FINANCIAL AND SUSTAINABILITY REPORT

2017

Mexichem®

CONTENT

1

2

3

GRI 102-14

MESSAGE FROM THE CHAIRMAN OF THE BOARD

In a well-managed and well-governed company like Mexichem, two of the Chairman's most important responsibilities are managing talent and setting the company's broad strategic direction. I am pleased to report that I believe our executive team is best-in-class and that we are executing a strategy that I am confident will create value over the long term.

In terms of leadership, we have completed an important transition. After years of exemplary, intelligent and successful leadership, Antonio Carrillo has left the company and has been succeeded as CEO by Daniel Martínez-Valle.

Antonio's scorecard is impressive. He led us through the extreme swings of the oil price cycle, managed our capital allocation process with discipline, oversaw the acquisition and integration of several companies in the execution of our value chain strategy, strengthened different organizational processes and addressed the PMV accident with an admirable combination of human sympathy and professional excellence.

I am sure all shareholders join me and Mexichem's Board in thanking Antonio for all of his accomplishments.

Daniel Martínez-Valle was appointed CEO in February of this year. He brings a robust portfolio of leadership experience in our industry and others including, most recently, serving as CEO of Kaluz. The Board and I are confident that Daniel will not only sustain our strategic evolution, but accelerate our development as a purpose-driven organization, fit for the future.

In terms of strategy, last year's inauguration of our cracker with Oxychem, and more recently, the acquisition of Netafim, were major milestones. The cracker makes us one of the world's most competitive vinyl producers, while Netafim is emblematic of our effort to position Mexichem as a purpose-driven company providing value-added solutions. With Netafim, we are addressing the growing global problems of water scarcity and inadequate food supply.

The vertical integration strategy implemented over the past decade has successfully developed two important and distinct businesses with significant critical mass and profitability. The chemical business combines Vinyl and Fluor while the downstream solutions business is centered on Fluent. We are convinced that both have great potential to maximize value.

In the short term, our top priorities are to integrate Netafim, deleverage our balance sheet, continue to grow organically and deepen our capacity to cope with rapid change. The uncertainties of our time demand more empowerment, adaptation capacity, innovation, and new ways to approach our clients, processes and competition. We need to look ahead, to be open, and to be willing and able to act quickly. Our new CEO embodies all these characteristics, which is part of the reason that I believe he is the right leader for Mexichem today.

Finally, I want to thank our shareholders, as well as the rest of our stakeholders, for your faith, trust and commitment to Mexichem. With your support, we are building a great future.

That future is as bright as it is because of the more than 17,000 employees around the world who make great things happen every day. They are Mexichem.

JUAN PABLO DEL VALLE
CHAIRMAN OF THE BOARD

GRI 102-14

MESSAGE FROM THE CEO

For the past several years the main strategies that Mexichem has pursued were the vertical integration of commodity PVC production and moving the company's portfolio into specialties. Specifically, we have been focused on expanding our portfolio of those specialty products that have strong growth potential given their relationship to significant, long term global trends. Some of these trends are: water scarcity, increased food requirements, housing and infrastructure growth, connectivity and health care. By improving the cost structure of our commodity businesses, moving into specialty products and targeting high growth markets, Mexichem will be able to improve its Return on Invested Capital, while building its reputation as a good corporate citizen. During this period Mexichem also has taken actions to develop its talent, processes and structures to provide the infrastructure needed for the company to continue to grow.

In 2017, we made significant progress in all of these areas. With respect to the vertical integration of our commodity PVC production, our joint venture ethylene cracker began operations during the first quarter of 2017. Not only was it on schedule and budget, but the ramp up exceeded our expectations. It was an incredible achievement to be able to commission the first ethylene cracker in North America to be built in decades with such efficiency. The cracker positions Mexichem on the lowest part of the cost curve globally and therefore allows us to continue to profitably export PVC from the Americas to the most important markets of the world.

Mexichem continued to increasingly build its specialty products portfolio and to prioritize margins over volume during 2017. The margins in our Fluent US/Canada and European businesses continued to climb, and the innovation driving our new higher margin products cross pollinated across business units. Mexichem's margins continued to grow in 2017, demonstrating that after years of emphasizing margin expansion, the culture has changed. Specific examples of this are: the significant growth in our fluorspar business with the cement industry, investments in increased capacity in the US to produce Datacom pipes, and the focus of our compounds business unit on higher value compounds, to name a few.

The objective of increasing ROIC continued to resonate across the organization, and in 2017 Mexichem's ROIC approached our WACC, a target we had expected to reach in 2019.

Finally, on the internal side, during 2017 Mexichem made significant progress in developing talent, structures and processes to allow the company to accelerate its growth. Here are a few highlights of our internal accomplishments:

- Our safety record across the company continued to improve. We have reduced our lost time accidents and accidents by over 63% since 2012 and, in 2017 alone, this figure declined 6% from the prior year. During 2017 we also launched a new initiative with the assistance of an outside expert to develop improved process safety policies for the entire organization and made significant progress in implementation. Also, we engaged specialized safety firms on the mining side to develop mine-specific policies and implement them. I am convinced that with these efforts Mexichem will become best in class in safety.

- On the talent side, Mexichem continues to develop a high performing and diverse culture. The number of nationalities represented in our management team and the diversity campaigns launched during the year are a great testimony to Mexichem´s wealth of talent.

- 2017 was a milestone year for Mexichem in terms of compliance programs. During 2017 Mexichem refreshed its code of conduct, adding chapters specifically designed to fit Mexichem's global footprint. Also, there were significant new policies and training exercises established to address anti-trust, foreign corrupt practices, human rights, etc. I am convinced that Mexichem's compliance culture has improved tremendously in the last few years. We have more work to do but we are on the right path.

In 2017, Mexichem made its first efforts to develop a digital strategy for its businesses. We started 10 pilot programs in 4 different areas: customer interface, new products and services, operations and employee engagement. These are just the first steps in developing a new culture for the disruptive industry dynamics that we will be facing in the future.

During 2017 there was also significant progress made with respect to the tragic accident at PMV which occurred in 2016. The authorities, who did their own independent investigation, determined that there were no responsible parties as it was a result of an accident. There was also progress on the environmental side, and while there are still some open issues, as of today, we do not expect the outcome to be material. And, during 2017 PMV began to receive insurance payments. At the end of the year, Mexichem and Pemex determined that given changes in PMV business conditions, the companies would not be re-building the VCM plant where the accident occurred.

In 2017, we announced the acquisition of Netafim. This acquisition will move Mexichem even further downstream into solutions for the fast-growing irrigation market. Drip irrigation, which is at the core of Netafim, is associated with certain of the high-growth global trends mentioned earlier: water scarcity and increased food demand. Netafim also brings significant smart technology which Mexichem can leverage in other businesses. I am convinced Netafim will thrive and accelerate its growth as part of Mexichem, and that it will also help transform Mexichem into a solutions provider.

In summary, 2017 was a tremendous year, in which we started up Mexichem's largest organic project ever, increased margins by focusing on specialty products, continued to improve ROIC, closed the year with a strong balance sheet, grew our EBITDA over 24%, developed internal structures that will allow the company to continue to accelerate its growth, and acquired Netafim.

At the same time, after five years of significant headwinds we saw positive pricing trends in many of Mexichem's most important products. This provides positive momentum for the company heading into 2018, with strong fundamentals that will allow the company to continue to thrive.

With this as a backdrop, the company announced in early 2018 that I resigned my position to take on a different professional challenge in the US. The transition process follows the succession plan that the Board reviews on an ongoing basis. Daniel Martinez-Valle, my successor, brings a different set of resources and capabilities which will take Mexichem to new heights. I am sure that the incredibly professional and dedicated team at Mexichem will support Daniel in his new responsibilities. I leave Mexichem with three deep feelings: Gratitude to our Board, the del Valle Family and our Investors for the support shown to me in this past six years; Pride in what we have accomplished together; and most importantly excitement about the future of this incredible company with strong market fundamentals, a fantastic team and Daniel's leadership.

ANTONIO CARRILLO RULE
CEO (2012 - 2017)

2017 HIGHLIGHTS

$133 MILLION***
INVESTMENT IN SUSTAINABILITY

75% REUSE
OF WATER IN OPERATIONS

364,573 HOURS
OF EMPLOYEE TRAINING

68% OF OPERATIONS PARTICIPATING
IN SOCIAL INITIATIVES, BENEFITING MORE THAN **340,000 PEOPLE****

CDP
ENTRY INTO THE CARBON DISCLOSURE PROJECT

12,380 PARTICIPATIONS OF
EMPLOYEES IN VOLUNTEER ACTIVITIES

$5.828 BILLION
IN SALES, AN INCREASE OF **9%** COMPARED TO 2016

$1.106 BILLION
IN EBITDA, AN INCREASE OF **24%** COMPARED TO 2016

ZERO CLAIMS
FROM CUSTOMERS ON HEALTH AND SAFETY ISSUES

NETAFIM ACQUISITION

Initiation of the acquisition process for 80% of the Israeli company Netafim Ltd., the world's largest company offering irrigation solutions. The acquisition of this leading company in 2018 will allow us to expand our irrigation system solutions and strengthen our commitment to the sustainable management of hydrological resources.

6%
REDUCTION IN LOST TIME ACCIDENTS
BASELINE 2016

* Unless otherwise specified, all figures contained in this report are expressed in US Dollars.
** Beneficiary figures correspond to direct beneficiaries
*** Includes CAPEX and Expenses

CHAPTER

2

THIS IS MEXICHEM

GRI 102-1
GRI 102-2

We are a leading provider of products and solutions for multiple sectors from petrochemical to construction, infrastructure, agriculture, health, transportation, telecommunications and energy.

We offer a wide range of **value-added materials, finished products and solutions that contribute to the success of our clients,** improve people's lives and build a more sustainable world. We deliver fresh water where people need it with better water management solutions for homes, and rainwater, wastewater and drainage systems for cities. We keep an increasingly online world connected through advanced data transfer systems that deliver more data, at higher speeds. We grow more food with less water with intelligent irrigation solutions and farm-management techniques.

Our history goes back more than **50 years**, and Mexichem stocks have been traded for more than **30 years on the Mexican Stock Exchange.** We are a member of the Mexican Stock Exchange Sustainability Index and have been part of the FTSE4Good Emerging Index since 2016.

MEXICHEM AROUND THE WORLD

One of the **most cost-efficient PVC** producers in the world and the **fifth largest producer of PVC** resin worldwide.

Mexichem's Las Cuevas mine in San Luis Potosí, Mexico, **is the biggest single producer of fluorspar** in the world.

World leader in the production of **specialty PVC resins.**

One of the world's largest producers of **plastic pipes and fittings.**

Leading producer of **conduits for data** in the United States and of microconduits worldwide.

GRI 102-7

OUR GLOBAL FOOTPRINT

+17,000	+120	2	15	8	+$5.828
EMPLOYEES	PRODUCTION PLANTS	FLUORITE MINES IN MEXICO	RESEARCH & DEVELOPMENT LABORATORIES	TRAINING ACADEMIES	BILLION IN ANNUAL REVENUES

* Figures as of December 31, 2017. The report does not include Netafim data.

OUR EVOLUTION

MEXICHEM'S RANGE OF SOLUTIONS HELP SOCIETY ADAPT TO A CHANGING WORLD

Global challenges such as population growth, climate change, accelerated urbanization and water scarcity require that we make transformative changes in society and production systems.

We have evolved over the last five decades from a company selling minerals, to producing intermediate goods, to an organization focused on providing solutions to solve some of the world's biggest challenges.

Between 2003 and March 2018, we completed 28 acquisitions, investing more than $4.8 billion. The successful integration of new acquisitions has driven net sales and EBITDA and has placed Mexichem as a leader in the industries in which it operates. In addition, the vertical integration of our value chain ensures the reliability of our supply, mitigates volatility and increases our competitiveness. This business model has allowed us to maintain a global presence, penetrate new markets and offer a wider range of products.

GROWTH THROUGH ASSOCIATIONS & ACQUISITIONS

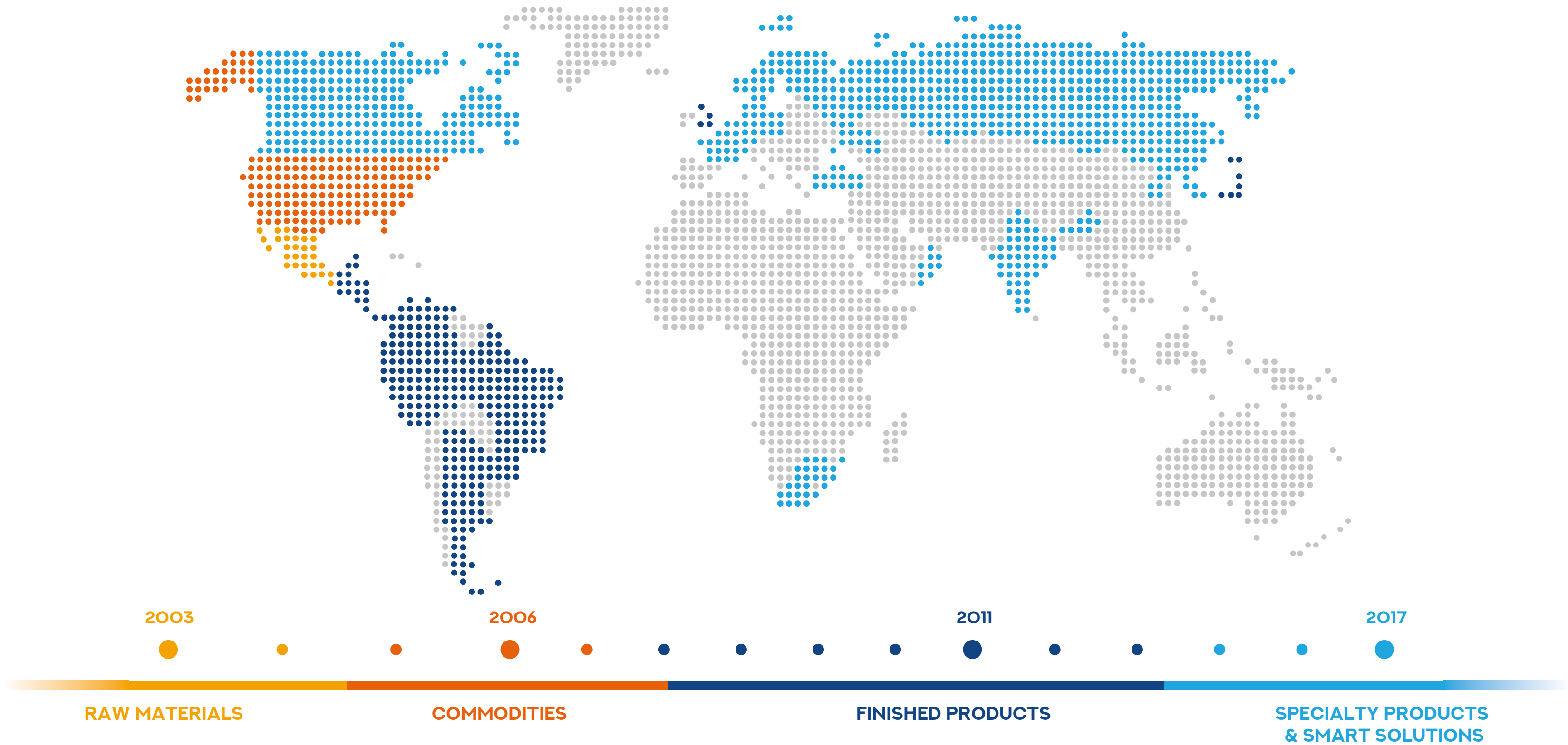
- **2003** — 43% of Mexichem (Camesa a subsidiary)
- **2004** — Quimica Fluor
- **2005** — Grupo Primex; Camesa trade name becomes Mexichem
- **2007** — Plastubos; Petco; Amanco
- **2008** — Bidim; Quimir; Colpozos; Fluorita de Río Verde
- **2009Z** — tubos flexibles
- **2010** — INEOS Silicas; Policyd; Plásticos Rex S.A. de C.V.
- **2011** — AlphaGary
- **2012** — Wavin; Fluorita de México; OxyChem; PMV; Joint ventures
- **2013** — PolyOne
- **2014** — dura-line; vestolit
- **2016** — Vinyl Compounds; GP
- **2018** — Sylvin; Netafim

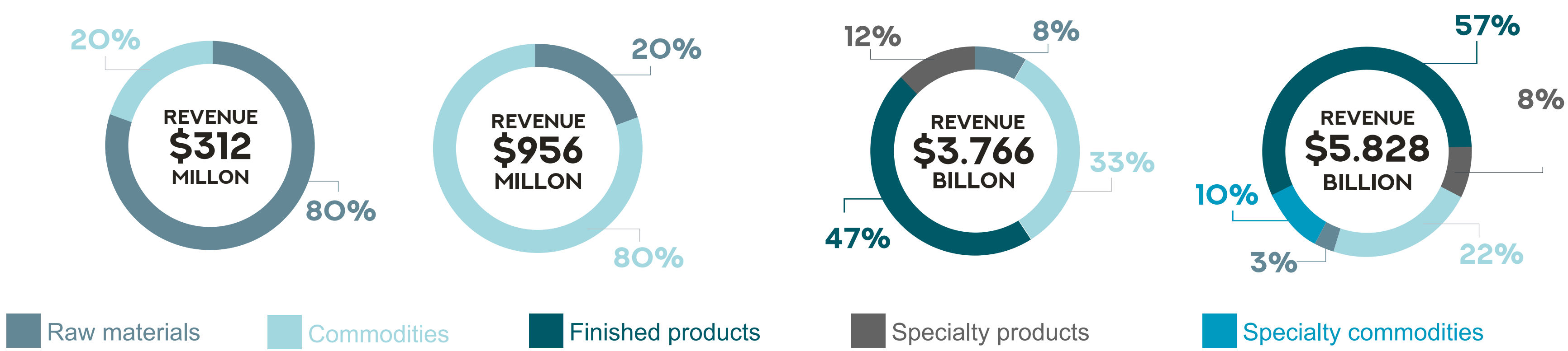
WE HAVE EVOLVED FROM SELLING MINERALS & INTERMEDIATE MATERIALS

TO SPECIALIZED PRODUCTS & INNOVATIVE SOLUTIONS

GRI 102-4

GEOGRAPHICAL EXPANSION & PRODUCTS





PRODUCTS & SOLUTIONS FROM OUR BUSINESS GROUPS

GRI 102-2
GRI 102-6

BUSINESS GROUPS

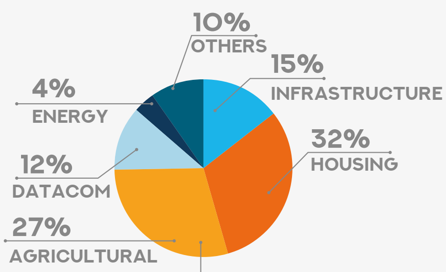
FLUENT

VINYL

FLUOR

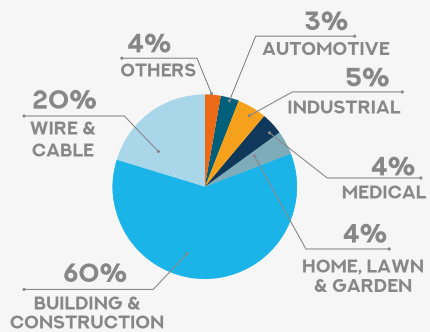
MARKETS SERVED

FLUENT

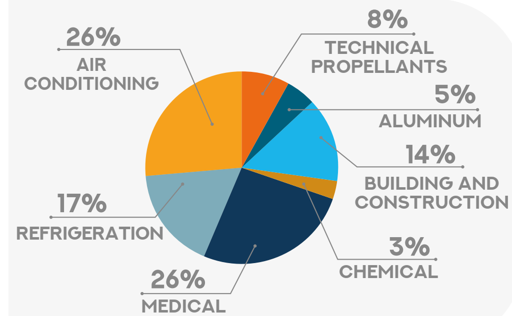


From 4% to 27% if we were to include Netafim

VINYL



FLUOR



* 1% corresponds to energy

PRODUCT CATEGORIES

FLUENT

Pipes & Fittings (PVC, Polyethylene, Polypropylene) for the sectors:

- Geosynthetics (woven & non-woven)
- Datacom
- Infrastructure
- Irrigation systems

VINYL

- Base Chemicals
- Specialty Resins
- PVC Resins
- Compounds
- Plasticizers
- Phosphates
- Other Chemicals

FLUOR

- Fluorspar Met Grade
- Fluorspar Acid Grade
- Hydrofluoric Acid
- Anhydrite
- Aluminum Fluoride
- Refrigerants
- Medical Propellants
- Technical Propellants

FLUENT

Our Fluent Business Group manufactures products that improve the quality of life of people in ways that are not always visible. From the production and distribution of pipe systems and fittings that distribute electricity, water and gas, to conduits that provide pathways for data, video and communication delivery, our products house, protect and provide pathways for these essential services to reach homes, businesses and communities throughout the world.

We focus on markets in the residential and commercial construction and infrastructure sectors, offering technical solutions with geo-synthetics like nonwoven geo-textiles, geo-drains, geo-membranes and geogrids that are used in construction, environmental and infrastructure works.

We provide solutions for agricultural, civil and project engineering related to the handling, use and control of water in farming, fishing and aquaculture, as well as solutions for power transmission and distribution of commercial, industrial, governmental and agricultural electrical applications. Furthermore, we provide fast and safe installation of communication networks used by both the public and private sectors.

The Fluent Business Group is the leader in Latin America and Europe in the production and distribution of piping, connections, and plastic fittings for fluid conduction, as well as for the protection of electrical conduits and optic fiber. Fluent USA/Canada has positioned itself as a global leader in the production of ducts and high-density polyethylene micro-conductors, mainly used in telecommunications and data transmission.

VINYL

Our Vinyl Business Group produces PVC resins, compounds, and derivatives.

PVC is used in countless everyday applications, like pipes that carry drinking water, wastewater or water for irrigation; coating for electrical cables; structural profiles for windows, doors, or siding; floor and wall tiles and furniture coating. These components are used in construction, auto parts, household appliances, clothing, footwear, containers, packaging, medical devices and many other products.

PVC compounds, especially formulated according to the client's particular requirements, integrate different additives needed to process the vinyl resins and to obtain the functional properties necessary for each application. These compounds have different applications that range from medical devices, shoes, cable coatings, etc.

We also sell products derived from the production of chlorine and caustic soda. Chlorine is used to purify water for human consumption, to make cleaning products, disinfect floors and walls, to bleach paper, and in making white pigments for paint bases. Caustic soda is used to make soap, shampoo, lotions and detergents, and to treat water.

FLUOR

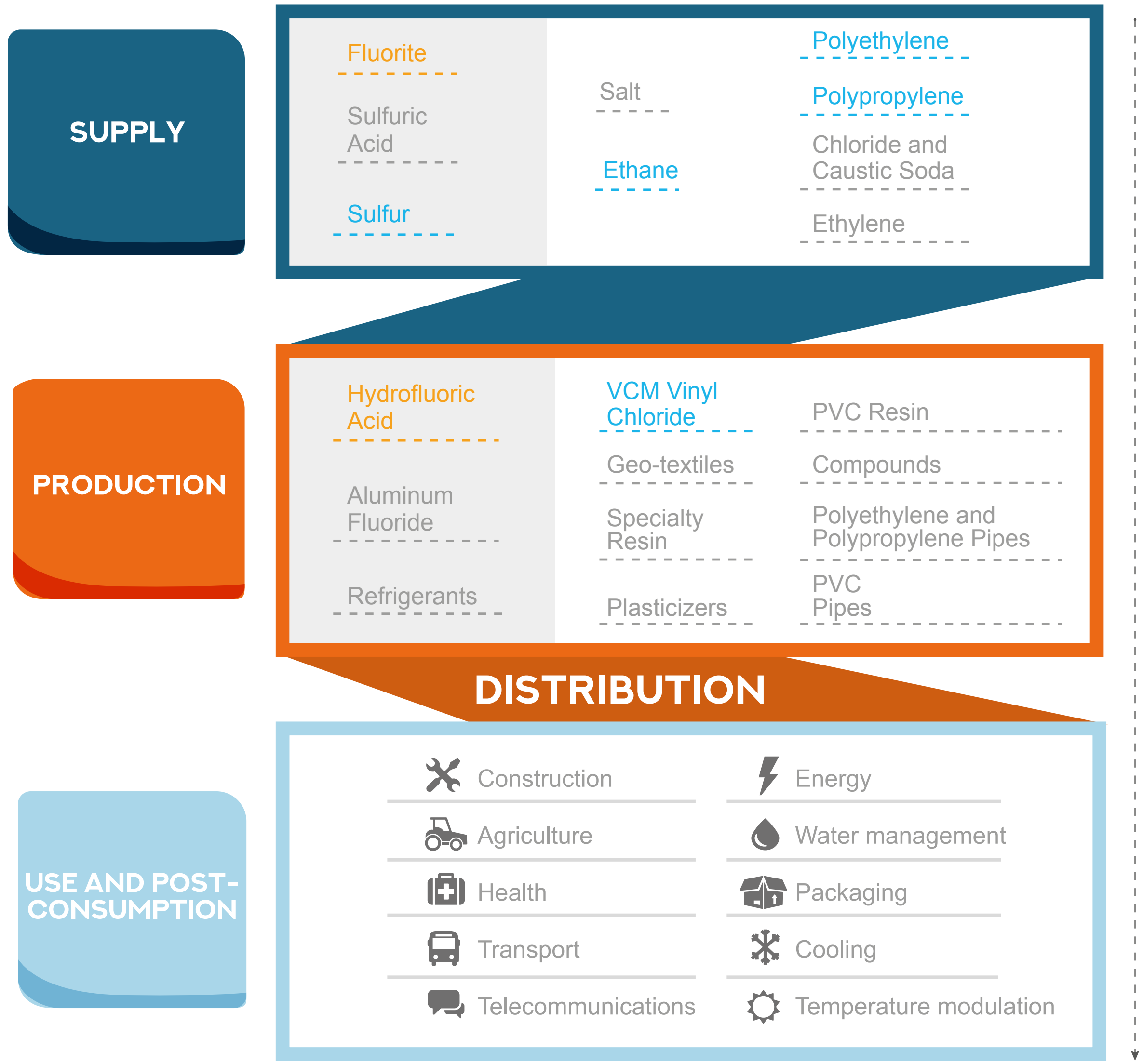
Our Fluor Business Group includes fluorite mining operations and produces hydrofluoric acid (HF), aluminum fluoride, refrigerants and propellants for medical inhalers. The products developed by this group are used in medicine, cooling systems, construction, the automotive sector and cement, steel, ceramic and glass industries.

