	482,970	352,485	(812,615)	617,072
Liabilities classified as held for sale	–	–	6,759	584	–	–	7,343
Total current liabilities	1,040,865	123	184,863	1,049,322	353,873	(812,615)	1,816,431
Bank loans and long-term debt	103,843	–	108,280	8,877	2,145,457	–	2,366,457
Other non-current liabilities	544,138	–	113,748	1,240,702	129,500	(974,470)	1,053,618
Total liabilities	$ 1,688,846	$ 123	$ 406,891	$ 2,298,901	$ 2,628,830	$ (1,787,085)	$ 5,236,506

Below other information shown by segment of business group consolidated financial statements:

	Depreciation and amortization			Additions to property, plant and equipment		
	2016	2015	2014	2016	2015	2014
Vinyl	$ 145,559	$ 154,160	$ 140,555	$ 487,914	$ 818,313	$ 528,710
Energy	1,031	–	–	4,298	–	–
Fluor	60,092	63,834	68,667	14,301	140,439	126,317
Fluent	151,824	156,409	180,193	99,353	30,236	23,215
Controller	11,009	20,192	20,395	2,953	9	6
	$ 369,515	$ 394,595	$ 409,810	$ 608,819	$ 988,997	$ 678,248

Below is the financial information classified by geographical area:

	Net sales from external customers At December			Property, plant and equipment, net At December		
Country	2016	2015	2014	2016	2015	2014
Mexico	$ 1,094,624	$ 1,280,399	$ 1,378,475	$ 1,122,668	$ 1,404,715	$ 1,378,176
Northwest Europe	1,071,944	996,536	628,400	312,624	338,926	389,461
U.S.A.	847,184	831,595	637,161	1,624,718	1,288,828	641,954
Southwest Europe	544,464	559,808	598,557	118,229	125,921	156,378
Colombia	467,551	492,436	571,069	370,806	386,861	406,974
Brazil	343,446	377,394	563,946	180,839	163,791	196,604
Central and Eastern Europe	214,618	241,621	283,746	68,909	74,968	80,096
Central America	180,542	174,174	176,239	84,181	87,547	89,485
Southeast Europe	159,077	152,104	203,545	33,263	39,684	37,570
Others	134,567	157,327	49,283	37,191	31,695	21,602
Ecuador	90,722	101,408	119,125	59,088	64,181	68,170
Peru	73,662	85,839	87,666	91,440	100,704	104,743
Japan	49,278	50,391	60,769	8,793	8,539	9,680
Argentina	35,877	54,782	44,804	24,381	22,934	15,622
Other Europe	26,753	46,464	49,174	44,205	51,393	57,504
Venezuela	15,498	10,114	62,386	20,245	12,240	74,949
Total	$ 5,349,807	$ 5,612,392	$ 5,514,345	$ 4,201,580	$ 4,202,927	$ 3,729,268

28. Subsequent events

During the Meetings of the Audit Committee and the Board of Directors held on February 20 and 21, 2017, respectively, a change in the accounting policy related to the valuation of property, plant and equipment was authorized, passing from the revaluation to the historical cost model as of January 1, 2017.

The Entity prepared an analysis identifying that the main objective of asset acquisition is the continued use throughout their useful life. Therefore, the industry practice is to recognize property, plant and equipment based on the historical cost model.

In conformity with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Misstatements", the Entity will recognize the effects of this changes retroactively to early 2016 and 2015. This change will mainly impact the Latin-American subsidiaries, without affecting the Entity's cash flows.

The estimated (unaudited) figures of this accounting policy change as of early 2017 represent a decrease in the property, plant and equipment, deferred tax liability, and stockholders' equity line items of $494 million, $160 million and $334 million, respectively, in the consolidated statements of financial position. In the consolidated statements of profit and loss this change represents a decrease in the 2016, 2015 and 2014 depreciation line items of $38 million, $39 million and $43 million, respectively, with the related deferred tax.

29. Financial statement issuance authorization

The consolidated financial statements for the year ended December 31, 2014 were approved by the Audit Committee, Board of Directors and Stockholders' Ordinary Meeting on February 23 and 24 and April 30, 2015, respectively; and those for the year ended December 31, 2015, were approved on February 22 and 23 and April 28, 2016, respectively. On February 21, 2017, the issuance of the accompanying consolidated financial statements for the year ended December 31, 2016 was authorized by Rodrigo Guzman Perera, Finance and Administration Director and by the Audit Committee; consequently, they do not reflect events occurred after that date and they are subject to the approval of the Entity's Board of Directors and Ordinary Stockholders' Meeting, where they may be modified, based on provisions set forth in the Mexican General Corporate Law.

Investor Information

G4-5, G4-7, G4-31

Mexican Stock Exchange
[BMV] Mexico
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