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

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

Independent Auditors' Report and Consolidated Financial Statements 2016, 2015 and 2014

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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.

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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.

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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.

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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.

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- 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 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 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)

Assets	Notes	2016	2015	2014
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	41	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

Liabilities and Stockholders' Equity	Notes	2016	2015	2014
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 instruments	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.

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:

Group	Country	% Ownership		
		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 Vinílicas, 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

Group	Country	% Ownership 2016	2015	2014
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
Petroquímica Mexicana de Vinilo, S.A. de C.V.	Mexico	55.91	55.91	55.91
Ingleside Ethylene LLC	USA	50	50	50
Fluor:				
Mexichem Flúor, S.A. de C.V.	Mexico	100	100	100
Mexichem Flúor Comercial, S.A. de C.V.	Mexico	100	100	100
Fluorita de México, S.A. de C.V.	Mexico	100	100	100
Mexichem Fluor Inc.	USA	100	100	100
Mexichem Fluor Canadá 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
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 Panamá, 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 Perú, S.A.	Peru	100	100	100
Mexichem Argentina, S.A.	Argentina	100	100	100
Mexichem Brasil Industria de Transformação Plástica, 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

Fluent:				
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 Canadá 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

Entity	Functional currency	Country	Business Group
Mexichem Panamá	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 Plástica	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.

<u>Employee or third-party contributions to defined benefit plans</u>

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	Fair value			Fair value hierarchy	Principal valuation techniques and entry data
	31/12/16	31/12/15	31/12/14		
1) Fixed interest rate swap (see Note 13)	$ -	$ -	Liabilities $ (3,354)	Level 2	Discounted cash flow. The future 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.
4) Contracts forward USD to MXN (see Note 13)	Liabilities (483)	-	Liabilities (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)		

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	Notional amount	Amount Swap /Forward	Interest rate paid/Exchange rate agreed	Interest rate / Exchange rate at the close	Fair value at December 2016
				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	Notional amount	Amount Swap /Forward	Interest rate paid/Exchange rate agreed	Interest rate / Exchange rate at the close	Fair value at December 2015
				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)

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
				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

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
				2014				
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 effects	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

	2016	2015	2014
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

	2016	2015	2014
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	Present value of minimum lease payments by item 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

	2016	2015	2014
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	At December 2015	At December 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

	December 31, 2016						
	Vinyl	Energy	Fluor	Fluent	Holding Entity	Eliminations	Consolidated
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

	December 31, 2014						
	Vinyl	Energy	Fluor	Fluent	Holding Entity	Eliminations	Consolidated
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:

Country	Net sales from external customers			Property, plant and equipment , net		
	At December 2016	At December 2015	At December 2014	At December 2016	At December 2015	At December 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.

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