We own a concession to mine the largest fluorite deposit in the world, which has an installed production capacity of approximately 1.2 million tons per year and represents close to 20% of the world's annual fluorite demand, making us the primary producer of this mineral at a global level. This mine has proven reserves of more than 50 years, according to estimates by certified experts from the Mining and Metallurgical Society of America.

VALUE CHAIN

GRI 102-9

Through its subsidiaries, affiliates, and related companies, Mexichem is involved in all stages of the value chain through the vertical integration of its Business Groups.



Products that are marketed by Mexichem and used for self-consumption in the value chain

Raw materials that are not included in Mexichem's vertical integration and are supplied by a third party

VALUE CREATION

CHAPTER

3

We aim to create value for our clients, our investors, our employees, and society at large. Our ambition has always been to develop products that benefit society, and it is this sense of purpose that has provided us with the successes of our past and what provides us with the strong foundation needed to meet the challenges of our collective future.

We know that through our operations we can contribute to the attainment of the UN **Sustainable Development Goals** and that our products can provide solutions to solve global challenges.

GLOBAL TRENDS & MEXICHEM SOLUTIONS

Several global trends can affect the planet, our clients and our business. Urbanization, population growth, water scarcity, digitalization, food shortages and climate change are issues on the world's agenda for which we seek to offer solutions through our products and services.

With these challenges in mind, we have evolved to become a company that offers products and services that improve people's lives and contribute to the construction of a sustainable future through solutions that include management of water resources, sustainable construction, digitalization, health and energy efficiency.

MACROTRENDS

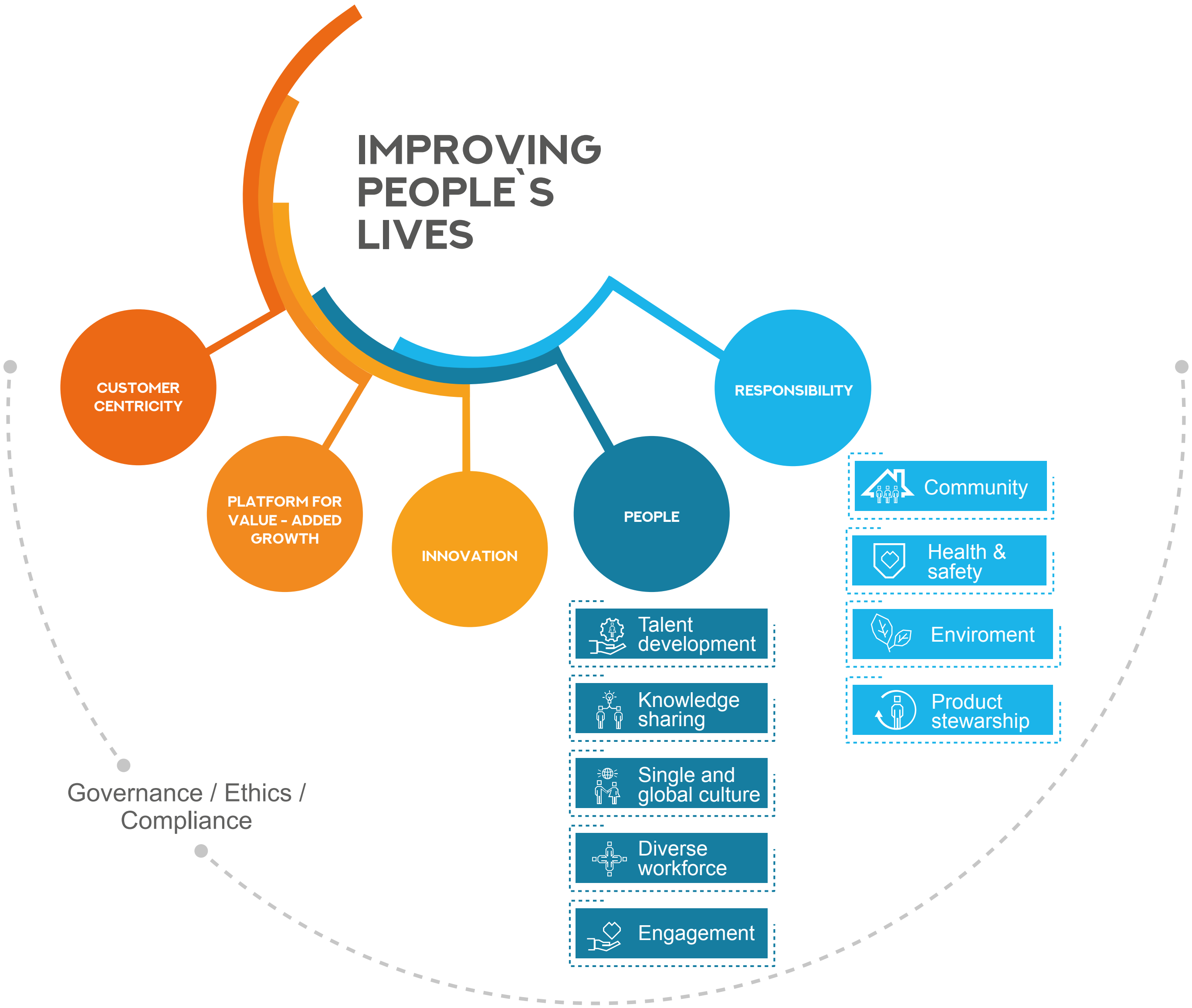
- Urbanization
- Population growth
- Water scarcity
- Digitalization
- Food shortages
- Climate change

MEXICHEM SOLUTIONS

- Water management
  - Access
  - Irrigation
  - Resilliency
- Sustainable construction
- Digitalization – broadband
- Health
- Energy efficiency

STRATEGIC FOCUS

Taking into account global trends and the solutions we offer, we have defined a strategic approach that leverages our business model to provide solutions for a sustainable future.



CUSTOMER-CENTRICITY

We understand our clients' changing needs and priorities, and work together to evolve our range of solutions and capabilities.

PLATFORM FOR VALUE-ADDED GROWTH

We leverage our size and global presence to provide value-added solutions in growing markets.

INNOVATION

Innovation is key to guaranteeing our future growth, maintaining our leadership position in the industry and opening new markets.

PEOPLE

Our more than 17,000 employees around the world are our most valuable competitive advantage, and it is through them that the company operates and transforms every day. They make it possible to achieve our objectives, and their professional development is essential for a business that requires a highly qualified workforce, adaptability to change and constant reinvention.

RESPONSIBILITY

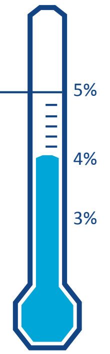
We create value providing a safe and empowering environment for our employees, being good stewards of our products and of shared natural resources, working as a force for good in the communities in which we operate and creating financial returns for our shareholders.

SUSTAINABILITY GOALS

We have established global sustainability goals to monitor our commitments and drive continuous improvement. We are on track to achieve those set for 2018. We are currently reviewing all our sustainability ambitions, as we define goals for 2025.

ENERGY

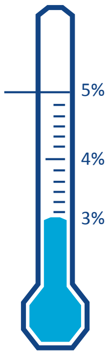
GOAL:
REDUCE ENERGY CONSUMPTION from fossil fuels by **5%**
BY **2018** (BASELINE 2009)



PROGRESS IN 2017: 4%

EMISSIONS

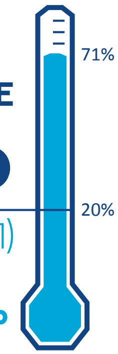
GOAL:
REDUCE GHG EMISSIONS by **5%**
BY **2018** (BASELINE 2009)



PROGRESS IN 2017: 3%

WASTE

GOAL:
REDUCE TOTAL WASTE by **20%**
BY **2018** (BASELINE 2011)



PROGRESS IN 2017: 71%
COMPLETED

WATER

GOAL:
REUSE 70% OF WATER CONSUMPTION
BY **2018** (BASELINE 2011)

PROGRESS IN 2017: 75%
COMPLETED

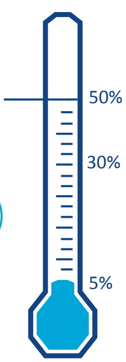
PRODUCT SAFETY

GOAL:
TO HAVE Ø CLAIMS
FROM IMPACTS ON THE CUSTOMER'S
HEALTH AND SAFETY

PROGRESS IN 2017:
COMPLETED

HEALTH & SAFETY

GOAL:
REDUCE THE ACCIDENT RATE BY 50%
BY **2020** (BASELINE 2016)



PROGRESS IN 2017: 6%

CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs) were created by the United Nations in 2015 to respond to the most urgent global needs, creating a new development agenda that aims to eradicate poverty, protect the planet and ensure prosperity for all. Mexichem has made a commitment to contribute to the attainment of these goals using our business as a way to generate value for society and our stakeholders.

SUSTAINABLE DEVELOPMENT GOALS

MEXICHEM'S CONTRIBUTION

- 6 2 Irrigation systems
- 6 Rainwater management
- 6 Water distribution and sanitation
- 2 9 Refrigeration
- 8 Local economic development
- 8 Talent management
- 9 11 PVC for sustainable construction
- 11 Urban and inter-urban broadband
- 9 11 Energy efficiency
- 9 11 Solutions for land use


PAVCO

6 CLEAN WATER AND SANITATION

Our Fluent Business Group has an extensive portfolio of products, services and technology for the planning, design, construction, monitoring and maintenance of water and sewerage systems that guarantee the efficient use and distribution of water for residential and industrial use.

We develop innovative solutions for urban drainage and rainwater harvesting that enable better adaptation to climate change. In addition, we engage in social responsibility projects with our communities through projects like “Project Hydros” and “Fondos de Agua”, which seek to protect and preserve water sources and river basins. We have adopted efficient water consumption practices in our operations that guarantee that 75% of water is reused.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Our products contribute to the development of reliable, resilient, and quality infrastructure that promotes economic development and human wellbeing.

We offer soil management solutions for the structural improvement of road infrastructure works, which significantly reduce the use of inert materials, such as mined gravel, and increase the quality and lifecycle of projects.

11 SUSTAINABLE CITIES AND COMMUNITIES

We produce materials that contribute to better buildings. PVC, with its strength and durability, is a long-life / low-maintenance building material.

In addition, our Fluent Business Group offers solutions for intracity and intercity fiber optic cable installation, guaranteeing connectivity and access to high-speed information and high-performance technologies.

2 ZERO HUNGER

Our Fluent Business Group offers irrigation solutions. With the acquisition of Netafim, we will strengthen our contribution to agricultural production with intelligent irrigation systems, which are essential for improving productivity and soil preservation, guaranteeing food security and addressing food and water scarcity.

8 DECENT WORK AND ECONOMIC GROWTH

We are convinced that in order to grow it is necessary that our employees and the communities where we operate also prosper. We offer employment opportunities to members of local communities, seeking to improve their quality of life and contributing to local economic development. We also provide our employees with the conditions and environment that they need to reach their potential through our talent development and leadership programs.

GRI 103-2
GRI 103-3

FINANCIAL PERFORMANCE

FULL YEAR 2017 FINANCIAL AND OPERATING HIGHLIGHTS

REVENUE INCREASED 9% TO $5.8 BILLION

WE MET THE HIGH END OF **EBITDA GUIDANCE** WITH AN **INCREASE** OF 24% VS 2016 TO $1.1 BILLION

EBITDA MARGIN INCREASED 223 BASIS POINTS VS 2016 TO 19%

FREE CASH FLOW INCREASED 123% FROM $90 MILLION IN 2016 TO $201 MILLION

Last year represented a record year for Mexichem as EBITDA growth significantly outpaced revenue gains, and EBITDA margin expanded considerably from 2016 levels. Also, EBITDA performance came in at the high end of our guidance range, showing a year-on-year increase of 25% when compared to the EBITDA reported a year ago of $884 million, and a 24% increase when compared to the EBITDA adjusted by the re-classification as a discontinued operation of PMV's VCM, Ethylene plants and auxiliary services related to those plants.

This strong comparison reflected effective execution across each of the key pillars of our growth strategy, namely: greater vertical integration of our PVC production, an expanded portfolio of specialty products serving high growth markets, and the build out of our geographical footprint. Specific highlights of the year included: the commission of our joint venture ethylene cracker that became operational during the first quarter of 2017; the end market diversification of our fluorspar business; the ITC resolution in March 2017 that supported higher refrigerant gas prices; the benefits of several bolt-on acquisitions that have added specialty products and new geographies to the Mexichem platform; and our acquisition of Netafim, which was completed in early 2018. Also, Mexichem's 2017 results reflect improved market conditions and increased efficiencies across most of our Business Groups, resulting in considerable growth in operating profitability.

Mexichem ended 2017 in a strong financial position and with very positive financial performance metrics, as full year ROIC and ROE on continuing operations increased by 110 and 150 bps, respectively.

We have entered 2018 with the strongest operating platform in our history and a clear strategy for continued growth. We plan to maintain our focus on increasing returns and rolling out cross selling initiatives and operating synergies across the company. We expect 2018 to be another year of strong growth for Mexichem with contributions from each of our key business areas supported by the full year benefit from our joint venture ethylene cracker, assumptions of continued higher pricing for key products, including PVC, fluorspar and refrigerant gases, recovery of Fluent Latam, increased demand for our Fluent Business Group's industrial products and an eleven-month contribution from Netafim.

In addition to positioning Mexichem as the leader in the high growth micro irrigation market, Netafim is a transformational acquisition that will accelerate our drive into specialty products and solutions and one that will enable us to address long term global issues around water and food security. Netafim will be consolidated into our Fluent Business Group for financial reporting purposes and we will combine our irrigation product line under Netafim. With this scale, we will be well positioned in the worldwide agricultural sector.

KEY FINANCIAL FIGURES (MILLION)

	2017	2016	VARIATION
Net Sales	5,828	5,344	9%
Operating Income	708	582	22%
EBITDA	1,106	895	24%
EBITDA Margin	19.0%	16.7%	223 bps
EBT	535	422	27%
Consolidated net income (loss)	214	247	(-13%)
Income (loss) from continuing operations	357	311	15%

NET SALES

In 2017, consolidated sales increased 9% on the same period in 2016 to $5.828 billion. This increase was mainly the result of (1) favorable dynamics within the PVC industry, (2) healthy sales growth in the US/Canada, Europe and Latam regions in the Fluent Business Group and (3) higher refrigerant gas prices.

COST OF SALES

Our cost of sales increased 7%, from $4.078 billion in 2016 to $4.375 billion for 2017. This increase was mainly the result of (1) higher volumes in our Vinyl and Fluor Business Groups and (2) higher raw materials prices used by the Fluent Business Group.

GROSS PROFIT

Due to the reasons described above, our gross profit increased 15% from $1.266 billion in 2016 to $1.453 billion in 2017. Our gross margin, which is calculated by dividing gross profit by net sales, increased from 24% in 2016 to 25% during 2017. This increase was mainly due to the start of operations of our Ethylene Cracker in Ingleside and higher sales prices in the Vinyl and Fluor chains.

OUR GROSS PROFIT INCREASED
15% FROM $1.27 BILLION IN 2016
TO $1.45 BILLION IN 2017

OPERATING COSTS

Our operating expenses increased 9% from $685 million in 2016 to $745 million in 2017. This increase was mainly due to expenses related to the acquisition of Netafim and the provision for a potential liability in the region coming from alleged violations of Brazilian antitrust regulations by the company's Brazilian operations and some of its executives between 2003 and 2009, which have been investigated by Brazil's CADE (Administrative Council of Economic Defense). These liabilities were disclosed by Mexichem in 2Q16 (refer to contingent liability on page 200). Our operating expenses represented 13% of our net sales during 2017, compared to 13% in 2016.

NET FINANCIAL EXPENSES AND VARIATION IN THE EXCHANGE RATE

Our net financial expense and variation in the exchange rate increased 9%, from $159 million in 2016 to $173 million in 2017. This increase was mainly due to the appreciation of the peso against the US dollar, which led to a loss from operations in foreign currency in 2017 compared to a gain derived from operations in foreign currency in 2016, which had resulted from long-term debt denominated in Mexican pesos, this was partially offset by inflation effects in Venezuela of $49 million while in 2016 the effect was $17 million.

INCOME TAX

Our income taxes amounted to an expense of $178 million in 2017 compared to $111 million in 2016. This change was mainly due to an increase in the deferred tax that went from a profit of $79 million in 2016 to an expense of $66 million. This effect is mainly explained by the fact that in 2016 FX losses generated a deferred tax asset that benefited the company's results, while in 2017 the FX gains offset tax losses, decreasing the deferred tax asset which increased the deferred tax expense.

CONSOLIDATED NET INCOME

Consolidated net income declined 13% to $214 million in 2017 from $247 million in 2016, due to the factors described above and the decision of PMV's shareholders not to rebuild the production capacity of VCM and which was announced by Mexichem on December 20, 2017. Therefore, the joint venture's VCM production, and the assets and liabilities associated with ethylene production and auxiliary services associated with VCM and ethylene were re-classified on that date as discontinued operations. This re-classification was made on Mexichem's financial statements for the years 2015, 2016 and 2017, since the decision implies the exit of PMV from the VCM and ethylene businesses in Mexico, and therefore, all of the impacts and the revenues recognized related to the incident at the VCM plant are presented as discontinued operations. (See Selected Financial Information, Significant Events page 148).

OPERATING CASH FLOW HIGHLIGHTS

For 2017 Operating Cash Flow before Capex grew 22% compared to 2016, benefitting from higher EBITDA, lower taxes and net interest costs (interest payments related to the debt offering announced on September 27, 2017 will not be paid until 2018). Working capital needs for the year increased mainly due to the start-up of the cracker JV in Texas, and higher PVC and refrigerant gas prices, which increased the dollar value of accounts receivable and inventories.

WORKING CAPITAL

As of December 31, 2017, working capital needs increased by $103 million compared to December 2016. This represents an increase of $165 million in demand for working capital, compared to the $62 million in reduced demand between December 2016 and December 2015. This increase was mainly due to the startup of the cracker in February 2017 and higher PVC and refrigerant gas prices.

FINANCIAL DEBT

Total financial debt as of December 31, 2017 was $3.2 billion, plus $900.000 in letters of credit with maturities of more than 180 days, for a total financial debt of $3.2 billion, while cash and cash equivalents totaled $1.9 billion, resulting in net financial debt of $1.35 billion. It is important to note that cash equivalents include the proceeds of the international bond offering completed on September 27, 2017, which were used to partially finance acquisition of Netafim, a privately-held Israeli company and a leader in precision irrigation solutions, that was completed on February 7, 2018.

The Net Debt/EBITDA ratio was 1.2x at December 31, 2017, while Interest Coverage was 5.7x

RESULTS BY BUSINESS GROUP

FLUENT BUSINESS GROUP

In 2017, revenue increased 5% from $2.892 billion in 2016 to $3.023 billion in 2017. This increase was mainly the result of higher sales in most regions with the exception of AMEA. For its part, EBITDA declined 9% impacted by the accrual of certain expenses related to the acquisition of Netafim and the company's decision to provision a potential liability from CADE (Administrative Council of Economic Defense) in Brazil of $27 million for 2017. If this is not considered than EBITDA would be $412 million, 2.1% below 2016. EBITDA margin was 12.7% compared to 14.6% the previous year. Adjusted for the Netafim and CADE effects, implied 2017 EBITDA margin would be 13.6%. EBITDA margin was 12.7% compared to 14.6% the previous year., while adjusted for the Netafim and CADE effects, implied 2017 EBITDA margin would be 13.6%.

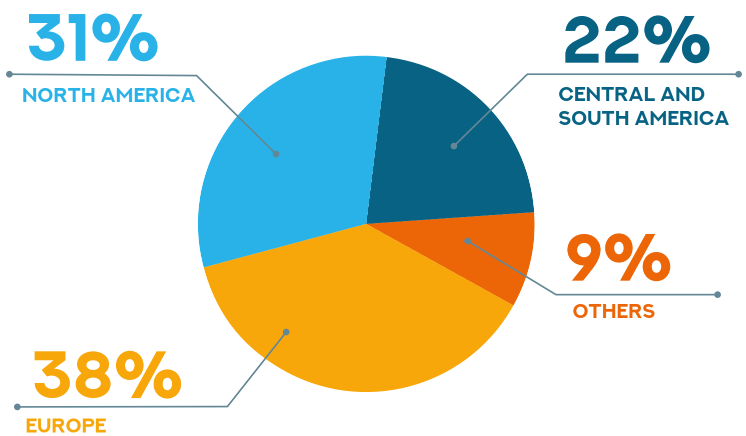
VINYL BUSINESS GROUP

In 2017, the Vinyl Business Group's sales increased 14% with a 2% increase in volumes this is due to better market conditions in PVC (volumes and prices). EBITDA was $507 million, 79% higher than in 2016, because of better PVC trends and our increased vertical integration across the ethane-to PVC value chain and its associated benefits, resulting in a 21.9% EBITDA Margin, while in 2016 EBITDA Margin was 13.9%.

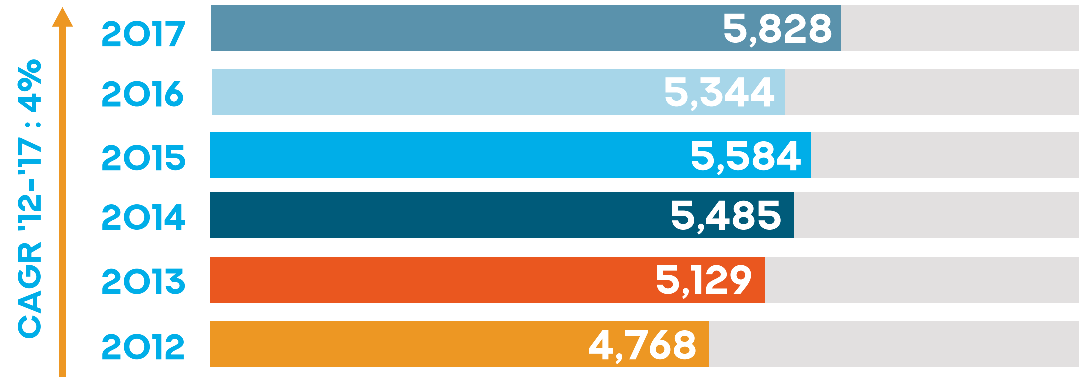
FLUOR BUSINESS GROUP

In 2017 revenues in the Fluor Business Group were up 17% to $681 million from $583 million, reflecting significant growth in both the upstream and the downstream parts of the business due to improved demand for fluorspar from the cement and steel industries, and higher refrigerant gas prices in the U.S. and Europe. EBITDA increased by 14% to $259 million. EBITDA margin was 38%, and operating income rose 17% to $206 million.

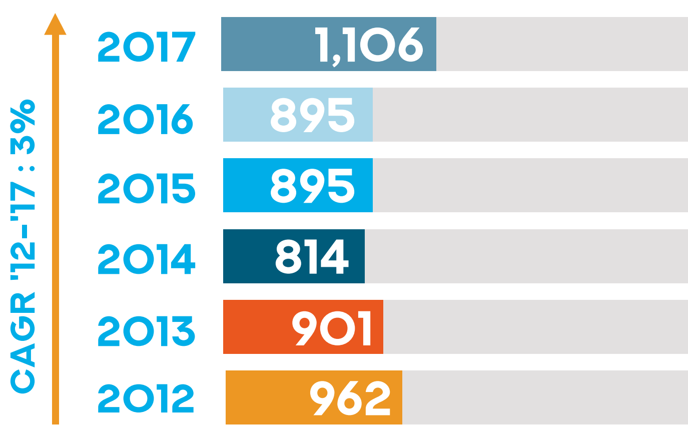
SALES BY REGION 2017



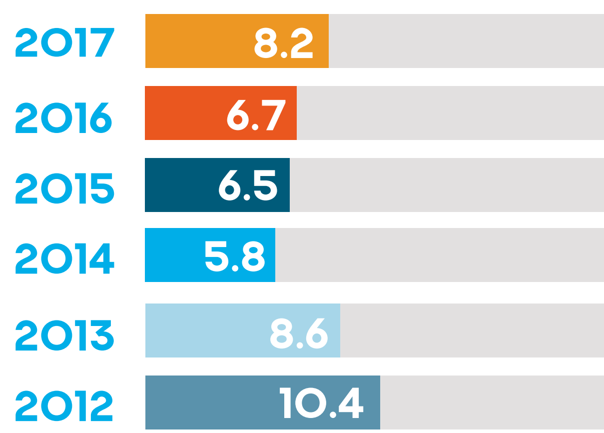
CONSOLIDATED SALES ($ MILLIONS)



CONSOLIDATED EBITDA ($ MILLIONS)



ROIC (%)



CHAPTER

4

CORPORATE GOVERNANCE & ETHICS

ETHICAL EXCELLENCE & COMPLIANCE

GRI 103-1

Our relationships and business conduct around the world reflect the spirit and professional ethics that characterize Mexichem. Our commitment to sustainable development begins by ensuring that our actions are consistent with our corporate values, doing what we say, and being an exemplary citizen.

GRI 102-16

OUR VALUES

INNOVATION

We seek to continually drive innovation and generate a positive impact on the world around us.

RESPONSIBILITY

We act responsibly and fairly in the communities where we do business.

COMMITMENT

We are dedicated to teamwork and focus on achieving shared goals in order to exceed the expectations of our clients.

RESULTS

We have the ability to deliver positive results, sustainable growth and products that make a difference.

INTEGRITY

We are committed to being an ethical, honest, and trustworthy company.

SAFETY

The health and safety of our people is our priority.

COMPLIANCE PROGRAM

GRI 103-2
GRI 103-3

After a review of our policies and global market best practices, during the last quarter of 2017 we launched a new version of our **Code of Ethics**, updated our Compliance Program, and strengthened our follow up process for claims. These changes seek to reinforce our culture of compliance in accordance with our values.

The program covers important issues to Mexichem, given our international presence, which include but are not limited to integrity and anti-corruption measures, economic competence, foreign trade, prevention of money laundering, protection against retaliation, prevention of modern slavery, and human trafficking.

Training and certifying all our employees at a global level has been essential. We developed a communications and cascading training strategy that begins at the highest levels of the organization, and includes:

FACE TO FACE TRAINING SESSIONS FOR 100% OF THE MANAGERS IN 17 DIFFERENT LOCATIONS AROUND THE WORLD

SELECTION AND TRAINING OF 127 COMPLIANCE TRAINERS IN CHARGE OF DEPLOY TRAININGS IN THEIR LOCATIONS

ONLINE TRAINING AVAILABLE IN 6 LANGUAGES

As of the end of 2017, 11% of employees had completed the recently launched Compliance Training program. We are on the way to train 100% of the employees by the end of the second quarter of 2018.

GRI 102-17

WHISTLEBLOWER LINE

During 2017, we received 116 reports through our **Whistleblower Line**. 100% of the cases were investigated and 27 of them were confirmed as unethical actions for which corresponding measures were taken. All information is anonymous and the reports are treated confidentially.

CORPORATE GOVERNANCE

GRI 103-1
GRI 103-2
GRI 103-3
GRI 102-18
GRI 102-22

Corporate governance ensures Mexichem's responsible management and commitment to sustainability. A proper governance reinforces the trust that stakeholders have placed in us and allows us to guarantee good economic, social and environmental performance.

Mexichem S.A.B. management is overseen by a Board of Directors and an independent Chief Executive Officer. The General Shareholders Meeting is where members of the Board are ratified. Shareholders must ensure that at least 25% of the Board members are independent. The independent members and their corresponding substitutes, if any, are selected based on their experience, ability and professional background, as the ability to perform their duties free from conflicts of interest and without being subject to personal, patrimonial or economic interests.

The Secretary of the Board of Directors provides the members with an annual report containing the main obligations and recommendations applicable to the company so that they can envision the responsibility required from their position. The report also describes the main responsibilities of Board members, which is supported by three committees: the Corporate Practices Committee, Audit Committee and Finance Committee[2].

AUDIT COMMITTEE	FINANCE COMMITTEE	CORPORATE PRACTICES COMMITTEE
Fernando Ruiz Sahagún (President and financial expert)	Jaime Ruiz Sacristán (President)	Eugenio Santiago Clariond Reyes (President)
Divo Milán Haddad	Guillermo Ortíz Martínez	Divo Milán Haddad
Eduardo Tricio Haro	Antonio del Valle Perochena	Juan Pablo del Valle Perochena
Jaime Ruiz Sacristán (permanent invitee)	María de Guadalupe del Valle Perochena	
	Adolfo del Valle Ruiz	
	Ignacio del Valle Ruiz	

[2] For more information regarding the functions and duties of our committees, please refer to the 2016 Sustainability Report.

THE 2017 BOARD WAS MADE UP BY 11 DIRECTORS, 45% OF THEM INDEPENDENT.

GRI 405-1
GRI 102-22

COMPOSITION OF THE HIGHEST GOVERNANCE BODY

NAME	TYPE	INDEPENDENCE	TENURE (YEARS)	GENDER	AGE GROUP
• Juan Pablo del Valle Perochena	Non-executive	Not Independent	15	Male	30-50
• Antonio del Valle Perochena	``	Not Independent	15	Male	>50
• María de Guadalupe del Valle Perochena	``	Not Independent	12	Female	>50
• Adolfo del Valle Ruiz	``	Not Independent	24	Male	>50
• Ignacio del Valle Ruiz	``	Not Independent	17	Male	>50
• Jaime Ruiz Sacristán	``	Not Independent	17	Male	>50
• Divo Milán Haddad	``	Independent	14	Male	>50
• Fernando Ruiz Sahagún	``	Independent	14	Male	>50
• Guillermo Ortiz Martínez	``	Independent	7	Male	>50
• Eduardo Tricio Haro	``	Independent	9	Male	>50
• Eugenio Santiago Clariond Reyes	``	Independent	10	Male	>50

Secretary: Juan Pablo del Río Benítez

Pro Secretary: Francisco Ramón Hernández

OPERATIONS

CHAPTER

5

Our contribution to sustainable development is not only found in the products and solutions that we offer, but also in the way we produce them. We guarantee the health and safety of our employees and neighboring communities, protecting the environment and striving for the efficient use of resources.

OCCUPATIONAL HEALTH & SAFETY

GRI 103-1
GRI 103-2
GRI 103-3

Guaranteeing the life and safety of the people who participate in our operations is a priority. As such, we have set a goal of reducing the accident rate by 50% by 2020 (from 2016 levels). We develop programs to maintain a safe work environment for employees, visitors and contractors in our facilities accompanied by a strong training component.

21 CERTIFIED
OPERATIONS IN OHSAS 18001
AT YEAR-END 2017

INTERNATIONAL SAFETY RATING SYSTEM (ISRS)

We have aligned Mexichem's occupational health and safety management systems with the ISRS standard (International Safety Rating System), managed by Norske Veritas.

At the end of 2017, **57% of our operations were ISRS certified.** Our goal is for 100% of plants to be certified by 2020 (excluding new acquisitions). Thanks to the commitment of all employees in the implementation of ISRS, lost-time accidents have decreased by 63% compared with 2012 and 6% compared with 2016.

AT THE END OF 2017
57% OF OUR **OPERATIONS WERE ISRS CERTIFIED**

LOST TIME ACCIDENTS **DECREASED BY 63%**
BASELINE 2012

PROCESS SAFETY MANAGEMENT (PSM)

Process Safety Management is a system that focuses on the prevention and control of incidents with the potential to release energy, or those that involve hazardous materials. Its objective is to guarantee the integrity of processes by applying good design principles and best practices in engineering and operations.

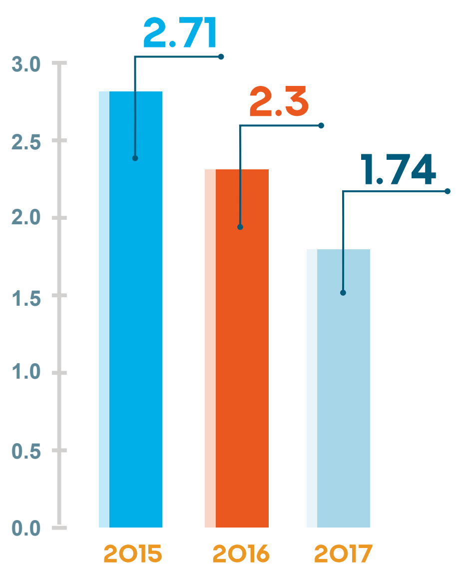
PSM identifies hazards inherent to operational processes within facilities, assesses the risks according to their impact level and foresees the necessary protections to manage and mitigate them. We continually strive to identify and eliminate safety risks in our chemical plants.

To date, we have developed a corporate PSM manual, which consists of **20 standards** and a total of **200 key employees** have been trained in the most relevant elements of PSM for Mexichem. Its implementation will begin in 2018 in all our chemical plants.

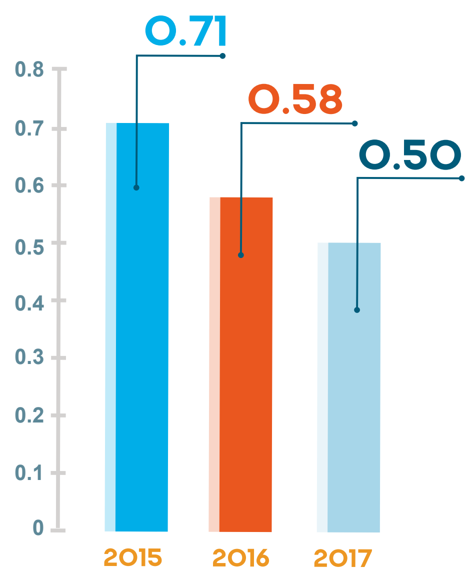
GRI 403-2

OCCUPATIONAL HEALTH AND SAFETY INDICATORS

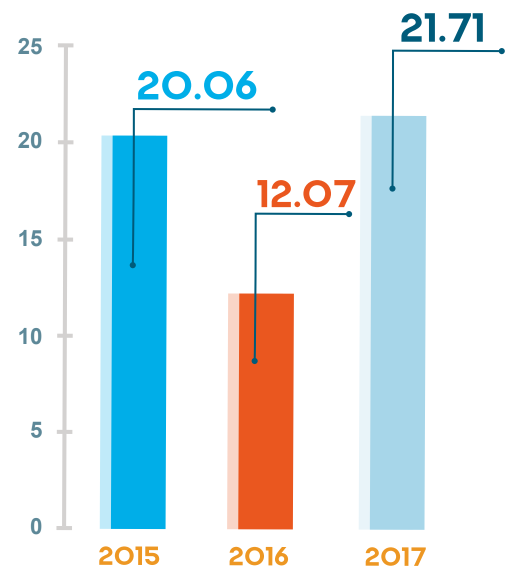
TRIR - TOTAL RECORDABLE INJURY RATE



LTIR - LOST TIME INJURY RATE



SIR - SEVERITY INCIDENT RATE



TRANSPORT OF CHEMICALS

GRI 103-1
GRI 103-2
GRI 103-3

Our companies have direct contact with the Chemical Industry National Association and CHEMTREC (The Chemical Transportation and Emergency Center) to assist with emergencies in the transportation zone.

Given that approximately 90% of our transport is carried out by ground between Mexico and United States, our companies collaborate with the Customs, Trade Partnership Against Terrorism - C-TPAT, implementing tracking systems to avoid contraband and weapons or drug trafficking to occur across the border.

In addition, our companies trained transporters and clients related to the risks of products that are being shipped.

In 2017, our companies trained 238 people (transporters and clients) on issues regarding regulations for transport of materials and safe handling of our products.

13,919
SHIPMENTS* IN
2017

355 THOUSAND* TONS OF PRODUCT WERE TRANSPORTED IN PIPES IN 2017

WE HAVE A HISTORY OF ZERO ACCIDENTS INVOLVING THE TRANSPORT OF CHEMICALS. IN 2017 THERE WERE 6 INCIDENTS, NONE OF WHICH HAD A SIGNIFICANT IMPACT ON THE ENVIRONMENT OR THE COMMUNITY.

BINATIONAL MATAMOROS DRILL – BROWNSVILLE

The annual binational drills between Mexico and the United States are part of our strategy for the preparation for accidents and emergencies. The exercise in 2017 took place in the city of Matamoros, Tamaulipas, Mexico, under the leadership of Mexichem Fluor Matamoros and the Local Mutual Help Committee (CLAM). The event was considered a success as it was able to contain the simulated leak and coordinate communication between the different players at the local, regional and federal levels according to the binational protocols.

UNION PACIFIC AWARD

In 2017, as well as in prior years, we received the Union Pacific – North American railroad company dedicated to the transport of merchandise - award, which recognizes our commitment to transport chemical products in a safe way.

* The figures correspond only to transportation by truck between the United States and Mexico

ACCIDENT PREVENTION, PREPARATION AND RESPONSE

GRI 103-1
GRI 103-2
GRI 103-3

We have the commitment and responsibility to be prepared and prevent, to the best of our abilities, all negative incidents related to our production process.

All our plants have safety policies and emergency plans as part of our ISRS management system. These plans have a component to engage with communities and civil protection authorities.

In addition, we completed the first stages of the Facility Siting Study and Quantitative Risk Analysis in 13 of our chemical plants with the objective of determining the possible consequences of explosion, flammability and toxicity, as well as the development of customized comprehensive safety plans.

ENERGY & EMISSIONS

GRI 103-1

Our production processes require high levels of energy consumption, especially in plants under the Vinyl Business Group. For this reason, we have set a 2018 goal to reduce energy consumption from fossil fuels by 5% compared to baseline 2009. To reach this objective we have focused on optimizing the use of energy, reducing consumption and identifying alternative sources. In addition, we have implemented energy savings committees and 61 of our installations are ISO 14001 certified.

DESPITE A HISTORY OF ACQUISITIONS, INCREASE OF OUR PRODUCTION CAPACITY AND A 9% INCREASE IN SALES COMPARED TO 2016, WE HAVE ACHIEVED A REDUCTION OF 4% IN OUR ENERGY CONSUMPTION.

GRI 103-2
GRI 103-3

ISO 14001 CERTIFICATIONS BY REGION

AMEA	8
EUROPE	31
LATAM	21
US/CANADA	1

CARBON DISCLOSURE PROJECT - CDP

In 2017 we made the decision to join the Carbon Disclosure Project (CDP), to report GHG (Greenhouse Gases) emissions. The CDP has 428 member companies who have made the commitment to make significant decisions to address climate change. One fifth of global emissions are managed through this program.

Within the framework of the commitment, we consolidated the data of scope 1, 2, 3 emissions from all operations and published our commitment to reduce them by 5% by 2018, based on 2009 levels. We also performed an evaluation to identify risks and opportunities for the business related to emissions reductions, which were included in the first CDP report.

OPTIMIZATION OF PRODUCTION LINES

The substitution of engines and installation of high efficiency cooling equipment as well as the installation of LED lighting in operational sites are part of our strategy to reduce energy consumption.

In 2017, we replaced inefficient production lines for automated ones in certain operations. With the new technology we improved energy efficiency, working conditions and production capacity.

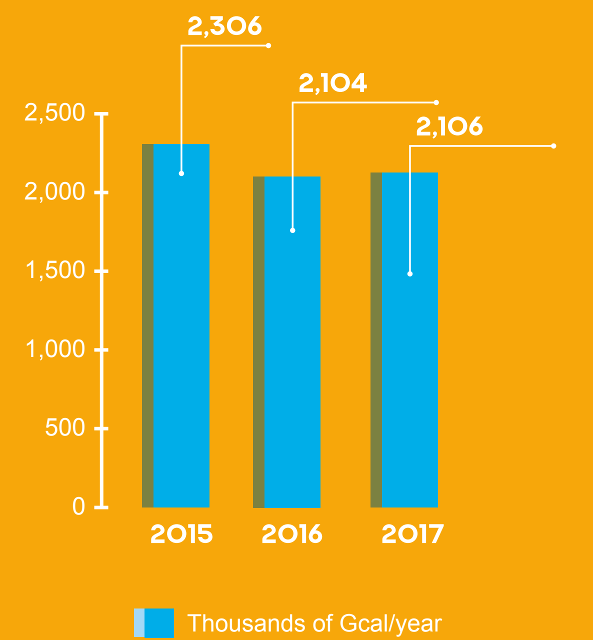
70% of the energy consumed in the Altamira operation comes from a cogeneration process in a natural gas power plant that provides more efficient and environmentally friendly energy.

GRI 302-4

The energy we consume mainly comes from electricity and natural gas and is supplied almost entirely by external companies. The secondary energy sources are vapor, diesel and gas.

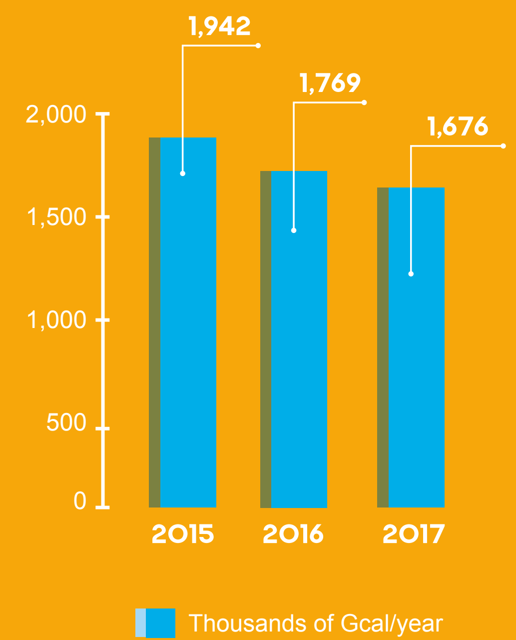
In 2017, we reduced our natural gas consumption by 5% with respect to 2016, natural gas energy intensity by 10% and electric energy by 5%.

ELECTRIC ENERGY CONSUMPTION



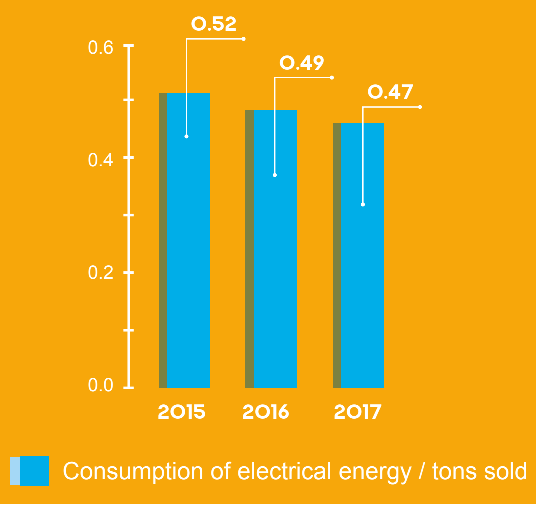
NATURAL GAS CONSUMPTION

GRI 302-1

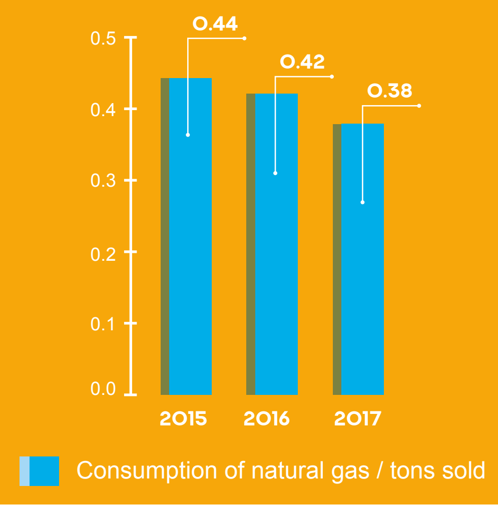


GRI 302-3

ENERGY INTENSITY - ELECTRICAL ENERGY



ENERGY INTENSITY - NATURAL GAS



GRI 103-2
GRI 103-3

We measure the gases and particles emissions from all our operations and plants, which represent mostly greenhouse gases related to the consumption of fossil-fuel based electricity and natural gas.

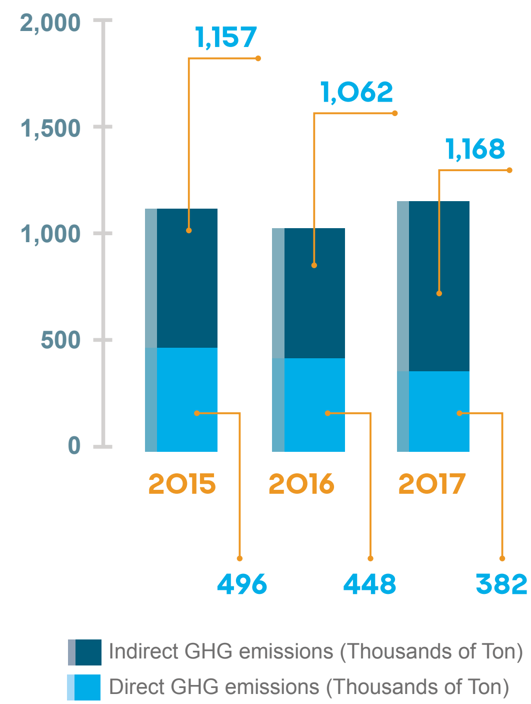
To calculate these emissions, we use the methodology from the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), and the emission factors from the Federal Electricity Commission (FEC) established in the Mexico GEI Program and the International Energy Agency (CO_2 Emissions from Fuel Combustion 2013 Edition). The calculation includes the values for emissions of nitrogen oxides (NOx), consumption of fuels like natural gas, LP gas, diesel and gasoline, both in fixed sources as well as mobile ones, converted to equivalent tons of CO_2.

GRI 305-5

In 2017, we had a reduction of **14%** in our direct emissions of GHG thanks to the reduction in the consumption of natural gas in the Vinyl business and **2%** reduction in intensity of emissions compared to 2016. Considering that we had an increase of 9% in sales compared to 2016, this is a significant improvement in energy efficiency.

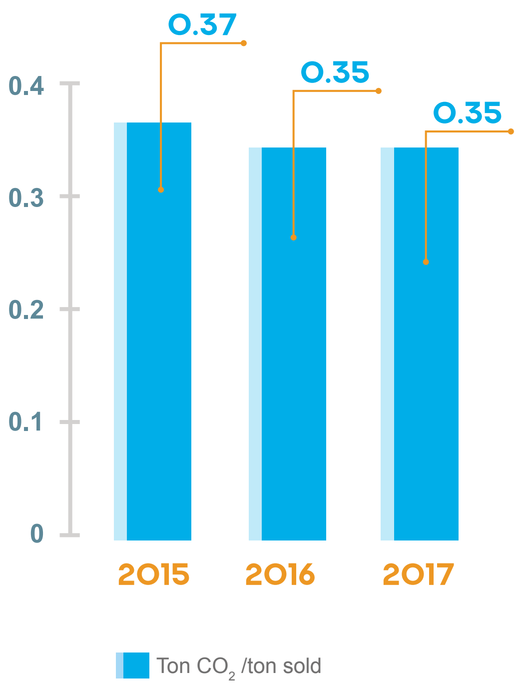
TOTAL GREENHOUSE GAS EMISSIONS

GRI 305-1
GRI 305-2



GRI 305-4

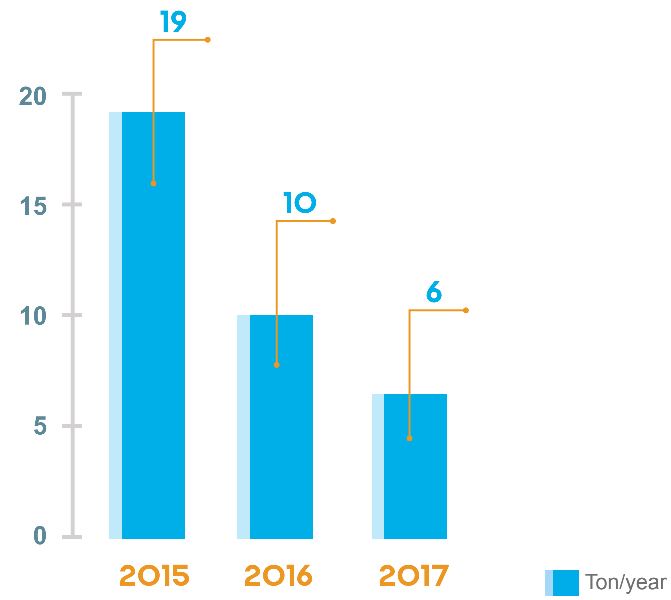
CO_2 EMISSIONS INTENSITY



GRI 305-6

EMISSIONS OF OZONE-DEPLETING SUBSTANCES

We have reduced gradually our emissions of substances that destroy the ozone layer; we began by aggressively eliminating equipment that produces these gases and then keeping this level of reduction stable over the last few years.



GRI 305-7

For the first time this year, we presented our nitrogen oxide emissions (NOx) and sulphur oxide (SOx) separately, using the AP-42 estimates provided by the United States Environmental Protection Agency – US EPA. In addition, we began reporting our emissions of volatile organic compounds (VOC) resulting from our Vinyl and Compounds business based on a proprietary Mexichem methodology.

2017

NOx	572 TONS
SOx	9 TONS
VOC	83 TONS

WATER

GRI 103-1
GRI 103-2
GRI 103-3

Water is a fundamental part of our business: from water consumption in the extraction process and in our operations, to the products and solutions that we provide for collection, distribution, sanitation and irrigation.

IN 2012 WE ESTABLISHED THE COMPANY-WIDE GOAL OF REUSE AT LEAST 70% OF OUR WATER BY THE END OF 2018. WE ARE PROUD TO REPORT THAT WE ACHIEVED 75% REUSE BY END OF 2017.

We have assessed the risk of water scarcity and although we have not detected any in relation to our operations, we continuously strive to reduce the consumption of hydrological resources in our processes. We also adhere to different external initiatives such as the Water Fund* program, to protect hydrological basins.

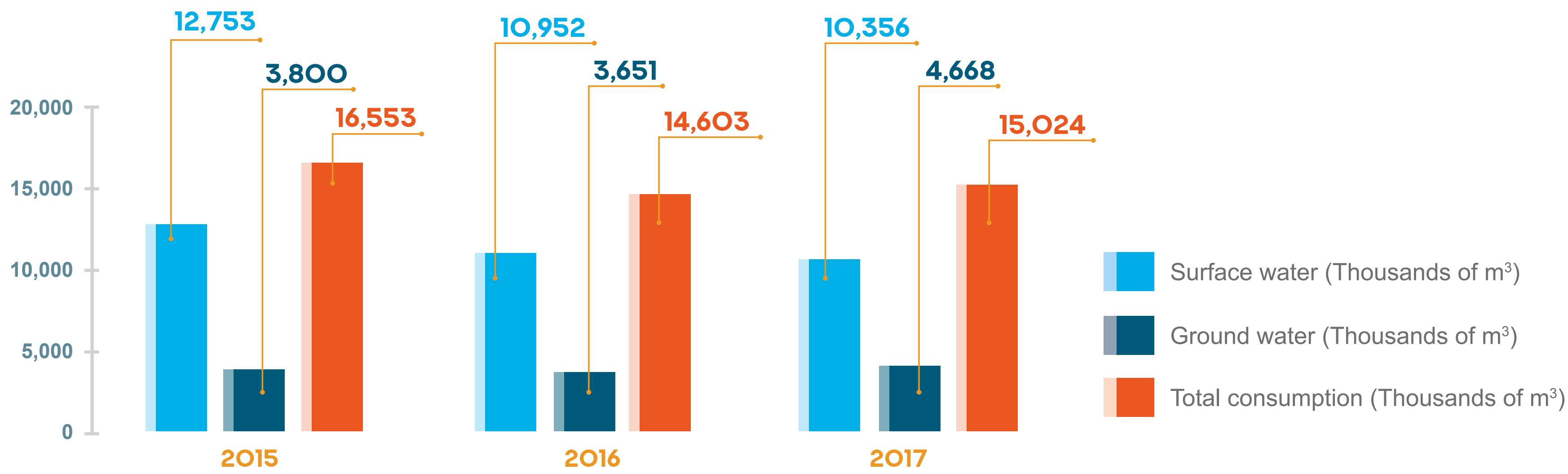
WATER CONSUMPTION

In 2017, approximately 62% of water extraction was performed from surface water, meaning that the largest portion of the water consumed by Mexichem came from sources that have a natural way of replenishing themselves. Another 31% came from ground sources whose replenishment takes longer. The remaining percentage is divided into drinking water (3%) and municipal water (4%), these are included in the total of m^3 of surface water.

*See more information in the social investment chapter

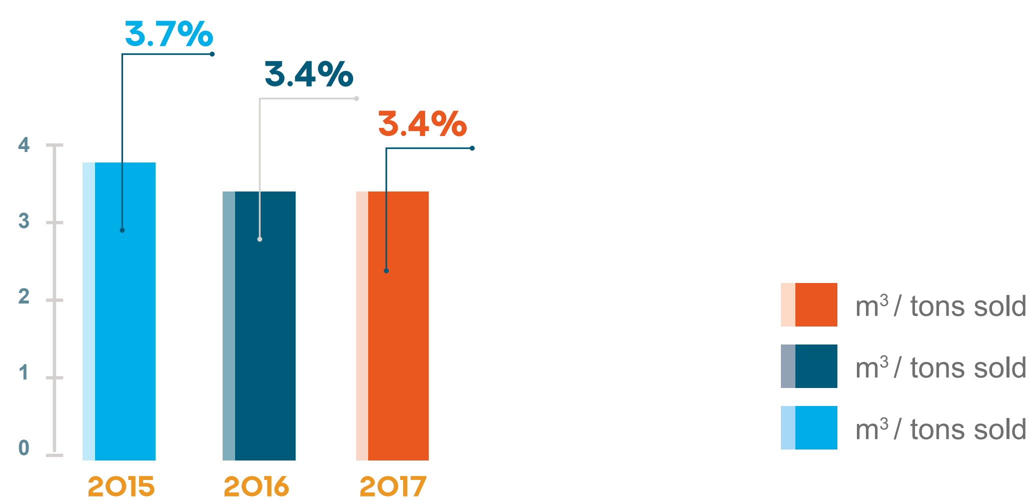
GRI 303-1

WATER CONSUMPTION IN OPERATIONS*



Our largest water consumption occurs in our mine in San Luis Potosí, where we have a high percentage of reuse. In 2017, we showed an increase in total water consumption compared to 2016 due to an increase in the extraction of ground water caused by increases in production volume.

INTENSITY IN WATER CONSUMPTION



* Data from 2016 was recalculated excluding consumption from operations in the United States that do not belong to Mexichem.

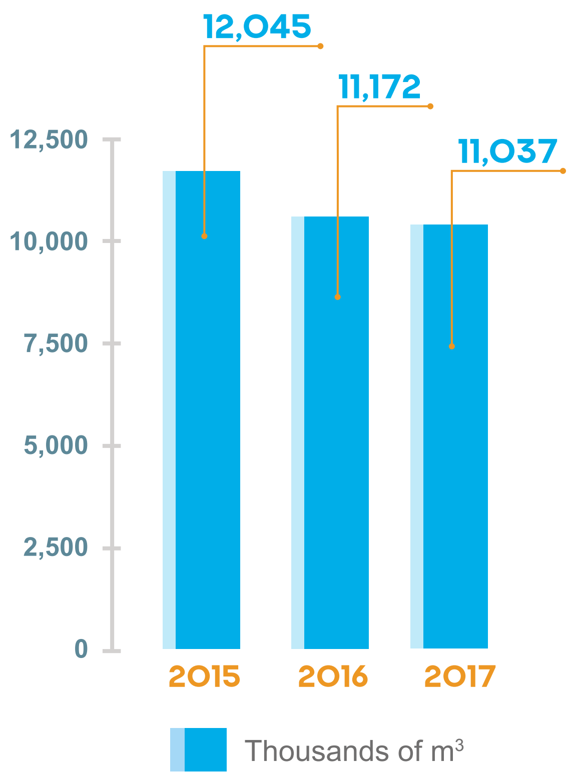
GRI 303-3

WATER REUSE	2015	2016	2017
Recycled and reused water (Thousands of m³/year)	11,425	11,203	11,306
Recycled and reused water (% of total extracted)	69	77	75

Most of our manufacturing facilities have wastewater treatment plants. Wastewater is treated and before being discharged, we verify that its quality complies with the applicable regulations in each country.

GRI 306-1

DISCHARGE OF WASTEWATER



WASTE

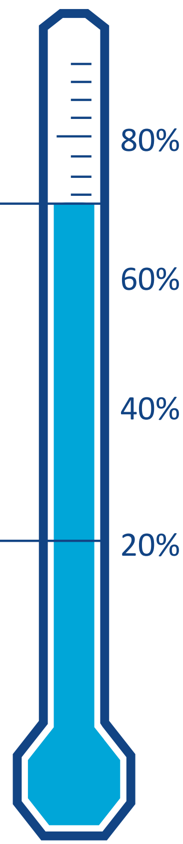
GRI 103-1
GRI 103-2
GRI 103-3

Due to the nature of our operations, we generate a significant quantity of industrial waste that requires special handling as well as hazardous waste.

AS OF 2017, WE ACHIEVED A REDUCTION OF 71% in total waste volume

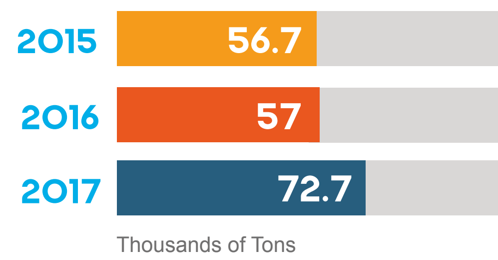
Our goal for 2018 was to reduce total waste volume by 20% compared to 2011

GOAL 20%



This reduction is due to the identification of waste streams, local recycling initiatives and programs for waste reuse in the construction industry.

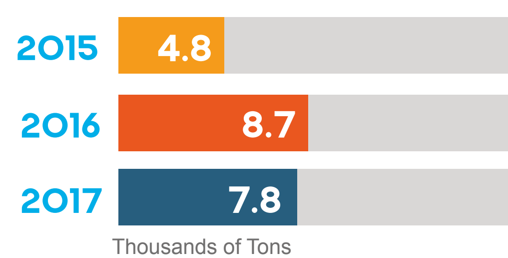
TOTAL WASTE GENERATED



In the base year (2011), our total amount of waste was **242.4 thousand tons**

The increase in waste tons compared to **2016** is due to materials acquired for reuse that could not be recycled and had to be disposed.

HAZARDOUS WASTE TRANSPORTED LOCALLY FOR TREATMENT



GRI 306-2

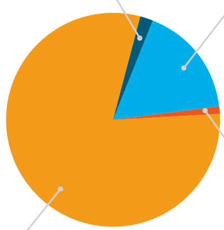
IN 2017

WE GENERATED 72.7 THOUSAND TONS OF WASTE,

88% NON-HAZARDOUS

12% HAZARDOUS

DISPOSAL METHODS FOR NON-HAZARDOUS WASTE



INCINERATION PROCESS FOR THERMAL ADVANTAGE AND ENERGY RECOVERY.

Hazardous waste generated by operations are managed locally. The majority were managed through incineration processes for thermal advantage and energy recovery. These residues are generated mainly by the chemical operations of the Vinyl Business Group.

BIODIVERSITY & PROTECTION OF ECOSYSTEMS

GRI 103-1
GRI 103-2
GRI 103-3
GRI 304-2

Our most significant impacts on biodiversity are caused by the generation of residues and tailings in our mining operation in San Luis Potosí. Our fluorite extraction and recovery operations include a strategy for the area's protection, which include measures for restoration of the natural habitats, relocation of species, reforestation and compensation according to environmental impact studies.

11.5 REFORESTED HECTARES

RESCUE AND RELOCATION OF SPECIES PROGRAM

To mitigate the increase in mineral residues in the Tailing Dam No. 4 in San Luis Potosí, we developed the Program for the "Rescue and Relocation of Affected Species of Forest Vegetation and Wild Fauna and their Adaptation to a New Habitat", which aims to minimize the impacts on flora and fauna species, maintain their abundance and diversity and preserve the ecosystem's environmental services.

13,232 INDIVIDUALS OF FLORA AND FAUNA WERE RESCUED BELONGING TO **40 DIFFERENT SPECIES**

BEST PRACTICES MANAGEMENT PROGRAM (PMPM)

In partnership with the National Forestry Commission (CONAFOR), we developed an agreement within the framework of the National Forestry Program that consists of local mechanisms for payments of environmental services through concurrent funds. In this agreement, 50% of the budget is supplied by CONAFOR and the remaining 50% by Mexichem.

The framework of the agreement considers protection, preservation and improvement of the forestry resources in the Ejido Santa Catarina in San Luis Potosí, with the purpose of preserving and improving the ecosystem's conditions and environmental services provided.

TALENT

CHAPTER 6

GRI 103-1

Our employees drive our success and we strive to develop their capabilities and talents using a holistic approach that supports them at every stage of their career.

GRI 103-2
GRI 103-3

We aim to ensure that our more than 17,000 employees are able to develop up to the best of their ability and thrive in a highly diverse environment that honors and respects different cultures, ethnicities and ways of thinking.

As a global company, we look for the best talent available across the world. We support the people exchange among businesses and regions to enhance professional development by providing exposure to new challenges, knowledge and experiences.

GRI 102-7
GRI 102-8

EMPLOYEES BY REGION AND LEVEL

	US/CANADA	LATAM	EUROPE	AMEA
Professional employees in management positions	66	195	137	23
Professional employees	367	3,162	2,217	277
Employees in non-professional positions	1,015	6,216	3,724	272
TOTAL	**17,671**			

EMPLOYEES BY GENDER & REGION

	GENDER		REGION			
	MALE	FEMALE	US/ CANADA	LATAM	EUROPE	AMEA
Fluent	10,822	2,221	916	6,568	5,008	541
Vinyl	2,842	341	454	1,826	903	0
Fluor	1,093	141	78	968	167	31
Corporate	141	70	0	211	0	0
Subtotal	14,898	2,773	1,448	9,573	6,078	572
TOTAL	17,671		17,671			

EMPLOYEES BY AGE & SENIORITY

	AGE GROUP			YEARS WITH THE COMPANY			
	BELOW 30 YEARS	ABOVE 50 YEARS	OLDER THAN 50 YEARS	0-5 YEARS	6-10 YEARS	11-15 YEARS	16 OR MORE
Fluent	2,086	7,974	2,984	5,262	2,633	1,947	3,203
Vinyl	528	1,733	922	937	535	359	1,350
Fluor	247	668	318	417	338	193	286
Corporate	24	158	29	116	45	14	36
Subtotal	2,885	10,533	4,253	6,732	3,551	2,513	4,875
TOTAL	17,671			17,671			

TALENT MODEL

The Talent Model is the framework of our people management approach which establishes the behaviors of excellence that each employee is required to demonstrate to positively impact the business results.

HUMAN RESOURCES STRATEGIES

We enhance human capital by promoting diversity, inclusion and commitment, providing equal opportunities for professional growth for all our employees, and developing capabilities, skills and experiences.

It is our priority to ensure that our people strategy is integrated in the business and sustainability strategies.

Our HR strategy is updated annually to ensure its alignment with the business needs and it is composed of six pillars:

- **Become a high performing organization**
- **Ensure Mexichem organization has the right capabilities, knowledge and skills**
- **Ensure a strong Corporate Governance & Compliance Culture**
- **Share Value Creation with the communities in which we operate**
- **Create a talent development platform to support the business growth**
- **Build an engaged and energized organization, committed to Mexichem goals, values and purpose**

CULTURE

GRI 103-1
GRI 103-2
GRI 103-3

The geographic expansion of the business, new acquisitions and vertically integrated business model make a unified corporate culture essential to meet our strategic goals.

The way we work is based on our commitment to corporate values and the Code of Ethics. We promote the involvement of employees and implement various programs that aim to create a culture of collaboration and efficiency among the different Business Groups and regions.

In 2017, we launched globally our Human Resources model to create synergies between regions and businesses, drive the implementation of the strategy in a centralized manner and ensure alignment with commercial and regional priorities through the creation of Centers of Expertise, Business Partners and Regional Human Resources Heads.

We centralized the people processes by implementing **M'People**, a global platform based on Success Factors, which standardizes key human capital processes such as employee administration, recruitment, performance, compensation, learning, succession and development.

In 2017, the M'People platform was extended to **65% of our employees.**
We aim to have 100% implementation by mid-2018.

GRI 404-2

We focus on a culture of continuous improvement and talent development for our employees, that is why we have in place initiatives and programs focused on training and performance.

PERFORMANCE MANAGEMENT

We promote a high-performance culture that not only has an impact on the company's financial results but also guarantees the professional development of our employees. We have developed a global performance management process that will allow us to measure the individual contributions of employees using the same parameters across operations and to ensure that the individual goals are aligned to the company goals.

100% OF EMPLOYEES IN PROFESSIONAL POSITIONS USE AN ALIGNED PERFORMANCE PROCESS

SEMILLAS

Our internal talent development program continues to create value for our organization. The program seeks to develop skills and experiences in internal key talent during a period of 12 months through rotations in different countries and businesses.

A TOTAL OF 28 EMPLOYEES HAVE GRADUATED FROM THIS PROGRAM SINCE ITS IMPLEMENTATION

GRI 404-1

TRAINING AND PERFORMANCE

	2016	2017
Total investment in training	$2.5 million	$2.6 million
Total hours of training	318,225	364,573
Number of employees receiving performance evaluations	14,162	11,696

TALENT PLANNING

To guarantee the continuity of our business, leaders around the world are involved in a yearly process to identify key talent, critical positions and their potential replacements. With the active participation and involvement of our global top management the required actions are defined to strenghten our talent pools.

100% OF EXECUTIVE LEVELS IN ALL BUSINESSES AND REGIONS ARE PART OF THIS PROCESS

DEVELOPMENT PROGRAMS FOR LEADERS

The following programs have been established to strengthen the capabilities and competencies of our leaders in partnership with prestigious business schools in the United States:

- Leadership and Business Development Program: Currently, 29 leaders are in the first cohort of this program, which will continue in 2018 and 2019.
- New Leaders Program. This program focuses on developing the basic skills of recently promoted managers. To date, 83 employees have participated in the program.
- Leading with Finance. Through this program we train our executives on the principles needed to make high-impact financial decisions. To date, 45 employees have participated in this program.

DIVERSITY

GRI 103-1
GRI 103-2

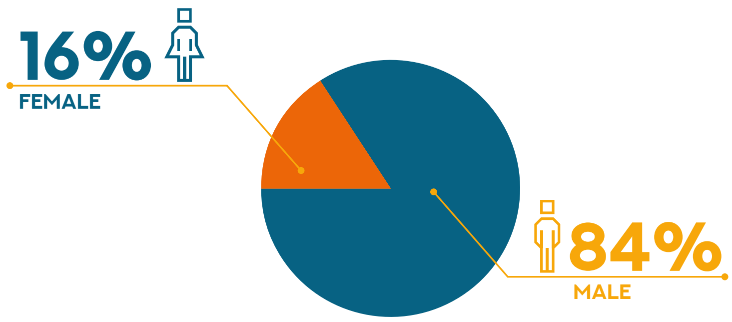
Diversity enhances our ability to create value. Our success largely depends on our ability to collaborate, share and work together in a diverse and inclusive environment that allows us to promote critical thinking, creativity and an exchange of ideas.

GRI 103-3

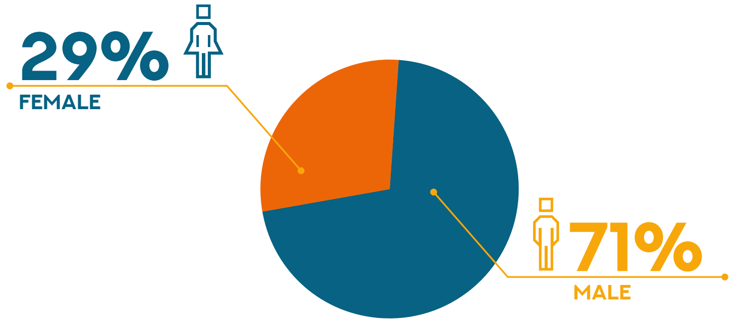
In 2017, we conducted a global survey with our leaders to understand their perceptions of diversity and inclusion. We have built a strategy for the following three years based on the results, which initially prioritize gender diversity as the first step to a diversity and inclusion culture. These actions let us move forward with a clear path to become a global organization that achieves results through its people.

In the following years we aim to increase the number of women in leadership positions and guarantee the salary equity.

% OF FEMALE AND MALE IN UPPER-MANAGEMENT POSITIONS

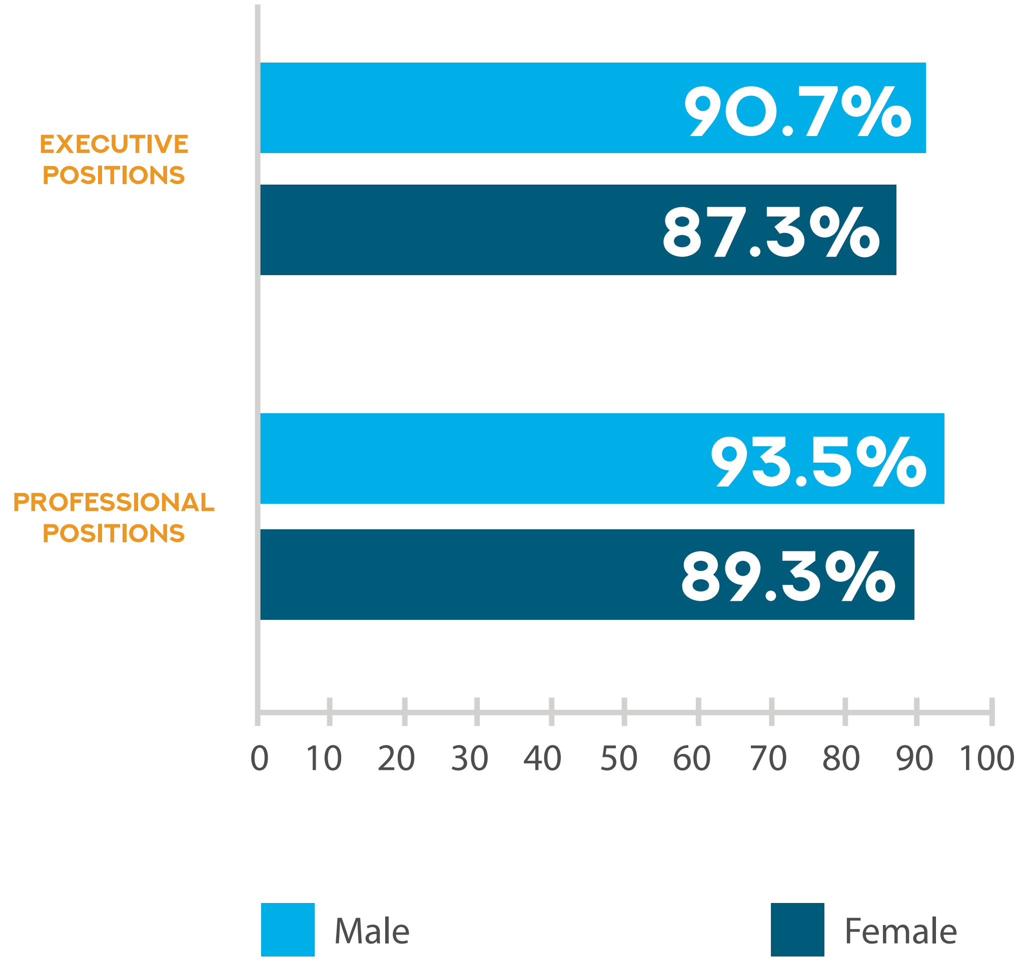


% OF FEMALE AND MALE IN PROFESSIONAL POSITIONS



For each company level, salaries are located in a range aligned to the average market value between 80% and 120%.

POSITION OF OUR SALARIES WITHIN THE MARKET SALARY RANGE

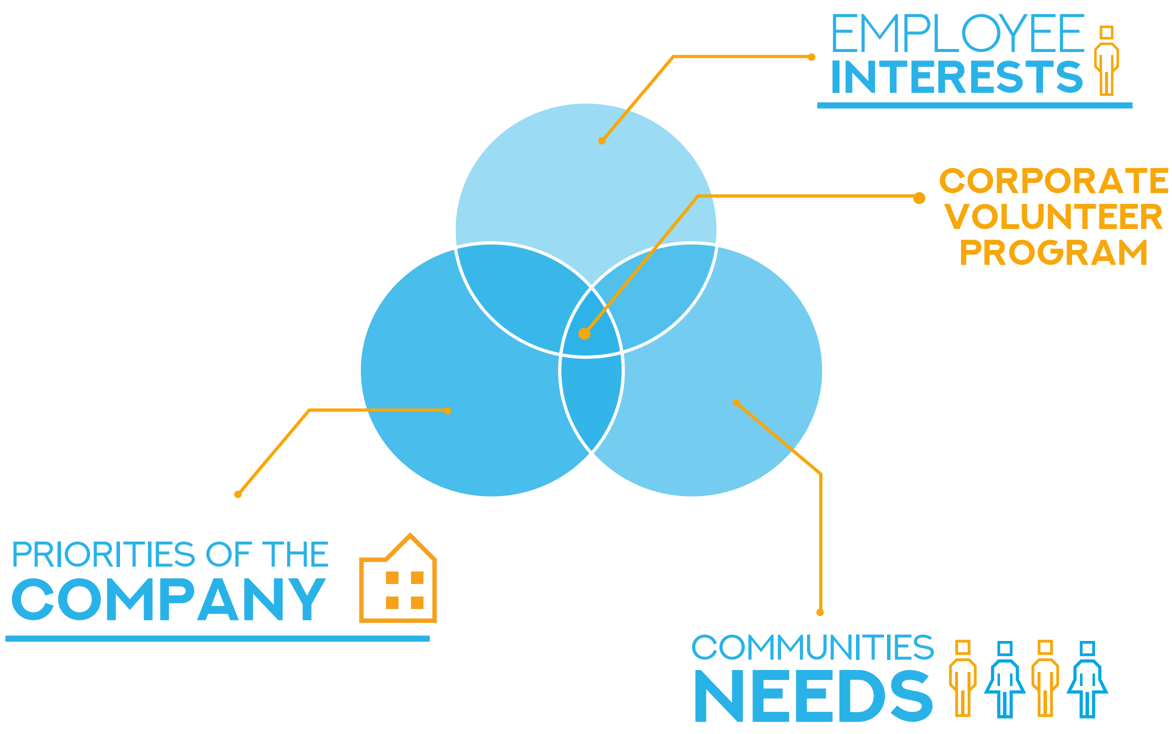


VOLUNTEERING

GRI 103-1
GRI 103-2
GRI 103-3

Our Corporate Volunteering Program aims to build employee engagement, improve our work environment and enable innovation while supporting communities.

The program is based on **Mexichem's corporate guidelines** and seeks to implement strategic, innovative, high-impact, sustainable and repeatable actions that satisfy the needs of the company, our employees and the community.



* Beneficiary figures correspond to direct beneficiaries

VOLUNTEER ACTIONS

MANAGEMENT LEVEL APPLIED

PHILANTHROPIC ACTIONS

Mexichem provides humanitarian and social assistance for vulnerable groups in locations where we operate, often through alliances with a local NGO.

EXAMPLES

- Donations
- Support for disaster victims
- End-of-year activities

EVENTS

Single day events where volunteers help out with a selected cause.

EXAMPLES

- Project Hydros
- +Km
- Reforestation and cleaning of beaches

ABILITY INITIATIVES

Initiatives based on the talent and abilities of volunteers to support a specific community.

EXAMPLES

- Plumbing courses
- Pipe installation courses
- Entrepreneurship, safety or environmental workshops

SOCIAL INVESTMENT

Response to a social problem identified by the employees, who design the intervention and summon other volunteers to execute it.

EXAMPLES

- Kaluz Foundation Award
- Ceibo Renacer project
- Water Funds
- Moradigna Project in Brazil

COMMITMENT LEVEL

In 2017, Mexichem employees participated in **12,380 volunteer actions**, including philanthropic actions, events, ability development and social investment initiatives.

VOLUNTEER PROGRAM / ACTION	NUMBER OF PARTICIPANTS IN VOLUNTEERING
+Km	2,315
Victims of earthquake in Mexico	2,720
Victims in Peru	1,403
Victims in Mocoa and Corinto (Colombia)	722
Year end activities	1,876
Hydros Project	113
Kaluz Award	190
Victims of Hurricane Harvey (United States)	29
Other actions	3,012
TOTAL	**12,380**


PAVCO

PHILANTHROPIC ACTIONS

DONATIONS

In 2017, donations made by our employees supported communities in countries where we have a presence and where natural disasters occurred. Mexichem matched all contributions made by employees. For the post-earthquake campaign in Mexico, donations were also matched by the Kaluz Foundation.

WE RECEIVED
4,874 DONATIONS FROM VOLUNTEERS
to support victims of natural disasters that occurred during the year

MEXICO
(Global collection)

PERU
(Regional collection)

UNITED STATES
(Local collection)

COLOMBIA
(Local collection)

OUR EMPLOYEES COLLECTED
A TOTAL OF $62,249

YEAR END ACTIVITIES

1,876 volunteers from **39 Mexichem** sites participated in different end-of-year activities in communities worldwide, benefitting **3,209 people.**

VOLUNTEERING AT EVENTS

+Km

The +Km program allows Mexichem employees to support social projects through sports. For each kilometer travelled in any athletic, cycling or swimming competition by an employee, Mexichem donates one dollar to a selected social cause.

In 2017, we delivered basic goods kits to Mexichem employees and their families in Venezuela, benefitting more than 517 people, with a contribution of **$77,763 by Mexichem** (2016 and 2017).

THIS YEAR WE LOGGED
54,390 Km
WITH THE INVOLVEMENT OF
2,315 EMPLOYEES AND 1,416 FAMILY
AND NEIGHBORING COMMUNITY MEMBERS AND CUSTOMERS

TOTAL PARTICIPATION:
3,731 PEOPLE FROM 54 SITES
IN 22 COUNTRIES

PROJECT HYDROS

In 2017, 26 sites in nine countries in Latam participated in Project Hydros, which creates awareness regarding the responsible use of water, in schools and communities near our operations.

TODAY, HYDROS ACTS IN THREE AREAS:

INTERNAL CULTURE

Build a culture of care for water resources within the Group by creating awareness.

- **Awareness:** Internal campaigns carried out in March, June and September
- **Education:** Workshops for personnel and their families
- **Contests:** For personnel and Water Ambassadors
- **Recognition:** Reinforcement of the employee and Water Ambassador actions

CONNECTING WITH THE COMMUNITY

Positively impact communities by caring for water resources and responsibly using water.

- **Awareness:** External campaigns
- **Education:** Workshops for schools, customers, suppliers and communities
- **Social innovation:** Innovative solutions for water using Mexichem products

VALUE FOR THE BUSINESS

Create value for the business through efficient water management and the creation of innovative solutions for responsible water use through our products.

- **Social innovation:** Innovative solutions for water Mexichem products
- **Commercial:** Connecting Project Hydros with commercial brands
- **Reputation:** Connecting Project Hydros with the institutional brand

PROYECTO Hydros

In **2017**, our Water Ambassadors visited **72 schools** and reached **249,760 people** in total.

VOLUNTEERING BASED ON ABILITIES

Training and Strengthening Program for Plumbers

At Mexichem, we recognize the importance of the role performed by gas-fitters and plumbers in the construction industry. We developed quality training programs for different skill levels to help improve job performance, improve the safety of installations and generate awareness around caring for water.

This program is carried out in Ecuador, Peru, Brazil, Colombia and Turkey. Through partnerships and strategies adapted to each country, we provide information and certification to participants. In 2017, more than 14,000 people benefitted from this program.

TOTAL INVESTMENT

$352,522

BENEFICIARIES

14,702

COMMUNITY

CHAPTER 7

We are firmly committed to creating value in the communities where we are present. We aim to advance well-being, economic opportunities and capacities in line with the UN Sustainable Development Goals (SDGs), our strategic priorities and corporate values.

* All beneficiary figures in this report correspond to direct beneficiaries

COMMUNITY RELATIONSHIPS

GRI 103-1
GRI 103-2
GRI 103-3

We seek to be a good neighbor and to effectively manage the risks and impacts that arise from our corporate activities. We have **Corporate Guidelines for Community Relations and Social Investment Projects** in which we establish general guidelines, responsibilities and criteria for interventions.

COMPLAINTS AND SUGGESTIONS

In 2017, we developed a **Guide** for complaints and suggestions in neighboring communities, through which we seek to address grievances in a timely manner, manage community relationships, enhance innovation and build trust.

SOCIAL INVESTMENT

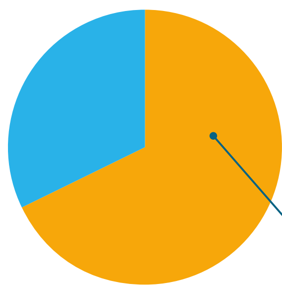
GRI 103-1
GRI 103-2
GRI 103-3
GRI 203-1
GRI 413-1

As part of our commitment to the community, we invest in and assign economic resources to projects that create social, environmental and economic value for neighboring communities.

IN 2017, TOTAL INVESTMENT WAS **$1,690,618** BENEFITING **342,212 PEOPLE***, WITH **12,380 VOLUNTEER ACTIONS**

IN 2017
83 MEXICHEM SITES
IN 31 OF 37 COUNTRIES

(representing **68% OF OUR OPERATIONS**) participated in social responsibility programs, projects and activities.



Mexichem participated in the Kaluz Foundation Award (2015-16) through 31 social intervention projects. A total of 30 projects obtained financing worth $174,000 and are currently being implemented.

* Beneficiary figures correspond to direct beneficiaries

“INNOVATIVE PEOPLE WITH SOCIAL IMPACT”

CEIBO RENACER PROJECT – MANTA, ECUADOR

After the April 16, 2016 earthquake in Ecuador, Mexichem organized a worldwide fundraising drive among employees, who together collected more than $30,000 to be used for aid efforts. Both Mexichem and the Kaluz Foundation matched that number, making for a total of more than $90,000, which was administered by Mexichem in Ecuador.

The donation supported the implementation of a project in 2017 to install drinking water and sewerage services for 305 families in the city of Manta. Mexichem engineers also drew up plans and helped install the fresh water, drainage and sewerage systems all free of charge. More than 1,000 people benefited from this initiative, the majority of whom had been displaced by the disaster. Mexichem systems used were of high quality and have a useful life of more than 50 years. This project was implemented in partnership with CARE Foundation and Empresa Pública Aguas de Manta (EPAM).

$30,300 COLLECTED FROM 2,322 DONORS
TOTAL: $90,900 THANKS TO CONTRIBUTIONS FROM MEXICHEM AND KALUZ FOUNDATION.

WATCH VIDEO

WATER FUNDS

Water Funds are financial, governance and management mechanisms that integrate relevant players in a basin to promote the hydrological security of the region through preservation actions that maximize filtration, reduce sediments and other contaminants and help improve the quality of the water supply.

This initiative is led by The Nature Conservancy (TNC) and is focused on Latin America. Our operations in Mexico, Peru, Ecuador and Colombia participate in this initiative.

TOTAL INVESTMENT OF

$166,143

AGUA CAPITAL - MEXICO CITY WATER FUND

Mexichem is a founding partner of “Agua Capital”, the Water Fund for Mexico City, a collective cooperation platform to strengthen hydrological security with an emphasis on green infrastructure. The platform seeks to convene national and international players from all sectors, to dialogue and collaborate around innovative approaches for water security.

The organization has identified five main challenges for hydrological security and a strategic plan to address them: overexploitation and subsidence, operational and administrative inefficiencies, floods, insufficient supply and sanitation networks and residual waters.

LOCAL ECONOMIC DEVELOPMENT

GRI 103-1
GRI 103-2
GRI 103-3

We aim to leverage our company's growth to spark economic opportunities and advance local economic development.

PROJECT MULATA

In order to strengthen the production capacities of vulnerable populations, we developed the Mulata project in our operations in Cauca, Colombia with the support of the ANDI (National Business Association of Colombia).

Mulata is a group of women, the majority of whom are afro-descendants and single mothers, who make uniforms for the different plants located in Guachene. 15 women work in this initiative, benefiting approximately 60 people, including their families. The operation has expanded and strengthened its production capacity, allowing them to compete in the textile sector and get hired by a greater number of companies. In 2017, Mexichem acquired 5,792 units from this project for an amount of $55,113, an increase of 22% compared to the prior year.

MULATA PROJECT
CAUCA, COLOMBIA
15 WOMEN WORK IN THE PROJECT, THE MAJORITY OF WHOM ARE AFRO-DESCENDANTS AND **SINGLE MOTHERS.**

WATCH VIDEO

PRODUCTS & SOLUTIONS

CHAPTER 8

Our ambition has always been to develop products that benefit society. Through relentless innovation and responsible product stewardship we provide solutions to solve some of the world's biggest challenges.

OUR PRODUCTS CONTRIBUTE TO SUSTAINABILITY

GRI 103-1

Mexichem produces and markets a wide range of materials, products and solutions that respond to pressing global environmental and demographic trends, and enable our clients to manage water more effectively, irrigate crops, increase energy efficiency, develop sustainable infrastructure and accelerate digitalization to connect the world.

We take our place in a changing global landscape with a sense of pride in what we have accomplished and a belief in our ability to rise to the collective challenges that await us - including the achievement of the UN Global Goals / SDGs by 2030.

WATER MANAGEMENT

GRI 103-2
GRI 103-3

We seek to facilitate equitable access to water resources and promote best practices for water use by efficiently managing water consumption in our operations, offering drinking water conduction systems, sewage solutions, products that leverage rainwater and intelligent irrigation solutions.

Our innovations have helped us design Urban Drainage Systems that manage excess water runoff in cities caused by waterproof surfaces and urban growth. These systems are used to help cities with growing populations adapt to climate change.

DRAINAGE SYSTEM

MEXICHEM CONTRIBUTES TO SUSTAINABLE URBAN DESIGN IN WOLFSBURG

In northern Germany, the city of Wolfsburg is in the process of redeveloping an urban area of around 750 houses in the district of Hellwinkel. One of the critical issues is flood protection, as each year storms have been increasing in number and intensity. Mexichem Fluent Europe supported the design of a rainwater management system using Q-Bic Plus® attenuation tanks to store excess water underground and Wavin X-Stream® pipes to direct excess water to the city's sewerage system through chambers and controlled flows, preventing flooding. Today, inhabitants of these neighborhoods can rest comfortably, knowing that they are safe from the potential dangers of strong rains.

DRAINAGE SYSTEMS FOR THE PARQUE LA COLINA MALL IN BOGOTA, COLOMBIA

The project focused on the development of a rainwater capture and re-utilization system for the mall. The system prevented flooding and reduced the quantity of water used in the discharge of sanitary equipment at the mall by up to 40%. The project was made possible thanks to the partnership between Mexichem, Parque Arauco and Constructora Colpatria.

The project required a technical, operational and human investment of approximately $125,000 and 2,200 m^3 capacity Aquacell® tanks coated with nonwoven geo-textiles and high-density polyethylene geogrids were used, which receive rainwater from roofing downdrafts and from infiltration through the park's green zones. During the first three months of the system's operation, 1,119 m^3 of rainwater were treated, which equate to 233,125 sanitary discharges of 4.8 liters per discharge.

AGRICULTURAL PRODUCTIVITY

Irrigation solutions offered by Mexichem include the exploration and extraction from new water sources. As a complement to these systems, we also work to adjust our geo-systems to work as temporary storage bodies, controlling floods and droughts.

In 2018, the integration with Netafim will allow us to expand Mexichem's value chain by incorporating leading edge agricultural technical services and irrigation systems to do more with less.

SUSTAINABLE CONSTRUCTION & INFRASTRUCTURE

Our PVC and pipe systems products that we derive from vinyl polychloride or polyethylene resins, are widely used in construction.

PVC products contribute to improved performance of buildings in several sustainability criteria such as economy of materials and energy, interior air quality, reduction of residues and recycling, among others.

ENERGY EFFICIENCY

Although we derive many benefits and savings from our strong commitment to internal environmental management, it is also important to highlight the environmental benefits that our products provide to our customers and users.

Mexichem's Fluor Business Group markets the mineral fluorite, extracted from the company's mines, to the steel and cement industries. The use of fluorite lowers the fusion temperature of the materials processed in these industries, significantly reducing energy consumption and emissions of customers in these sectors.

DESIGN & INNOVATION

GRI 103-1
GRI 103-2
GRI 103-3

At Mexichem we recognize the importance of innovation to guarantee our future growth, maintain our position as industry leaders and open new markets. We design new processes and products that provide improvements in performance and use for the benefit of our customers.

Traditionally, the main source of innovation at Mexichem has been the acquisition of new companies and technologies. However, the innovation performed and promoted within the organization is also significant and has led to advances in customized product innovation for customers in the construction, services, civil infrastructure, water conduction, basic sanitation, transport, energy and telecommunications industries.

Mexichem has a Technology Committee led by Fluent Europe with synergies with Fluent Latam. The R&D (Research and Development) centers focused on satisfying the global market served by Mexichem and transferring technology from Europe to Latin America. The result was the creation of unified global solutions and the implementation of technological changes in manufacturing processes.

15 R&D LABORATORIES

FLUENT
4

VINYL
8

FLUOR
3

INVESTMENT IN **RESEARCH & DEVELOPMENT** WAS $25 MILLION **IN 2017**

INNOVATION IN ROAD DEVELOPMENT BASED ON PLASTIC RESIDUES COLLECTED FROM THE OCEAN

In the Netherlands, Mexichem Fluent established a partnership with the company KWS, a subsidiary of VolkerWessels, to develop the innovative system called Plastic Road®, as an alternative to traditional asphalt roads. This system responds to the challenges that cities and urban areas face in regards to road erosion, CO_2 emissions and road maintenance and repair, among others.

The Plastic Road® concept aims to build the first road made entirely from recycled plastics collected from the oceans, converting them into light-weight modules whose interior cavities can harbor cables and pipes, as well as drain excess water. These premanufactured units are designed to be easy to transport, install and maintain. Additionally, they favor energy generation, reduction in road-related noise, will be more resistant to corrosion and will endure temperatures between -40°c and 80°c.

Although the Plastic Road® concept still requires tests and experiments to assess its behavior under different scenarios, this is a first step in the creation of roads with a better environmental footprint and that are easily recyclable at the end of their useful lives, contributing to the circular economy and environmental protection.

PROPELLANTS

We are working on the development of a new generation of propellants with reduced greenhouse effects. We aim to roll-out products leveraging our new intellectual property developments over the next 5 years and are committed to continue in this journey.

SAFE HANDLING OF HAZARDOUS MATERIALS

GRI 103-1
GRI 103-2
GRI 103-3

Mexichem promotes the reduction, replacement, or elimination of hazardous materials to the extent that science and markets allow it. We offer our customers and employees all the information necessary to enable them to understand the safe handling conditions of the substances we utilize with the goal of preventing any damage to health and the environment.

Mexichem supports the Strategic Approach for International Chemical Management (SAICM) of the United Nations Environmental Program (UNEP), whose goal is that: “by 2020, chemicals are used and produced in ways that lead to the minimization of significant adverse effects on human health and the environment.”

Mexichem complies with the Registration, Evaluation, Authorization of Chemicals (REACH) requirements for all substances produced or imported through the subsidiaries in the Fluor and Vinyl Business Groups.

ADDITIVES

Mexichem promotes the use of sustainable additives in its value chain through the disclosure of information. In addition, we participate in initiatives that seek to identify the criteria or methodologies for selecting substances that have a lesser impact, with a superior or equivalent performance.

PLASTICIZERS FOR PVC

We have developed an alternative product to DOP (dioctil ftalato), known as DOTP (dioctyl terephthalate), a non-phthalate plasticizer that offers good mechanical and permanence properties, contributes excellent flexibility and good dielectric conditions that are similar to those of DOP. We are prepared to offer this alternative to our customers in different markets.

These developments respond to the global context and concerns about DOP, which have placed on the world agenda the development of alternatives to it. For more information about the current status of the risk assessments and applicable regulations to phthalates, visit www.plasticisers.org/

PRODUCT TRANSPARENCY

GRI 103-1
GRI 103-2
GRI 103-3

We provide our stakeholders with complete and trustworthy information regarding the risks associated with the transformation, storage, transport, use and final disposal of our products. The availability of reliable information related to the risks and impacts of chemical substances and products is becoming increasingly relevant for customers and consumers

All our products meet the requirements established by a risk communication program that includes labeling and classification based on the Globally Harmonized System. The content of the labels and data safety information sheets are aligned with the laws and regulations of the countries where our products are sold.

We also provide technical help to customers to guarantee that safety measures are implemented correctly regarding storage, handling and processing of the product. Additionally, we maintain an open dialogue with our stakeholders to understand and respond to any concerns related to the safety of our products.

Our work is governed by different regulations and international standards to guarantee the correct dissemination of chemical substances:

OECD

The OECD actively seeks to harmonize the international classification of hazardous chemical products. The classification divides the chemical substances and mixtures into different categories by their physical properties and the risks they pose to health and the environment.

SAICM

The Strategic Approach for International Chemicals Management (SAICM) promotes the collection of information and development of systems for the transparent exchange of relevant data and information between stakeholders using a life cycle approach such as the implementation of the Globally Harmonized System for Classification and Labeling of Chemical Substances.

REACH (EU)

REACH is the European Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals. This initiative transfers the responsibility from public authorities to industry with respect to the evaluation and management of the risks presented by chemical products and the provision of adequate safety information for users.

BY YEAR-END **2017**

94 CERTIFIED OPERATIONS IN ISO 9001

IMPACTS OF THE PRODUCTS' LIFE CYCLE

GRI 103-1
GRI 103-2
GRI 103-3

We recognize the importance of identifying and managing the impacts of our products throughout their life cycles. The prevention, reduction and mitigation of these impacts are managed based on the practices established by Responsible Care®. Responsible Care® is the chemical manufacturing industry's environmental, health, safety and security performance initiative. Voluntary in nature, it includes the safe management of chemical products throughout their life cycle.

GRI 102-11

In keeping with these practices, we perform a toxicological evaluation of each new product that we develop to prevent potential negative effects on health and the environment both in the production process as well as in use. Mexichem adopted the precautionary principle for products aimed at the medical and food industries through the validation of new raw materials by the Food and Drug Administration (FDA): physiochemical, bioaccumulation, cytotoxicity, microbiological, melamine, melatonin, genetic and bioavailability tests.

Responsible Care®
OUR COMMITMENT TO SUSTAINABILITY

GRI 416-1

All our products are evaluated to identify opportunities for improvement in use and minimize the impacts on **human health and the environment.**

EVALUATION OF THE LIFE CYCLE OF MEXICHEM'S PVC RESINS

In 2017, we evaluated the life-cycle impacts of the PVC resins manufactured in the USA to understand in greater detail the environmental performance of our products and their manufacturing process. We intend to assess and implement improvement opportunities, collaborate with stakeholders in each value chain, and to provide precise information to customers who require it to make their purchasing decisions.

Environmental Declaration of Product (EDP)

Mexichem's Fluent Business Group in Europe has developed the "Environmental Declaration of Product" of some of its pipe references and makes it globally for its stakeholders. The declarations have been developed with the technical support of TEPPFA (The European Plastic Pipes and Fittings Association) and provide information about the environmental performance of pipes in all stages of their life cycle.

POST-INDUSTRIAL PVC RECYCLING

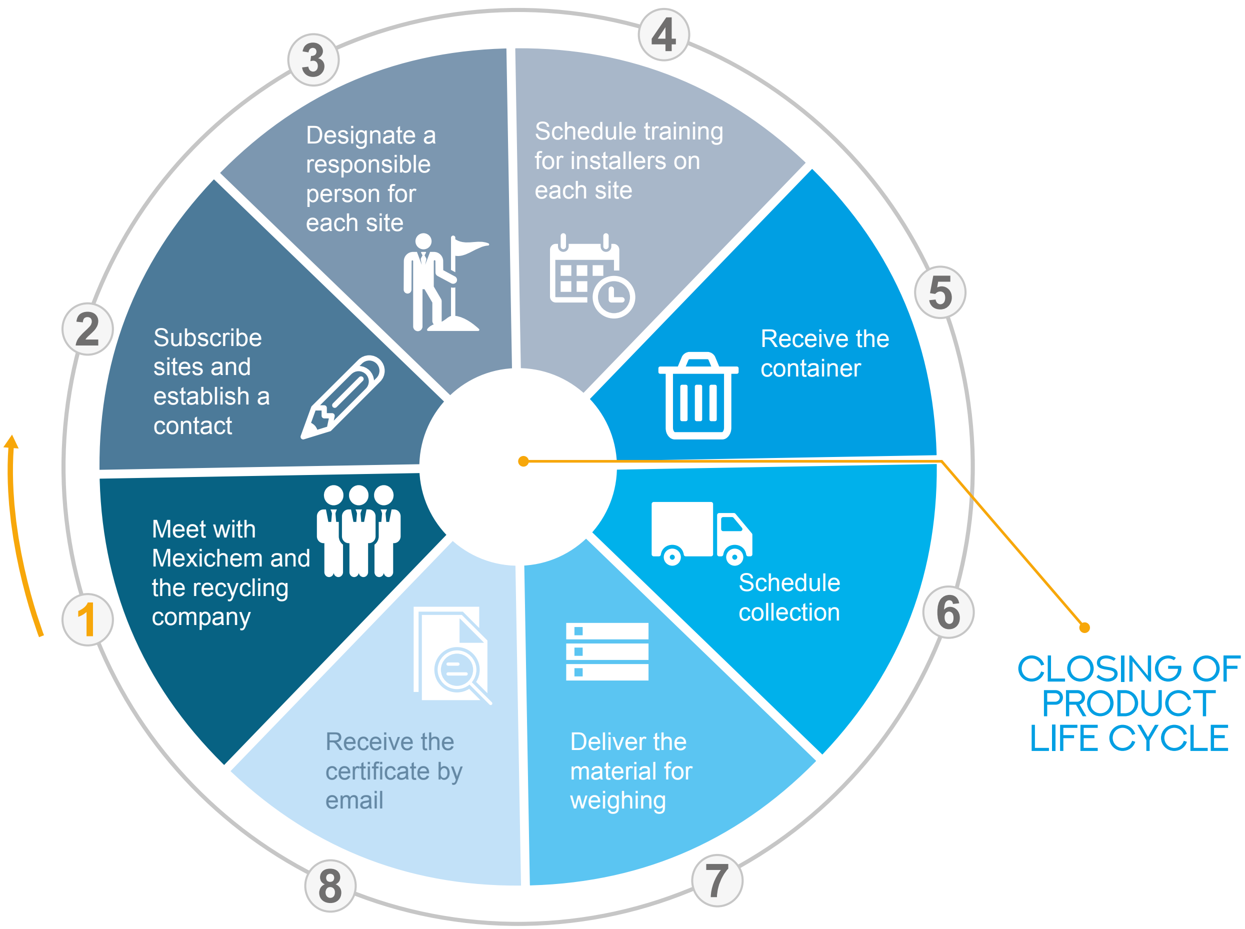
The utilization of PVC waste provides savings on virgin material and reduces costs. This reuse is part of our circular economy and how we manage the life cycle of our products.

VINYL PLUS ESTABLISHED **THE GOAL TO RECYCLE** **800,000 TONS OF PVC** PER YEAR BY 2020

The Vinyl Business Group in Europe is part of the European Council of Vinyl Manufacturers (ECVM) and of the **Vinyl Plus** initiative which establishes a long-term framework for the sustainability of the PVC value chain in that region. One of its objectives is the management of recycling residues of this material at the end of their useful life.

ADVANCES IN PVC RECYCLING IN LATIN AMERICA DRIVEN BY MEXICHEM

Since 2016, Mexichem's companies in Colombia have led the advancement of a PVC Recycling Program in this country, involving various members of the value chain. Through this initiative, the collection and recycling of post-industrial waste (originated in plants producing PVC items) and post-consumption waste (originating from the installation to the end of its useful life) such as the pipe and siding leftovers generated during construction works has been achieved. In 2017, **54.6 tons of waste were recovered in total.**



CHAPTER

9

ABOUT THIS REPORT

GRI 102-50
GRI 102-54

This report has been prepared in accordance with the GRI Standards: Core option and covers Mexichem's operations at a global level for the period between January 1st to December 31st of 2017.

STAKEHOLDERS ENGAGEMENT

GRI 102-40
GRI 102-42
GRI 102-43
GRI 102-44

STAKEHOLDERS	FOCUS OF THE ENGAGEMENT	ENGAGEMENT CHANNELS
Investors	Return on investment through constant and sustainable growth.	• Annual sustainability report • Quarterly reports • Meetings organized by financial intermediaries for institutional investors • Presentations for current and potential investors in North America, South America, Middle East and Europe, to present recent projects and news • Web page • Formal scheduled meetings (one on one) • Relevant notifications through the Mexican Stock Exchange and the National Securities Commission
Employees	Offer a work environment focused on developing their talent and recognizing their contributions.	• Dialogue with unions and safety committees • Intranet and web page, television screens, internal bulletins, wallpapers for computers, bulletin boards, cooperation means and digital communications (Yammer) • Meetings with employees • Surveys • Special suggestion boxes
Communities	Manage the relationships between the company and its neighboring communities for the creation of joint-action opportunities that favor sustainable development through the creation of shared value.	• Meetings with community leaders • Workshops with communities and local governments • Academic forums for businesses and communities • Meetings with non-profit organizations and multi-laterals • Survey on reputation with the communities • Socio-economic analysis in areas of influence

GRI 102-40
GRI 102-42
GRI 102-43
GRI 102-44

STAKEHOLDERS	FOCUS OF THE ENGAGEMENT	ENGAGEMENT CHANNELS
Customers	Quality and compliance, competitive prices, business leveraging, joint work in strategic matters for the sustainability of the value chain.	• Satisfaction surveys • One on one meetings with clients • Industry fairs and symposiums • Annual sales meetings • Digital portals • Joint cooperation projects
Suppliers	Long-term commercial partnerships that add efficiency to the vertical integration of chains, mutual support, timely payment and good treatment.	• Supplier evaluation systems • One on one meetings with suppliers • Industry fairs and symposiums • Digital portals • Joint cooperation projects
Governments	Establish trustworthy relationships based on legal compliance, ethics and respect for Human Rights, apart from supporting the development of projects that benefit society and drive economic and sustainable development.	• Public-private partnerships • Industrial guilds and associations • Discussion forums on sector and social policies • Government reviews and audits
Universities	Support research inititiatives, shared value creation and development of talent pipeline. Attraction of Talent	• Academic forums on innovation, technology and sustainable development • Specialized Research Centers • Academic Programs supported by Mexichem • Job fairs • Hiring program and professional practices

MATERIALITY ANALYSIS

GRI 102-46
GRI 102-47

At the beginning of 2016, Mexichem completed its first global materiality analysis through which it identified the most relevant aspects for stakeholders, based on their economic, social and environmental impacts. This process was performed in three phases and resulted in the definition of 19 material topics, which are not only the basis for the structure of the present report but were also used to define the company's sustainability strategy for 2020.

GRI 102-46

MATERIALITY PROCESS

PHASE	OBJECTIVE	ACTIVITIES	GRI PRINCIPLES APPLIED	RESULTS
Identification	Understand Mexichem's corporate and sectorial situation as well as the challenges being faced by the organization to identify a list of potentially relevant aspects for the company.	• Review of sustainability standards applicable to the sector • Review of existing norms and regulations • External reference of peer companies in the sector • Study of Mexichem's strategy and corporate documents • Mapping of communications media and positions of civil society • Review of survey results performed on stakeholders: customers, communities, investors	Sustainability context Stakeholder Inclusiveness	List of 49 potentially relevant topics
Prioritization	Weigh and prioritize the identified topics according to the impacts, risks and opportunities of the business.	• Interviews with Mexichem's Top Management • Grading of topics based on the frequency with which they occur in the different sources analyzed and the company's strategy	Materiality	21 topics prioritized and organized in 4 categories: Product, Operations, Talent and Community
Validation	Validate the exercise with Mexichem's internal stakeholders.	• Validation of preliminary results by Mexichem's Global Sustainability Council	Completeness	19 topics defined as material Structuring of the 2020 sustainability strategy

GRI 102-47

MATERIALITY

OPERATIONS	TALENT	COMMUNITY	PRODUCT
• Occupational health and safety • Transport of chemicals • Energy consumption • Reduction of emissions • Water management • Waste management • Biodiversity and protection of ecosystems	• Culture • Diversity • Volunteering	• Community relationship • Social investment • Local economic development • Accident prevention and response	• Sustainable use • Design and innovation (D&I) • Product transparency • Use of hazardous materials • Product stewardship

CORPORATE GOVERNANCE

ETHICAL BEHAVIOR & COMPLIANCE

VALUE CREATION

GRI 102-46

MATERIAL TOPICS & BOUNDARIES

MATERIAL TOPIC	WHY IS IT MATERIAL?	WHERE IS IT MATERIAL?	GRI TOPIC
Corporate governance	• Strategic relevance • Regulatory risk • Reputational risk • Concern/pressure from stakeholders (investors, governments, civil society) • Sustainability standards	• All the business units • All operation sites • All stages of the value chain	Governance
Ethical behavior and compliance	• Strategic relevance • Regulatory risk • Reputational risk • Concern/pressure from stakeholders (investors, governments, civil society) • Sustainability standards	• All the business units • All operation sites • All stages of the value chain	Ethics and integrity Anti-corruption
Value creation	• Strategic relevance • Economic return • Stakeholders expectations (investors, governments, civil society) • Sustainability standards	• All the business units • All operation sites • All stages of the value chain	Economic performance

GRI 102-46

MATERIAL TOPIC	WHY IS IT MATERIAL?	WHERE IS IT MATERIAL?	GRI TOPIC
Occupational health & safety	• Prevention of impacts on health or the environment • Regulatory risk • Concern/pressure from stakeholders • Sector trends • Sustainability standards	• All the business units • All operation sites • Stages of the value chain: Supply, production, distribution	Occupational health and safety
Transport of chemicals	• Prevention of impacts on health or the environment • Regulatory risk • Reputational risk	• All the business units • All operation sites • Stages of the value chain: Supply, production, distribution	-
Energy consumption	• Strategic relevance • Cost reduction • Reduction of environmental impacts • Stakeholder expectations (investors) • Sustainability standards	• All the business units • All operation sites • Stages of the value chain: Production	Energy
Reduction of emissions	• Strategic relevance • Cost reduction • Regulatory risk • Prevention of environmental impacts • Stakeholder expectations (investors, governments, civil society) • Sustainability standards	• All the business units • All operation sites • Stages of the value chain: Production	Emissions

GRI 102-46

MATERIAL TOPIC	WHY IS IT MATERIAL?	WHERE IS IT MATERIAL?	GRI TOPIC
Water management	• Strategic relevance • Regulatory risk • Reputational risk • Prevention of impacts on health and the environment • Stakeholder expectations (investors, governments, civil society) • Concern/pressure from stakeholders (NGOs activism) • Sustainability standards	• All business units: • Especially in Fluor (mines in Mexico) • All operation sites • Stages of the value chain: Production	Water
Waste management	• Strategic relevance • Regulatory risk • Prevention of impacts on health and the environment • Stakeholder expectations (investors, governments, civil society) • Sustainability standards	• All the business units • All operation sites • Stages of the value chain: Production	Effluents and waste
Biodiversity and protection of ecosystems	• Strategic relevance • Regulatory risk • Reputational risk • Prevention of impacts on health and the environment • Concern/pressure from stakeholders (NGOs activism) • Sustainability standard	• All business units: Especially in Fluor (mines in Mexico) • Operation sites: fluorite mines • Stages of the value chain: Supply and Production	Biodiversity

GRI 102-46

MATERIAL TOPIC	WHY IS IT MATERIAL?	WHERE IS IT MATERIAL?	GRI TOPIC
Culture	• Strategic relevance • Economic return	• All the business units • All operation sites • Stages of the value chain: Supply, Production and Distribution	-
Diversity	• Strategic relevance • Sustainability standards • Stakeholder expectations (investors)	• All the business units • All operation sites • Stages of the value chain: Supply, Production and Distribution	Diversity and equal opportunities
Volunteering	• Strategic relevance • Economic return	• All the business units • All operation sites • Stages of the value chain: Supply, Production and Distribution	-
Community relationships	• Strategic relevance • Reputational risk • Sustainability standards • Prevention of social or environmental impacts • Concern/pressure from stakeholders (communities)	• All business units • Operation sites: Latam, Africa and Asia • Stages of the value chain: Supply and Production	Local communities
Social investment	• Strategic relevance • Reputational risk • Sustainability standards • Economic return • Concern/pressure from stakeholders (communities) • Stakeholder expectations (investors, governments)	• All business units • Operation sites: Plants located in developing countries • Stages of the value chain: Supply and Production	Local communities Indirect economic impacts

GRI 102-46

MATERIAL TOPIC	WHY IS IT MATERIAL?	WHERE IS IT MATERIAL?	GRI TOPIC
Local economic development	• Strategic relevance • Reputational risk • Sustainability standards • Economic return • Stakeholder expectations (communities, governments)	• All business units • Operation sites: Latam, Africa and Asia • Stages of the value chain: Supply and Production	Local communities Indirect economic impacts
Accident prevention and response	• Regulatory risk • Reputational risk • Prevention of social or environmental impacts • Sustainability standards • Concern/pressure from stakeholders (investors, civil society)	• All the business units • All operation sites • Stages of the value chain: Supply, Production and Distribution	-
Sustainable use	• Strategic relevance • Economic return • Sustainability standards • Stakeholder expectations (customers)	• All the business units • All operation sites • Stages of the value chain: Production, Use and Post-Consumption	-
Product design and innovation	• Strategic relevance • Stakeholder expectations (customer and civil society) • Sector trends • Economic return	• All the business units • Operation sites: laboratories • Stages of the value chain: Supply and Production	-

GRI 102-46

MATERIAL TOPIC	WHY IS IT MATERIAL?	WHERE IS IT MATERIAL?	GRI TOPIC
Product transparency	• Concern/pressure from stakeholders • Regulatory risk • Social or sector trends • Sustainability standard	• All the business units • All operation sites • Stages of the value chain: Supply and Production	Marketing & Labeling
Use of hazardous materials	• Regulatory risk • Reputational risk • Prevention of health and environmental impacts • Concern/pressure from stakeholders (NGOs activism)	• All the business units • All operation sites • Stages of the value chain: Supply and Production	Customer's health and safety
Impacts on the life cycle	• Regulatory risk • Sector trends • Prevention of health and environmental impacts • Sustainability standards	• All the business units • All operation sites • All stages of the value chain	Customer's health and safety

CHAPTER

10

ANNEXES

ASSOCIATIONS AND EXTERNAL INITIATIVES

GRI 102-13

MEMBERSHIP OF ASSOCIATIONS

- Cámara Minera de México
- Asociación Nacional de la Industria Química (México)
- Comisión para la Promoción del Vinyl (PROVINILO)
- Comisión de la Industria del Plástico, Responsabilidad y Desarrollo Sustentable (CIPRES)
- Responsible Care
- Sistema de Emergencias en Transporte para la Industria Química (SETIQ)
- Escuela de Capacitación de Brigada de Emergencia (ECBE)
- Instituto de Investigaciones y Ensayos de Materiales (IDIEM)
- Acoplásticos Colombia
- Consejo Colombiano de la Construcción Sostenible
- Instituto Colombiano de Normas Técnicas (ICONTEC)
- Instituto do PVC Brasil
- The Vinyl Institute USA
- Iniciativa de la Industria Química para Mejorar la Salud, Seguridad y el Desarrollo Ambiental

GRI 102-12

EXTERNAL INITIATIVES

- The Chlorine Institute
- Green Building Council (Brasil)
- World Business Council For Sustainable Development (WBCSD)
- IQNet SR10, HACCP, KIWA ATA (Alemania)
- Sistema de Administración en Responsabilidad Integral otorgado por la Asociación Nacional de la Industria Química en México (SARI)
- NSF International
- Global Compact (Colombia and Brazil)

GRI 102-55

GRI CONTENT INDEX

GRI STANDARD	DISCLOSURE	PAGE NUMBER, URL OR COMMENT	OMISSION
GENERAL DISCLOSURES			
ORGANIZATIONAL PROFILE			
GRI 102: General Disclosures	102-1 Name of the organization	Mexichem, S.A.B. de C.V	
	102-2 Activities, brands, products and services	Page 11, 16	
	102-3 Location of headquarters	Mexichem headquarters are located in: Río San Javier No. 10, Fraccionamiento Viveros del Río, Tlalnepantla, Estado de México. México. C.P. 54060.	
	102-4 Location of operations	Page 15	
	102-5 Ownership and legal form	Mexichem is a public stock corporation with variable capital (S.A.B. de C.V.).	
	102-6 Markets served	Page 16	
	102-7 Scale of the organization	Page 12, 63	
	102-8 Information on employees and other workers	At the end of 2017 Mexichem had 282 part-time employees and 513 temporary employees. Page 63, 64	
	102-9 Supply chain	Page 20	
	102-10 Significant changes to the organization and its supply chain	There were no significant changes in the organization and its supply chain.	
	102-11 Precautionary Principle or approach	Page 99	
	102-12 External initiatives	Page 115	
	102-13 Membership of associations	Page 115	

GRI STANDARD	DISCLOSURE	PAGE NUMBER, URL OR COMMENT	OMISSION
GENERAL DISCLOSURES			
	STRATEGY		
GRI 102: General Disclosures	102-14 Statement from senior decision-maker	Page 4 - 8	
	ETHICS AND INTEGRITY		
	102-16 Values, principles, standards and norms of behavior	Page 40	
	102-17 Mechanisms for advice and concerns about ethics	Page 41	
	GOVERNANCE		
	102-18 Governance structure	Page 42	
	102-22 Composition of the highest governance body and its committees	Page 42, 43	
	STAKEHOLDER ENGAGEMENT		
	102-40 List of stakeholder groups	Page 103 - 104	
	102-41 Collective bargaining agreements	8,157 workers are covered by collective bargaining agreements (46% of employees).	
	102-42 Identifying and selecting stakeholders	Page 103 - 104	
	102-43 Approach to stakeholder engagement	Page 103 - 104	
	102-44 Key topics and concerns raised	The relevant issues identified for the relationship with stakeholders are disclosed in the column “focus of the relationship with stakeholders” (Page 103-104).	

GRI STANDARD	DISCLOSURE	PAGE NUMBER, URL OR COMMENT	OMISSION
GENERAL DISCLOSURES			
	REPORTING PRACTICE		
	102-45 Entities included in the consolidated financial statements	This report covers all of Mexichem's operating sites in the three Business Groups. Commercial offices and joint ventures are excluded.	
	102-46 Defining report content and topic Boundaries	Page 105, 106, 108 - 113	
	102-47 List of material topics	Page 107	
GRI 102: General Disclosures	102-48 Restatements of information	There were no significant changes that affect the comparability of the information reported or that require the restatement of information in previous reports. 2016 data excludes the PMV accident.	
	102-49 Changes in reporting	There were no significant changes that affect the comparability of the information reported or that require the restatement of information in previous reports.	
	102-50 Reporting period	Page 103	
	102-51 Date of most recent report	Abr-17	
	102-52 Reporting cycle	Annual	
	102-53 Contact point for questions regarding the report	Enrique Domínguez Cuevas Global Sustainability Director sustainabilitySDR@mexichem.com Berenice Muñoz Jalpa Investor Relations Director financeSDR@mexichem.com	
	102-54 Claims of reporting in accordance with the GRI Standards	Page 103	
	102-55 GRI content index	Page 116	
	102-56 External assurance	This report has been externally assured by Deloitte.	

GRI CONTENT INDEX

GRI STANDARD	DISCLOSURE	PAGE NUMBER, URL OR COMMENT	OMISSION
MATERIAL TOPICS			
ECONOMIC PERFORMANCE			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 31, 108	
GRI 201: Economic Performance	201-2 Financial implications and other risks and opportunities due to climate change	Sustainability Report 2016 Pagee. 82 http://www.mexichem.com/sustainability/documents-center/#sustainability-reports.	
INDIRECT ECONOMIC IMPACTS			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 82, 111	
GRI 203: Indirect Economic Impacts	203-1 Infrastructure investments and services supported.	Page 82 - 85	
ANTI-CORRUPTION			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 40, 41, 108	
GRI 205: Anti-corruption	205-2 Communication and training about anti-corruption policies and procedures	Communication and training on anti-corruption policies and procedures is carried out through the Compliance program. 100% of employees were notified of anti-corruption policies in previous years. In 2017, 11% of the workers were trained in the new Compliance program, we expect to complete 100% in 2018. There is no information breakdown by sex, region and employee category.	

GRI STANDARD	DISCLOSURE	PAGE NUMBER, URL OR COMMENT	OMISSION
MATERIAL TOPICS			
ENERGY			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 52, 109	
GRI 302: Energy	302-1 Energy consumption within the organization	Page 53 The information is not available in joules or multiples of joules. It is reported in Gcal.	
	302-3 Energy intensity	Page 54	
	302-4 Reduction of energy consumption	Page 53	
WATER			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 56, 110	
GRI 303: Water	303-1 Water withdrawal by source	Page 57	
	303-3 Water recycled and reused	Page 58	
BIODIVERSITY			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 61, 111	
GRI 304: Biodiversity	304-2 Significant impacts of activities, products and services on biodiversity	Page 61	
	304-3 Habitats protected or restored	Mexichem does not have protected areas within its facilities.	
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	Sustainability Report 2016 Pagee. 81 http://www.mexichem.com/sustainability/documents-center/#sustainability-reports.	

GRI STANDARD	DISCLOSURE	PAGE NUMBER, URL OR COMMENT	OMISSION
MATERIAL TOPICS			
EMISSIONS			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 54, 110	
GRI 305: Emissions	305-1 Direct (Scope 1) GHG emissions	Page 54	
	305-2 Energy indirect (Scope 2) GHG emissions	Page 54	
	305-4 GHG emissions intensity	Page 55	
	305-5 Reduction of GHG emissions	Page 54	
	305-6 Emissions of ozone-depleting substances (ODS)	Page 55	
	305-7 Nitrogen oxides (NOX), sulfur oxides (SOX) and other significant air emissions	Page 55 Mexichem does not emit persistent organic pollutants, hazardous air pollutants or particles.	
EFFLUENTS AND WASTE			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 59, 110	
GRI 306:Effluents and Waste	306-1 Water discharge by quality and destination	Page 58	
	306-2 Waste by type and disposal method	Page 60	
	306-3 Significant spills	There were no significant spills in the reporting period.	
	306-5 Water bodies affected by water discharges and/or runof	There are no water bodies affected by the discharges of wastewater from the operations of Mexichem since, within the operation zones of the mining units, water management is carried out in a closed cycle.	

GRI STANDARD	DISCLOSURE	PAGE NUMBER, URL OR COMMENT	OMISSION
MATERIAL TOPICS			
ENVIRONMENTAL COMPLIANCE			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 52 - 61	
GRI 307: Environmental Compliance	307-1 Non-compliance with environmental laws and regulations	There were no fines or significant sanctions during the reporting period related to environmental regulations.	
OCCUPATIONAL HEALTH AND SAFETY			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 46, 47, 109	
GRI 403: Occupational Health and Safety	403-1 Workers representation in formal joint management–worker health and safety committees	All our employees -both individual and collective contract- are represented in the Occupational Health and Safety Committees.	
	403-2 Types of injury and rates of injury, occupational diseases, lost days and absenteeism and number of work-related fatalities	Page 48 Mexichem does not have the information to report the absenteeism rate or the breakdown of the information by sex and region for reasons of confidentiality in some of its operations. Lost Time Cases of PMV - VCM Ethylene are not included.	

	RECORDABLE CASES (#)	LOST TIME CASES (#)	OCCUPATIONAL DISEASES (#)	FATALITIES (#)
Fluent	266	63	5	1*
Vinyl	38	10	0	0
Fluor	25	22	0	0
Total	**329**	**95**	**5**	**1**

*The reported fatality occurred off-site, during travel.

GRI STANDARD	DISCLOSURE	PAGE NUMBER, URL OR COMMENT	OMISSION
MATERIAL TOPICS			
TRAINING AND EDUCATION			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 67, 111	
GRI 404:Training and Education	404-1 Average hours of training per year per employee	Page 68 Total number of hours are reported, there is no information broken down by gender and job category.	
	404-2 Programs for upgrading employee skills and transition assistance programs	Page 68	
DIVERSITY AND EQUAL OPPORTUNITY			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 69, 111	
GRI 405: Diversity and Equal Opportunity	405-1 Diversity of governance bodies and employees	Page 43, 69	
LOCAL COMMUNITIES			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 81, 82, 111	
GRI 413: Local Communities	413-1 Operations with local community engagement, impact assessments and development programs	Page 82	

GRI STANDARD	DISCLOSURE	PAGE NUMBER, URL OR COMMENT	OMISSION
MATERIAL TOPICS			
CUSTOMER HEALTH AND SAFETY			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 95, 99, 113	
GRI 416: Customer Health and Safety	416-1 Assessment of the health and safety impacts of product and service categories	Page 99 For additional information on our Fluor Business Group products visit our site http://www.mexichemfluor.com	
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	There were no significant cases of non-compliance during the reporting period related to health and safety impacts of of products and services.	
MARKETING AND LABELING			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 97, 113	
GRI 417: Marketing and Labeling	417-2 2 Incidents of non-compliance concerning product and service information and labeling	There were no significant cases of non-compliance during the reporting period related to the information and labeling of products and services.	

Deloitte.

Deloitte Sustentabilidad, S.C.
Av. Paseo de la Reforma No. 505, piso 28
Colonia Cuauhtémoc
06500 Ciudad de México
México

Tel: +52 (55) 5080 6000
www.deloitte.com/mx

Independent Assurance Report on the 2017 Sustainability Report to Mexichem, S.A.B. de C.V., to the Management of Mexichem

Responsibilities of Mexichem and independent reviewer

The elaboration of the 2017 Sustainability Report (2017 SR) for the year ended December 31st, 2017, as well as its content is responsibility of the Management of Mexichem, who is also responsible for defining, adapting and maintaining the management and internal control systems from which information is obtained, and which are also free of material misstatement due to fraud or error. Our responsibility is to issue an independent report based on the procedures applied during our review.

This report has been prepared exclusively for the Management of Mexichem in accordance with the terms of our agreement letter dated March 16th, 2018 and is not intended to be nor should it be used by someone other than this.

Scope of our work

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

We conducted our review of the 2017 SR under the following conditions and / or criteria:

a) The adaptation of the contents of the 2017 SR to the GRI Sustainability Reporting Standards (GRI Standards).
b) The review of the GRI Standards reported under the "in accordance Core option" specified in the GRI Content Index of the 2017 SR and according to the Materiality study provided by Mexichem.
c) The consistency of information contained in the 2017 SR with supporting evidence provided by the management.

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

Assurance standards and procedures

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

Our review work included the formulation of questions to the management as well as various areas of Mexichem that have participated in the elaboration of the 2017 SR and the application of certain analytical and sample screening tests that are described below:

a) Meetings with staff of Mexichem to learn the principles, systems and applied management approaches.
b) Analysis of the process to collect, validate and consolidate the data presented in the 2017 SR.
c) Analysis of scope, relevance and integrity of the information included in the 2017 SR in terms of the understanding of Mexichem and of the requirements that stakeholders have identified as material aspects.

d) Selected sample review from the evidence that supports the information included in the 2017 SR.
e) Onsite review of the disclosures in Coatzacoalcos facilities.
f) Quality assurance performed by an independent partner of the project that verifies consistency between this report and the agreement letter, as well as work process quality and deliverables.

The following table details the disclosures reviewed according to the GRI Sustainability Reporting Standards:

102-16	102-43	302-3	305-1	306-2
102-17	102-44	302-4	305-2	403-1
102-18	102-45	303-1	305-4	403-2
102-22	102-46	303-3	305-5	404-1
102-40	102-47	304-2	305-7	413-1
102-42	302-1	304-4	306-1	416-1

These disclosures were selected for the independent review in accordance with the following criteria:

a) Materiality of Mexichem referred in the 2017 SR.
b) Information included in the 2017 SR.

Conclusion

Based on our work described in this report, the procedures performed and the evidence obtained, nothing comes to our attention that could make us believe that the disclosures reviewed in the 2017 SR contains significant errors or has not been prepared under the "in accordance Core option" established in the GRI Sustainability Reporting Standards 101: Foundation. For those disclosures where Mexichem did not report in a quantitative way, qualitative information such as procedures, policies, evidence of the activities was reviewed.

Action alternatives

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

- Improve the management and validation process for those material topics for Mexichem and its business units.
- Enhance the reporting process of the quantitative disclosures in order to have a complete fulfillment according to the Global Reporting Initiative Guidelines.
- Define and document the criteria to measure beneficiaries (direct and indirect), number of volunteers and hours spent in social initiatives.

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

Rocio Canal G.

Rocio Canal Garrido
Chief Executive Officer
Deloitte Sustentabilidad, S.C.
Member of Deloitte Touche Tohmatsu Limited

April 19th, 2018

FINANCIAL STATEMENTS

MEXICHEM, S.A.B. DE C.V.

REPORT OF THE CHAIRMAN OF THE CORPORATE PRACTICES COMMITTEE TO THE BOARD OF DIRECTORS OF MEXICHEM, S.A.B. DE C.V. AND SUBSIDIARIES

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

This report has been presented to the Corporate Practices Committee of the Society, and has been validated in content, scope and conclusions to be submitted to the consideration and validation of the Board of Directors and the Annual Shareholders Meeting of Mexichem, S.A.B. de C.V. to be held in April 2018 as pursuant to Article 28, Section IV, paragraph a) of the Securities Market Act.

The Annual and the Extraordinary General Shareholders' Meeting of the Company held on April 25, 2017, under advice from the Board of Directors, ratified the undersigned as Chairman of the Corporate Practices Committee.

During the year being reported, the Committee met during the course of the year on the following dates: (i) April 25, 2017; (ii) July 25, 2017; (iv) October 24, 2017; (v) February 20, 2018.

All meetings have been attended by the CEO of the Company.

The resolutions adopted by the Committee have been opportunely reported and submitted for consideration of the Board of Directors in the corresponding meetings. The details of the activities and resolutions passed may be consulted as they were documented in the respective minutes with the previous approval of the Committee. A file has been compiled from the minutes and documentation of every session.

I. TRANSACTIONS WITH RELATED PARTIES

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

II. STOCK PERFORMANCE / REPURCHASE FUND

The Committe periodically followed the performance of the Company's stock at the Mexican Stock Exchange, as well as the analysis of the prevailing circumstances and the intervention of the Buyback Fund of the Company

III. COMPENSATION FOR EXECUTIVE OFFICERS

The Committee reviewed the performance and comprehensive compensation package of the Company's relevant directors.

IV. RELATED PARTIES

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

V. SELF-REGULATORY POLICIES

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

VI. OTHERS

On July 25, 2017, the Committee expressed a favorable opinion regarding the Long Term Incentive Plan for directors.

On July 25, it was presented to the Committee the Company's risk management report.

On October 24, 2017, the Committee was informed of the progress on the implementation of the project PSM (Process Safety Management) and Cybersecurity, regarding the safety in chemical plants and mines, including the ongoing audit processes, training, system implementation and safety and backup measures.

VII. CONCLUSIONS

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

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

Respectfully,

EUGENIO SANTIAGO CLARIOND REYES RETANA
CHAIRMAN OF THE CORPORATE PRACTICES COMMITTEE
MEXICHEM, S.A.B. DE C.V.

MEXICHEM, S.A.B. DE C.V.

REPORT OF THE CHAIRMAN OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS OF MEXICHEM, S.A.B. AND SUBSIDIARIES

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

This report has been presented to the Audit Committee of the Society, and has been validated in content, scope and conclusions to be submitted to the consideration and validation of the Board of Directors and the Annual General Shareholder Meeting of Mexichem, S.A.B. de C.V. to be held in April 2018 as pursuant to Article 28, Section IV, paragraph a) of the Securities Market Act.

The Annual General Shareholders Meeting of Mexichem held in April 25, 2017, under advice from the Board of Directors, ratified the undersigned as the Audit Committee Chairman.

During the year being reported, the Audit Committee met during the course of the year on the following dates: (i) April 24, 2017; (ii) July 20, 2017; (iii) September 19, 2017; (iv) October 23, 2017; and (v) February 19, 2018.

Exercising their functions and attending their responsibilities, these meetings were attended by the Independent Auditors, and Mexichem´s officers.

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

I. EVALUATION OF THE INTERNAL AUDIT ACTIVITIES

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

The Committee validated the fulfillment with the authorized Audit Plan, which was successfully concluded, and was informed about the additional activities related to the internal control evaluation conducted by the area.

The Committee was informed of the advance of the Continuous Monitoring project, which actually allows the analysis of the most significant variations in cost and the income margins in a detailed manner at the product, customer and accounts receivables indicators. The next phase includes the development of accounts payable measurement indicators.

Furthermore, the members of the Committee met with the Director of Internal

Audit with no other company officers present to receive and discuss information deemed pertinent.

II. FINANCIAL INFORMATION

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

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

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

Likewise, we reviewed and discussed the Audited Financial Statements for 2017. The statements were received without objections and approved by this Committee, who in turn, recommended approval by the Board of Directors and submission to the Shareholders' Meeting.

The committee revised and approved different assumptions and estimates prepared by Senior Management, which allow validation of the independent auditors' conclusion, as expressed by their expert opinion in the 2017 Financial Statements of the operating continuity of the company.

The Company´s budget for 2018 was reviewed and approved, making the recommendations deemed pertinent and resolving its submittal to the Board of Directors for approval.

III. REPORT OF THE CHIEF EXECUTIVE OFFICER

The Committee received and approved the report of the Chief Executive Officer on the activities for 2017, agreeing to recommend its approval to the Board of Directors for presentation to the Shareholders' Meeting.

IV. EVALUATION OF THE INDEPENDENT AUDITORS' PERFORMANCE

We continued to employ the services of Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte) as Independent Auditors of the Company. The fees for fiscal year 2017 were duly reviewed and approved, as well as the fees corresponding to additional projects.

We received the audited financial statements as of December 31, 2017 from the Independent Auditor, with a clean ruling and with no observations, stressing the cooperative attitude of all Company divisions in executing this task.

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

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

V. ACCOUNTING POLICIES

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

In the period under consideration, due to the change in fixed asset policy approved during the first quarter of 2017 the Audited Financial Statements of the Company for the years 2014, 2015 and 2016 were reissued. Those financial statements were subject of revision and opinion of this Committee.

On the other hand, it was presented to this Committee the report regarding the progress in the adoption of the IFRS 9 “Financial Instruments” and IFRS 15 “Revenues from Contracts with Customers” as well as the corresponding work schedule regarding the impact on the implementation (or not) analysis of the Standard Costs in all of Mexichem’s operations.

VI. REPORTE LEGAL

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

VII. RISKS

The Committee received in each meeting since July 2017 the risk analysis of the Company.

Likewise, it became acquainted with the analysis and risk mitigation plan regarding the HF transportation to the United States of America “HF Handling - Enterprise Risk Management.”

VIII. MATERIAL EVENTS OF THE YEAR

Certificates “Certificados Bursátiles”

On September 19, 2017, this Committee gave a favorable opinion and recommended to the Board of Directors the approval of a long term revolving program of certificates “Certificados Bursátiles” up to $10,000,000,000.00 M.N. (“the Program”).

On November 3, 2017, the National Bank and Securities Commission (CNBV) authorized the program.

Acq on of new businesses:

On July 20, 2017, the Audit Committee granted a favorable opinion regarding the acquisition project of Netafim Ltd, (“Netafim”), as well as the terms and conditions offered for such acquisition.

On February 7, 2018, it was concluded throughout Mexichem Soluciones Integrales Holding, S.A. de C.V. the acquisition of a stock ownership of the 80% in Netafim, a company backed by Permira Funds, after obtaining all of the corresponding governmental authorizations as well as precedent conditions required by the Share Purchase Agreement.

VIII. CONCLUSIONS

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

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

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

In accordance with the work carried out, it is recommended that the Board of Directors present the Audited Financial Statements of Mexichem for the year ended December 31, 2017, for approval at the Shareholders’ Meeting.

Respectfully,

C.P. FERNANDO B. RUIZ SAHAGÚN.
CHAIRMAN OF THE AUDIT COMMITTEE
MEXICHEM, S.A.B. DE C.V.

CONTENT

INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

2017, 2016 Y 2015

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF MEXICHEM, S.A.B. DE C.V.

(Figures in 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, 2017, 2016 and 2015, and the consolidated statements of profit or loss and other comprehensive income (loss), the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years ended as of December 31, 2017, 2016 and 2015, 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 Mexichem, S.A.B. de C.V. and Subsidiaries as of December 31, 2017, 2016 and 2015, and their consolidated financial performance and their consolidated cash flows, for the years ended as of December 31, 2017, 2016 and 2015, in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report.

I. Discontinuation of operations of the Vinyl Chloride Monomer (VCM) and Ethylene businesses in Mexico within the "Pajaritos" Petrochemicals Complex belonging to the subsidiary Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV), see Notes 2e and 26a

On April 20, 2016, an explosion occurred at the Pajaritos Petrochemicals Complex in Coatzacoalcos, Veracruz, where the VCM (Clorados III) and Ethylene plants of the subsidiary PMV are located. The VCM plant suffered the greatest damage, with an adverse economic effect in the recognition of the loss of assets and the plant closure. On a separate site, PMV has the chlorine and caustic soda production plant, where the installations were unaffected but the business was affected by an interruption in the supply of raw materials. The economic effects recorded in 2016 for this accident were $320 million, composed as follows: (i) loss of the assets of the VCM plant for $276 million (property damage) and (ii) costs related to the plant closure for $44 million.

Furthermore, PMV obtained sufficient information and elements to recognize the accounts receivable related with the coverage from insurance policies. During 2017 and 2016, total revenues of $283 million were recognized, related to claims for property damages and others, as well as $48 million, $23 million and $18 million due to interrupted business for the plants of VCM and Ethylene, Chlorine and Caustic Soda and Mexichem Resinas in its PVC plant, respectively. As of December 31, 2017, there are still receivables from the insurance companies in the amount of $275 million.

On December 20, 2017, Mexichem announced the decision of the PMV shareholders to not reconstruct its VCM production capacity. As a result, the business of VCM, Ethylene and the secondary services associated with both plants (excluding, therefore, the interruption in the businesses of Chlorine and Caustic Soda and of Mexichem Resinas in its PVC plants), were classified as of that date as discontinued operations in the consolidated financial statements of profit or loss and other comprehensive income (loss), retroactively for the years 2017, 2016 and 2015. Furthermore, due to the decision of the PMV shareholders to not reconstruct its VCM production capacity, in 2017 the cancellation of the assets of the Ethylene plants and secondary services was recognized for $196 million, which are also presented as part of the discontinued operations. As such, the result of the operations of these plants and the effects related to the incident at the VCM plant have been presented as discontinued operations.

According to the Joint Investment Agreement signed between the Entity and PPQ Cadena Productiva, S.L. (PPQC, a subsidiary of Pemex), if the production and supply of the VCM chain were suspended, PPQC would have the right to buy back the assets of Pajaritos by sending written notification and completing other procedures. At the date of this report, PPQC management has not made any announcement about the buyback, for which reason it is impossible to determine the possible effects that would arise. Given the uncertainty, the Entity evaluated the potential uses of such assets, and considering their current conditions and the problems to restore the production supply chain, the realizable value of the assets is unpredictable on a going concern basis, for which reason the full amount of their book value has been reserved.

How our audit approached the key audit matter:

We focused our tests on ascertaining and inquiring over the following:

i. We ascertained the correct classification of the items comprising the caption of discontinued operations in the consolidated statements of income and loss and other comprehensive income (loss) in accordance with IFRS 5, Noncurrent assets held for sale and discontinued operations, (IFRS 5) for the years 2017, 2016 and 2015, both for the proprietary operations of the discontinued businesses and for the effect of the decision to abandon the assets in 2017.

ii. We obtained and analyzed the necessary documentations and representations provided by Management and its advisors to support compliance with the accounting criteria necessary to classify the operations as discontinued, in accordance with IFRS 5.

iii. We attended the meetings of the Board of Directors and the Audit Committee of PMV and collected the agreements and information submitted in order to validate that subsequently it was adequately recognized in the consolidated financial statements.

iv. We requested that our appraisal experts ascertain the reasonableness of the values assigned by the Entity to the abandoned assets, considering the related best and use value scenarios, and concluded positively on the Entity's treatment regarding the criteria and values assigned.

v. We obtained the appropriate documentation of the files supporting the evidence of damages, which give rise to the recognition of the financial asset in favor of PMV, generated by the claims filed with the insurance companies.

vi. We obtained written opinions from the external advisers and attorneys regarding the interpretation of the clauses of the insurance policies, in order to identify the collection rights from the insurance companies.

vii. We ascertained the composition and reasonableness of the account receivable with the insurance companies, in terms of the amount, concept and coverage through the formal claims and communications with them and their analysis compared with the insurance policies and the itemization made by independent advisers.

We believe that the Entity's records and disclosures are appropriate in relation to the discontinued operations of the VCM and Ethylene businesses, as well as the principal items that arose from the explosion at the VCM plant, which are reported in Notes 2e and 26a of the accompanying consolidated financial statements.

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, Impairment of assets, which calculates discounted future flows to determine if there is asset value impairment. There is a risk 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. Desinging and testing the operating effectiveness 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. Questioning the methodology and reasoning used by the Entity's Management to analyze impairment and concluded that the assumptions used are comparable to historical performance and future expected perspectives and besides that the discount rates used were adequate under the circumstances.

The results of our audit tests were reasonable. As stated in Notes 2e, 4i, 4o and 4p to the accompanying consolidated financial statements, in 2017, the Entity recognized an impairment of long-lived assets of $196 millones in the consolidated statement of profit or loss and other comprehensive income (loss) for the discontinued operations of PMV, as detailed in subsection a) of the key audit matters. Apart from this amount, the Entity did not show any other indication of impairment requiring adjustments in the values of long-lived assets, goodwill and intangible assets.

III. Allowance for Doubtful Accounts Receivable, 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 the 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. Reviewing of the application of general guidelines for the creation of the recorded allowances for potential losses.

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

iv. Inquiring 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 understanding the reasons for their exclusion, 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 the 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 there is an impossibility of sale, 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 the 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.** Ascertaining 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 the current inventory behavior conditions.

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

VI. Deferred Income Taxes, see Note 23

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

How our audit approached the key audit matter

Our audit procedures included, among others:

- **i.** Involving our internal specialists to:
    - Clearly understand the tax laws of every country in which the Entity operates.

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

ii. Validating 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. Assessing of current operating strategies and their impact on future flow projections.

During the year ended December 31, 2017, Management reserved $17 million for the effect of tax loss carryforwards which probably could not be applied, and tax losses reserved for $11 million were applied, which affected the reconciliation of the effective rate for this year. As a result of the audit tests conducted, we believe that the Entity has reasonably incorporated the deferred asset, mainly that generated by tax losses in the determination of deferred income taxes, and at the same time has corroborated the effective tax rate, by considering the respective permanent items.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the Annual Report that the Entity is obliged to prepare pursuant to Article 33 Fraction I, subsection b) of Title Four, First Chapter of the General Provisions Applicable to Issuers and Other Participants of the Mexican Securities Market and to the Instructions that accompany those provisions (Provisions). The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the annual report, when it becomes available and, doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. When we read the Annual Report we will issue the declaration on its reading, required in Article 33 Fraction I, subsection b) numeral 1.2. of the Provisions.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and asses the risks of material misstatement of the consolidated financial statements, due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, deceit, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the Going Concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on

the Entity's ability to continue as a Going Concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a Going Concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a way that constitutes fair presentation.

- We obtained sufficient and appropriate audit evidence about the Entity's financial information and its business activities to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit group. We continue to be solely responsible for our audit opinion.

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

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

The matters which have been communicated to those responsible for governance have been determined as the most significant in the audit of the consolidated financial statements for the year 2017 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.
MIEMBRO DE DELOITTE TOUCHE TOHMATSU LIMITED
C.P.C. CARLOS M. PANTOJA FLORES

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, 2017, 2016, and 2015
(Thousands of U.S. dollars)

ASSETS	NOTES	2017	2016	2015
CURRENT ASSETS:				
Cash and cash equivalents	8	$ 1,899,840	$ 713,607	$ 653,274
Accounts receivable, Net	9	1,329,994	1,180,581	884,344
Due from related parties	21a	2,193	3,265	1,577
Inventories, Net	10	674,888	606,389	647,984
Prepaid expenses		35,623	35,311	48,169
Assets classified as held for sale		9,402	21,050	16,505
Total current assets		**3,951,940**	**2,560,203**	**2,251,853**
NON-CURRENT ASSETS:				
Property, plant and equipment, Net	14 and 17	3,626,495	3,749,593	3,732,533
Investment in shares of associates and other entities	4i	31,247	30,909	31,232
Other assets, Net		86,403	64,294	69,378
Deferred income taxes	23b	152,883	66,025	186,989
Intangible assets, Net	15a	1,211,956	1,192,808	1,249,140
Goodwill	15b	698,455	690,183	678,157
Total non-current assets		**5,807,439**	**5,793,812**	**5,947,429**
Total assets		**$ 9,759,379**	**$ 8,354,015**	**$ 8,199,282**

See accompanying notes to consolidated financial statements

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	2017	2016	2015
CURRENT LIABILITIES:				
Bank loans and current portion of long-term debt	16	$ 45,422	$ 57,693	$ 43,653
Suppliers		664,903	653,076	565,746
Credit letters of suppliers		697,163	616,628	635,275
Due to related parties	21a	64,512	51,487	26,750
Other accounts payable and accrued liabilities		470,142	444,462	398,389
Dividends payable		83,917	55,553	37,092
Provisions	19	8,589	8,739	16,996
Employee benefits		35,198	31,830	30,990
Short-term finance lease	17b	36,772	51,839	44,053
Derivative financial instruments	12 and 13	14,830	483	-
Liabilities associated with assets held for sale		9,100	13,207	19,617
Total current liabilities		**2,130,548**	**1,984,997**	**1,818,561**
NON-CURRENT LIABILITIES:				
Bank loans and long-term debt	16	3,209,944	2,241,370	2,291,422
Employee benefits	18	185,929	170,973	154,972
Long-term provisions	19	33,300	16,955	27,157
Long-term other liabilities		32,684	25,973	23,180
Derivative financial instruments	12 and 13	166,069	99,162	68,482
Deferred income taxes	23b	231,219	150,850	334,553
Long-term finance lease	17b	39,336	69,513	116,757
Long-term income taxes	23	49,471	12,616	14,234
Total non-current liabilities		**3,947,952**	**2,787,412**	**3,030,757**
Total liabilities		**6,078,500**	**4,772,409**	**4,849,318**
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		1,075,239	855,344	1,107,130
Buy-back shares program reserve	20b	379,802	551,579	156,219
Other comprehensive (loss) income		(407,722)	(484,388)	(429,179)
		1,047,319	**922,535**	**834,170**
Controlling interest		**2,802,576**	**2,677,792**	**2,589,427**
Non-controlling interest		**878,303**	**903,814**	**760,537**
Total stockholders' equity		**3,680,879**	**3,581,606**	**3,349,964**
Total liabilities and stockholders' equity		**$ 9,759,379**	**$ 8,354,015**	**$ 8,199,282**

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 (LOSS)

For the years ended December 31, 2017, 2016 and 2015 5
(Thousands of U.S. dollars, except gain (loss) basic per share expressed in U.S. dollars)

	NOTES	2017	2016	2015
CONTINUING OPERATIONS:				
Net sales		$ 5,828,333	$ 5,343,838	$ 5,583,607
Cost of sales	**22a**	**4,375,440**	**4,077,617**	**4,305,462**
Gross profit		1,452,893	1,266,221	1,278,145
Selling and development expenses	22b	381,843	373,117	387,277
Administrative expenses	22c	336,474	326,507	353,758
Other expenses (income), Net	22d	26,431	(14,968)	(20,255)
Exchange gain		(8,785)	(95,164)	(38,313)
Exchange loss		56,379	92,936	95,330
Interest expense		194,896	191,769	212,075
Interest income		(18,245)	(9,735)	(20,966)
Monetary position gain		(48,723)	(17,478)	(2,097)
Equity in income of associated entity		**(2,185)**	**(2,873)**	**(3,080)**
Profit before income taxes		534,808	422,110	314,416
Income tax expense	**23d**	**177,691**	**110,687**	**84,052**
Profit for the year from continuing operations		357,117	311,423	230,364
DISCONTINUED OPERATIONS:				
Loss from discontinued operations, Net	24d	(143,179)	(64,086)	(77,747)
Consolidated profit for the year		**213,938**	**247,337**	**152,617**
OTHER COMPREHENSIVE INCOME (LOSS):				
Items that will not be reclassified subsequently to profit or loss-				
Actuarial gains (losses) recognized during the year		8,593	(33,927)	40,497
Income taxes		(2,578)	10,178	(9,408)
		6,015	**(23,749)**	**31,089**

(Continued)

	NOTES	2017	2016	2015
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS-				
Loss (gain) in translation effects of foreign operations		144,532	(48,945)	(349,324)
(Gain) loss in the valuation of financial instruments		(90,520)	(10,453)	101,954
Income taxes		27,156	3,136	(30,586)
		81,168	**(56,262)**	**(277,956)**
Other comprehensive income (loss) for the year		**87,183**	**(80,011)**	**(246,867)**
Consolidated comprehensive income (loss) for the year		**$ 301,121**	**$ 167,326**	**$ (94,250)**
CONSOLIDATED NET INCOME FOR THE YEAR:				
Owners of the Entity		$ 194,301	$ 263,007	$ 155,426
Non-controlling interests		19,637	(15,670)	(2,809)
		$ 213,938	**$ 247,337**	**$ 152,617**
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Entity		$ 276,982	$ 184,049	$ (88,211)
Non-controlling interests		24,139	(16,723)	(6,039)
		$ 301,121	**$ 167,326**	**$ (94,250)**
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE ENTITY:				
From continuing operations		**$ 0.17**	**$ 0.15**	**$ 0.10**
From discontinued operations		**$ (0.07)**	**$ (0.03)**	**$ (0.03)**
Basic earnings per share		**$ 0.10**	**$ 0.12**	**$ 0.07**
Weighted average common shares outstanding		**2,100,000,000**	**2,100,000,000**	**2,100,000,000**

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, 2017, 2016 and 2015
(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	New measurements of liabilities (assets) for benefits defined	Translation effects of foreign operations	Valuation of financial instruments	Controlling interest	Non-controlling interest	Total stockholders' equity
Balances as of January 1, 2015	$ 256,482	$ 1,474,827	$ 23,948	$ 51,298	$ 980,038	$ 126,663	$ -	$ (153,093)	$ (1,360)	$ 2,758,803	$ 426,576	$ 3,185,379
Dividends declared	-	-	-	-	(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 income (loss) of the year	-	-	-	-	-	-	31,089	(346,094)	71,368	(243,637)	(3,230)	(246,867)
Transfer to retained earnings	-	-	-	-	31,089	-	(31,089)	-	-	-	-	-
Consolidated profit for the year	-	-	-	-	155,426	-	-	-	-	155,426	(2,809)	152,617
Balances as of December 31, 2015	**256,482**	**1,474,827**	**23,948**	**51,298**	**1,055,832**	**156,219**	**-**	**(499,187)**	**70,008**	**2,589,427**	**760,537**	**3,349,964**
Dividends declared	-	-	-	-	(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) income of the year	-	-	-	-	-	-	(23,749)	(47,892)	(7,317)	(78,958)	(1,053)	(80,011)
Transfer to retained earnings	-	-	-	-	(23,749)	-	23,749	-	-	-	-	-
Consolidated profit for the year	-	-	-	-	263,007	-	-	-	-	263,007	(15,670)	247,337
Balances as of December 31, 2016	**256,482**	**1,474,827**	**23,948**	**51,298**	**804,046**	**551,579**	**-**	**(547,079)**	**62,691**	**2,677,792**	**903,814**	**3,581,606**

	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	New measurements of liabilities (assets) for benefits defined	Translation effects of foreign operations	Valuation of financial instruments	Controlling interest	Non-controlling interest	Total stockholders' equity
Dividends declared	-	-	-	-	(147,000)	-	-	-	-	(147,000)	-	(147,000)
Purchase of shares	-	-	-	-	-	(5,198)	-	-	-	(5,198)	-	(5,198)
Partial cancellation of the buy-back shares program reserve	-	-	-	-	551,579	(551,579)	-	-	-	-	-	-
Increase in buy-back shares program reserve	-	-	-	-	(385,000)	385,000	-	-	-	-	-	-
Additional non-controlling equity derived from business acquisition	-	-	-	-	-	-	-	-	-	-	38,500	38,500
Distribution capital to non-controlling	-	-	-	-	-	-	-	-	-	-	(88,150)	(88,150)
Other comprehensive income (loss) of the year	-	-	-	-	-	-	6,015	140,030	(63,364)	82,681	4,502	87,183
Transfer to retained earnings	-	-	-	-	6,015	-	(6,015)	-	-	-	-	-
Consolidated profit for the year	-	-	-	-	194,301	-	-	-	-	194,301	19,637	213,938
Balances as of December 31, 2017	**$ 256,482**	**$ 1,474,827**	**$ 23,948**	**$ 51,298**	**$ 1,023,941**	**$ 379,802**	**$ -**	**$ (407,049)**	**$ (673)**	**$ 2,802,576**	**$ 878,303**	**$ 3,680,879**

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, 2017, 2016 and 2015
(Thousands of U.S. dollars)

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Consolidated net profit for the year	$ 213,938	$ 247,337	$ 152,617
ADJUSTMENTS FOR:			
Income tax expense	177,691	110,687	84,052
Loss from discontinued operations	143,179	64,086	77,747
Net labor obligation cost (gain)	11,681	(286)	6,033
Depreciation and amortization	397,812	313,517	337,550
Loss (gain) on sale of fixed assets	1,557	(1,333)	(2,990)
Unrealized exchange loss (gain)	32,876	(32,300)	32,538
Impairment of fixed assets	-	3,322	-
Equity in income of associated entity	(2,185)	(2,873)	(3,080)
Interest income	(18,245)	(9,735)	(20,966)
Interest expense	194,896	191,769	212,075
	1,153,200	**884,191**	**875,576**
CHANGES IN WORKING CAPITAL:			
(INCREASE) DECREASE IN:			
Accounts receivable	(136,206)	(1,576)	105,116
Inventories	(70,795)	37,740	107,272
Other assets	(13,519)	(21,290)	31,597
Discontinued operations	11,648	8,688	37,774
INCREASE (DECREASE) IN:			
Suppliers	92,362	70,611	75,197
Related parties	31,906	(26,301)	(3,320)
Other liabilities	43,359	(29,999)	(10,039)
Paid income taxes	(101,830)	(173,439)	(92,280)
Discontinued operations	(4,107)	(40,380)	(50,110)
Interest received	18,245	9,735	21,785
Net cash provided by operating activities	**1,024,263**	**717,980**	**1,098,568**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of machinery and equipment	(253,969)	(488,277)	(710,967)
Investments in other assets and intangible assets	(34,772)	-	(8,938)
Sale of machinery and equipment	6,195	22,128	57,469
Acquisition of subsidiaries, net of cash acquired	-	(41,991)	-
Net cash used in investing activities	**(282,546)**	**(508,140)**	**(662,436)**

	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance bond, net	1,000,000	-	-
Costs by issuance of debt	(14,700)	-	-
Loans	-	65,981	32,416
Loan repayments	(29,244)	(48,984)	(59,252)
Interest paid	(168,186)	(190,903)	(211,556)
Dividends paid	(105,501)	(54,236)	(64,642)
Distribution capital to non-controlling	(88,150)	-	-
(Purchase) sale of shares	(5,198)	9,316	(17,718)
Net cash (used in) provided by financing activities	**589,021**	**(218,826)**	**(320,752)**
Adjustment to cash flows due to exchange rate fluctuations	(144,505)	69,319	(81,631)
Net increase in cash and cash equivalents	**1,186,233**	**60,333**	**33,749**
Cash and cash equivalents at the beginning of the year	713,607	653,274	619,525
Cash and cash equivalents at the end of the year	**$ 1,899,840**	**$ 713,607**	**$ 653,274**

See accompanying notes to consolidated financial statements

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 three Business Groups: Vinyl, Fluor and Fluent.

2. SIGNIFICANT EVENTS

a. **Issuance of bond -** On September 27, 2017, Mexichem successfully completed the 144A / Reg S bonds offering for $1 billion. The offering is composed of two tranches: $500 million in bonds at a 4% fixed rate, maturing in October 2027, and $500 million at a 5.50% fixed rate, maturing in January 2048. The proceeds from the offering were mainly used to finance the acquisition of Netafim, L.T.D. (Netafim), as detailed in Note 28.

b. **Acquisition of Netafim -** EIn August 2017, Mexichem Soluciones Integrales Holding, S.A. de C.V. (MSIH), a subsidiary of Mexichem, reached an agreement for the acquisition of: i) voting stock which represents 80% of the common stock subscribed and paid, ii) all nonvoting stock which represents approximately 0.4% of the common stock subscribed and paid, both of Netafim and iii) certain loans made by some stockholders of Netafim, Bluedrip S.ar.l, and Netafim Hatzerim Holdings, Cooperative Association Limited, to Netafim.

   Netafim, a company located in Israel which has operations in 10 countries with 17 plants, has a 30% share of the global market of irrigation solutions for agriculture, glasshouses, landscape gardening and mining, with customers in more than 110 countries. At the date of issuance of this report, the acquisition was legally consummated in February 2018, as detailed in Note 28.

c. **Line of credit -** On December 20, 2017, Mexichem announced that it had signed a line of credit with BBVA Bancomer for up to $200 million at 80.5 basis points at the 12 month LIBOR rate. The proceeds from this line of credit were used to complete the acquisition of Netafim, as detailed in Note 28.

d. **Beginning operations of cracker -** On February 27, 2017, Mexichem announced that its ethylene cracker 50/50 joint venture with Occidental Chemical Corporation (OxyChem), which is located at OxyChem's Ingleside, Texas complex, began operations on schedule and within budget. The ethylene cracker began operations during second trimester of 2017. The cracker has the capacity to produce 1.2 billion pounds (550,000 metric tons) of ethylene per year and provide OxyChem with an ongoing source of ethylene for manufacturing vinyl chloride monomer (VCM), which Mexichem will use to produce polyvinyl chloride (PVC resin) and PVC piping systems. The total amount invested during 2017 amounts to $77 millon.

   The joint venture also includes the gas pipeline and the storage facility in Markham, Texas. The plant has 150 permanent employees. Construction started in the second trimester of 2014.

e. **Discontinuation of operations and effect of the incident at the VCM plant in the subsidiary Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) -** On April 20, 2016, an explosion occurred at the Pajaritos Petrochemicals Complex, where two of the three plants of the subsidiary PMV are located; these two plants produce VCM and Ethylene. The VCM plant (Clorados III) suffered the greatest damage, and its greatest economic impact was the recognition of the loss of assets and the plant closure. At a separate site, PMV has the chlorine and caustic soda manufacturing plant, where the installations were not affected, but the business was interrupted due to a lack of raw materials. The economic effects of this incident are $320 million, composed as follows: (i) loss of the assets of the VCM plant for $276 million (property damage), and (ii) costs related to the plant closure (third-party damages/civil damages), civil liability, environmental liability, attorneys, advisers, partial disassembly, etc., for the amount of $44 million.

   In 2016, PMV obtained sufficient information and elements to recognize the accounts receivable related to the insurance policies and their coverages. During 2017 and 2016, total revenues for $283 million were recognized, related to property damage, third-party damage (civil liability) and the insurance policy for directors and officers. The difference between this last-mentioned report and the $320 million noted in the preceding paragraph, depend on the assembly policy, whose claim is currently being filed. Furthermore, PMV recognized $48 million as accounts receivable related to the coverage for interrupted business in the VCM and Ethylene plants and $23 million for the chlorine/caustic soda plant, while Mexichem Resinas recognized $18 million related to its PVC plants.

On December 20, 2017, Mexichem announced the decision of the PMV stockholders to not reconstruct its VCM production capacity. Consequently, the VCM business and the assets and liabilities associated with the production of ethylene and secondary services associated with VCM and ethylene were classified on that date as discontinued operations in its consolidated statements of income and other comprehensive income (loss) retroactively to such businesses for the years 2017, 2016 and 2015. Accordingly, all the impacts and recognized revenues related to the incident at the VCM plant are presented as discontinued operations.

Additionally, PMV's decision to not reconstruct the VCM plant resulted in the cancellation of the assets of the ethylene plants and the secondary services related with the VCM and Ethylene plants for $196 million, also presented as discontinued operations.

f. **Establishment and acquisition of new businesses -** During 2016 and 2015, 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. 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.

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. **Impacts associated to the new accounting principles which have not yet gone into effect**

The Entity is currently adopting the following accounting principles under the International Financial Reporting Standards (IFRS) issued, which will go into effect in the years 2018 and 2019:

- IFRS 9, Financial Instruments (1)
- IFRS 15, Revenues from Contracts with Customers (1)
- IFRS 16, Leases (2)

In this regard, the Entity has evaluated the possible impacts on the financial statements associated with the new requirements established in the new provisions and also their potential impact on the business operation, information generation internal processes, accounting records, systems and controls.

IFRS 9, Financial Instruments

With regard to the new IFRS 9, "Financial Instruments", we evaluated three phases established in the standard:

1. **Classification and Measurement:** The new standard introduces a new model for the classification of all types of financial assets, including those which contain characteristics of embedded derivatives; with this model the financial assets are classified totally at fair value with a charge to results, instead of being subject to complex bifurcation requirements when they do not comply with the criteria established to be recognized at amortized cost. With regard to the classification of financial liabilities, IFRS 9 continues with all of the requirements of the current IAS 39; the only change made in terms of the financial statements is related to the recognition of the changes in the proprietary credit risk which must be presented as part of other comprehensive income and loss.

   The result of the evaluation of the following criteria will determine how the financial asset must be classified and, consequently, the basis for their measurement subsequent to the classification:

   a. Definition of Business Model

   The Business Model refers to how the Entity handles the activities related with the financial assets to generate cash flows which flow directly to it, whether through the collection of contractual cash flows, the sale of financial assets or both activities.

The definition of the Business Model is made at a level which reflects how a financial asset or group of financial assets are handled to fulfill a specific objective, not through an assessment instrument-by-instrument, and does not depend on management intentions regarding the financial asset, but on the actual use made of it.

An entity may have more than one Business Model to handle these financial assets depending on the characteristics of the financial asset and, above all, the way Management uses that financial asset to achieve its business objective.

In this regard, the Entity is working on the documentation of its Business Model in relation to the financial assets held and does not expect to significantly change its current classification and, therefore, the measurement of the respective financial assets.

b. Characteristics of contractual Cash Flows

IFRS 9 requires that the contractual cash flows represent Only Payments of Principal and Interest (SPPI); those whose characteristics are consistent with those of a basic loan agreement in which the consideration of the value of money over time and the considerations related with the credit risk are the most important elements of the evaluation. However, if the contractual terms of the financial asset contemplate exposures to risks or volatilities in contractual cash flows that are not related to those of a basic loan agreement, the cash flows linked to such financial asset do not represent SPPI.

Leverage may be a contractual feature of the cash flows in certain financial assets, which increases the variability of the cash flows, resulting in characteristics different from that of interest.

The Entity believes that the contractual cash flows associated to its financial assets represent mainly the recovery of Only Principal in some cases and, in others, Only Principal and Interest, in conformity with that established in the new standard. Therefore, it has not identified any possible effects associated to this criterion.

2. **Impairment:** this phase describes a “three stage” model (“general model “) for impairment based on the changes in credit quality as of the initial recognition.

a. Stage 1 includes financial instruments which have not had a significant increase in the credit risk as of the initial recognition or which (in the Entity’s opinion) have a low credit risk on the presentation date. For these assets, the expected credit losses (PCE) are recognized at 12 months and the interest income is calculated on the gross book value of the asset (i.e., without any deduction for impairment). The 12 month PCEs are those resulting from the predetermined events which are possible within the 12 months following the report date. It is not the expected cash deficit during the period of 12 months, but the total credit loss of an asset, weighted for the probability that the loss will occur within the next 12 months.

b. Stage 2 includes financial instruments which have had a significant increase in the credit risk as of the initial recognition (unless they have a low credit risk on the presentation date and the Entity adopts this option) but do not have objective evidence of impairment. For these assets, the PCEs for life are recognized, but the interest income is still calculated on the gross book amount of the asset. The PCEs for life are those resulting from all the possible default events during the maximum contractual period in which the Entity is exposed to the credit risk. The PCEs are the weighted average credit losses with the respective weighted risks of a default.

c. Stage 3 includes the financial assets which have objective evidence of impairment on the presentation date. For these assets, the PCE’s for life are recognized and the interest income is calculated on the net book value (i.e., net of the estimate for impairment).

The Entity is developing a methodology for estimating allowances for bad debts for short-term receivables, related to the line of business. IFRS 9 allows for the adoption of a “simplified model”. The “simplified model” consists of estimating allowances for the entire life of the receivables and avoids the approach of classifying assets by stages of risk.

3. **Hedge Accounting:** IFRS 9 provides an accounting policy option whereby companies may continue to apply the hedge accounting requirements contained in IAS 39, until the Risk Macro Coverage Project terminates or they may apply IFRS 9. This choice of accounting policy will be applied to all hedge accounting and cannot be applied on a case by case basis. In this regard, the Entity has elected to continue applying IAS 39. This choice of accounting policy is applied only to hedge accounting and does not have any effect on the implementation of the other two stages of IFRS 9; namely, “classification and measurement” and “impairment”.

IFRS 15, Revenues from Contracts with Customers

IFRS 15, “Revenues from Contracts with Customers”, was issued in May 2014 and is effective for periods beginning January 1, 2018, although early adoption is permitted. Under this standard, revenue recognition is based on control; in other words, it uses the notion of control to determine when a good or service is transferred to the customer.

The standard also present a single comprehensive model for the accounting of revenues derived from contracts with customers and substitutes the more recent guidance on revenue recognition, including specific industry guidelines. Such comprehensive model introduces a five-step approach for revenue recognition: 1) identification of contracts with customers; 2) identify performance obligations in the contract; 3) determine the transaction price; 4) assign the transaction price to each performance obligation in the contract; and 5) recognize the revenue when the Entity satisfies the performance obligation. Furthermore, the Entity needs to disclose sufficient information to enable users of the financial statements to understand the nature, amount, moment of recognition, the uncertainty of the revenues and the cash flows derived from the contracts with customers.

Mexichem is finalizing the analysis of impacts of IFRS 15 on the recording and disclosures of its revenues. At the report date, Mexichem has analyzed the types of contracts with customers in all the countries where it operates, which represent significant transactions that give rise to the consolidated revenues to identify and evaluate the applicable accounting treatment under the new standard with regard to its current accounting policies, identifying relevant aspects such as performance obligations, variances in the considerations (discounts, rebates, etc.) contained therein, among other aspects, in order to determine possible differences in the accounting recognition of the revenues compared to the current IFRS.

The new presentation and disclosure requirements contained in IFRS 15 are more detailed than the current regulations, for which reason the Entity concluded that this is a relevant change, because it significantly increases the volume of disclosures required in its financial statements.

Mexichem plans to conclude its analysis and quantify any necessary adjustments if any portion of the revenues that are currently recognized on the transaction date or deferred over a period of time, as the case may be, should be recognized differently when IFRS 15 is adopted. The standard permits a complete retrospective approach and a modified retrospective approach for its adoption. The Entity has evaluated the two approaches and believes that the modified retrospective approach will be that used for adoption purposes. Under this approach, the Entity will recognize the adjustments for the effect of the initial application (January 1, 2018) in retained earnings in the financial statements as of January 1, 2018, without reformulating the comparative period, applying the new rules to those contracts from previous years which have not been completed as of December 31, 2017. For purposes of the initial adjustment, the Entity is evaluating the contracts not completed in all the countries where it operates which might have differences compared to IFRS 15. The Entity is applying the new accounting policies in accordance with IFRS 15 to the contracts issued as of January 1, 2018, recognizing any applicable adjustments. No significant changes are expected; however, the major changes in accounting policies compared to current policies include, among others: identification of different performance obligations, estimation of variable considerations such as discounts conditioned upon volume and delivery noncompliance, incremental costs to obtain contracts and treatment of significant financing components.

IFRS 16, Leases

La IFRS 16 ,"Leases," was published in January 2016 and substitutes IAS 17, "Leases," as well as the related interpretations. This new standard means that most leases must be presented in the statement of financial position for the lessees under a single model, eliminating the distinction between operating leases and capital leases. However, the accounting for the lessors maintains the distinction between such lease classifications. IFRS 16 is effective for periods beginning January 1, 2019, and early adoption is permitted as long as IFRS 15, "Revenues from Contracts with Customers", was adopted.

Under IFRS 16, the lessees will recognize the use right of an asset and the respective leasing liability. The use right is treated in the same way as any other non-financial asset, with its respective depreciation, whereas the liability will include interest. This typically produces an accelerated expense recognition profile (in contrast to operating leases under IAS 17 where expenses were recognized by the straight-line method), because the linear depreciation of the use right and the decreasing interest on the financial liability bring about a general reduction in the expense throughout the year.

Also, the financial liability will be measured at the present value of the minimum payments payable over the lease term, discounted at the implicit interest rate on the lease provided that it can be determined. If such rate cannot be determined, the lessee must use an incremental debt interest rate.

However, a lessee may elect to account for the lease payments as an expense by the straight-line method, for contracts ending in 12 months or less, which do not contain purchase options (this selection is made by class of assets); for contracts where the underlying assets have a value that is not considered significant when they are new, such as minor office equipment or personal computers (this selection can be made individually for each lease contract).

At the date of issuance of these financial statements, the Entity is in the process of identifying the universe of lease agreements with these characteristics, and of the service contracts that involve the use of an asset in order to, on this universe of contracts, carry out the respective analyses to enable it to determine the initial values that would have to be recognized at the effective date of this standard.

The transition methodology to be used by the Entity has still not been defined (complete retrospective or modified retrospective).

The initial application of the new standards may mean that implementation generates material impacts in internal processes, business operation, financial position and performance of contractual obligations.

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 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, 2017, 2016 and 2015 per business group, is as follows:

GROUP	COUNTRY	% OWNERSHIP
VINYL:		
Mexichem Derivados, S.A. de C.V.	Mexico	100
Mexichem Compuestos, S.A. de C.V.	Mexico	100
Mexichem Resinas Vinílicas, S.A. de C.V.	Mexico	100
VESTO PVC Holding GmbH, Marl	Germany	100
Mexichem America, Inc.	USA	100
Mexichem Specialty Compounds, Inc	USA	100
Mexichem Specialty Compounds, Ltd	UK	100
Vinyl Compounds Holdings, Ltd	UK	100
Mexichem Resinas Colombia, S.A.S.	Colombia	100
Mexichem Speciality Resins, Inc.	USA	100
C.I. Mexichem Compuestos Colombia, S.A.S.	Colombia	100
Petroquímica Mexicana de Vinilo, S.A. de C.V.	Mexico	55.91
Ingleside Ethylene LLC	USA	50
FLUOR:		
Mexichem Flúor, S.A. de C.V.	Mexico	100
Mexichem Flúor Comercial, S.A. de C.V.	Mexico	100
Fluorita de México, S.A. de C.V.	Mexico	100
Mexichem Fluor Inc.	USA	100
Mexichem Fluor Canada Inc.	Canada	100
Mexichem UK Ltd	UK	100
Mexichem Fluor Japan Ltd.	Japan	100
Mexichem Fluor Taiwan Ltd.	Taiwan	100

GROUP	COUNTRY	% OWNERSHIP
FLUENT:		
Dura-Line Holdings, Inc.	USA	100
Mexichem Canada Holding, Inc (formerly Gravenhurst Plastics, Inc.)	Canada	100
Mexichem Soluciones Integrales Holding, S.A. de C.V.	Mexico	100
Mexichem Amanco Holding, S.A. de C.V.	Mexico	100
Mexichem Soluciones Integrales, S.A. de C.V.	Mexico	100
Mexichem Guatemala, S.A.	Guatemala	100
Mexichem Honduras, S.A.	Honduras	100
Mexichem El Salvador, S.A.	El Salvador	100
Mexichem Nicaragua, S.A.	Nicaragua	100
Mexichem Costa Rica, S.A.	Costa Rica	100
Mexichem Panamá, S.A.	Panama	100
Mexichem Colombia, S.A.S.	Colombia	100
Pavco de Venezuela, S.A.	Venezuela	100
Mexichem Ecuador, S.A.	Ecuador	95
Mexichem del Perú, S.A.	Peru	100
Mexichem Argentina, S.A.	Argentina	100
Mexichem Brasil Industria de Transformação Plástica, Ltda.	Brazil	100
Wavin N.V.	Netherlands	100
Wavin Nederland B.V.	Netherlands	100
Wavin Belgium N.V.	Belgium	100
Wavin (Foshan) Piping Systems Co. Ltd.	China	100
Wavin Ekoplastik s.r.o.	Czech Republic	100
Nordisk Wavin A/S	Denmark	100
Norsk Wavin A/S	Norway	100
Wavin Estonia OU	Estonia	100
Wavin-Labko Oy	Finland	100
Wavin France S.A.S.	France	100
Wavin GmbH	Germany	100
Wavin Hungary Kft.	Hungary	100
Wavin Ireland Ltd.	Ireland	100
Wavin Italia SpA	Italy	100
Wavin Latvia SIA	Latvia	100
UAB Wavin Baltic	Lithuania	100
Wavin Metalplast-BUK Sp.zo.o.	Poland	100
Wavin Romania s.r.l.	Romania	100
OOO Wavin Rus	Russia	100
Wavin Balkan d o.o.	Serbia	100
Wavin Slovakia spol s.r.o.	Slovakia	100
AB Svenska Wavin	Sweden	100
Pilsa A.S.	Turkey	100
Wavin Ltd.	UK	100
Warmafl oor (GB) Ltd.	UK	100
Wavin Ukrain O.O.O.T.O.V.	Ukraine	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 2017, 2016 and 2015 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 The transaction in Venezuela has been expressed with the annual inflation rate of 2,616%, 49.5% and 180.9% for 2017, 2016 and 2015, respectively, as well as it has been converted at the official exchange rate of 673.76, 198.69 and 12.00 bolivars per dollar as of December 31, 2017, 2016 and 2015, respectively. A summary of the main financial statement line items of this operation follows:

		2017		2016		2015
Total assets	$	104,264	$	25,636	$	17,570
Stockholders' equity	$	69,437	$	11,510	$	6,959
Net sales	$	31,094	$	15,498	$	6,019
Net (loss) income	$	39,542	$	9,074	$	(668)

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	Flúor
Mexichem Flúor Japan	Japanese yen	Japan	Flúor
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
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. y subsidiarias	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 carried at nominal value and cash equivalents are measured at fair value..

g. **Inventories -** Inventories are carried 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 4l 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.

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, 2017, 2016 and 2015, the Entity determined solely in 2016 an impairment of $3,322, recording an allowance for impairment of machinery and equipment.

Depreciation is recognized and is carried to results based on the related cost, different from land and work in process, less residual value, over the useful lives, by the straight-line method. The estimated useful life, the residual value and appreciation are revised at the end of each year, and the effect of any change in the estimate recorded is recognized retrospectively.

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 a 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 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 associates in 2017, 2016 and 2015 correspond to 40% of GF Wavin AG (Switzerland), and 25% of Salzg. Westfalen GmbH (Germany), equivalent to $31,247, $30,909 and $31,232, in these years, and an equity income of $2,185, $2,873 and $3,080, 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 -** 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 -** 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.

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.

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 statements of profit or loss and other comprehensive income (loss). 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 (loss).

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. Regarding the equity instruments available for sale, the impairment losses previously recognized in the results are not reversed through them. Any increase in the fair value subsequent to the recognition of the impairment loss is recognized in other comprehensive income.

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 statements of profit or loss and other comprehensive income (loss). 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 income taxes - The current tax calculated refers to income tax (ISR) and is recorded in results of the year that it is incurred.

ii. Deferred taxes are 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.

bb. Cost for direct employee benefits and retirement - Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).

- Net interest expense or income.

- Remeasurement.

The Entity presents the first two components of defined benefit costs in profit or loss in the line item. Gains and losses for reduction of service are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plan.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or when the entity recognizes any related restructuring costs.

Employee or third-party contributions to defined benefit plans

The discretionary contributions made by employees or third parties reduce the service cost by the payment of such contributions to the plan.

When the formal terms of the plan specify that there will be employee or third-party contributions, the respective accounting depends on whether the contributions are related to the service, as follows:

- If the contributions are not related to the service (for example, contributions are required to reduce the deficit which arises from the losses in the plan assets or from the actuarial losses), which are reflected in the new measurement of the net liability (asset) for defined benefits.

- If the contributions are related to the services, they reduce the service costs. Based on the contribution amount which depends on the number of years of service, the Entity reduces the service cost by attributing the contributions to the years of service, using the attribution method required by IAS 19, paragraph 70, for the gross benefits.

cc. Share-based payments

In 2015, Mexichem initiated a compensation plan known as Long-Term Incentive Plan (LTIP), for a group of executives, whose purpose is to align executive compensation with the interests of shareholders, by conditioning the payment of this incentive upon the Entity's financial performance. In accordance with this program, Mexichem annually grants a determined amount of phantom shares aligned with the value of the real shares of the Entity, based on two vehicles: payments based on restricted phantom shares and payments based on phantom shares for performance, which may be exercised for payment provided that the financial objectives of Mexichem are achieved under the conditions established in the plan.

Each year the value of the LTIP is granted to the active executives selected, who have been rendering services for at least six months at the time of the allocation. The amount of the allocation will be based on the value of the share calculated according to the average price of the daily close of the period from July 1 through December 31 of the year immediately prior to the allocation.

Payments based on restricted phantom shares: of the total value assigned, 40% is paid in three equal annual installments only if Mexichem's annual performance conditions, established in the plan, are fulfilled and eligible personnel is active at the time of payment. The amount payable is calculated based on the average daily closing price of the month prior to that in which restricted phantom shares are paid.

Payment based on phantom shares for performance: 60% of the total value will be paid in the third year of the allocation, only if the financial performance targets of Mexichem accumulated for the three years are achieved, as established in the plan,. The amount payable is calculated based on the average price of the daily close of the month immediately prior to that in which the phantom shares for performance are paid.

The liability is accrued insofar as the employees render their services during the labor period. Payments are only made to employees active in payroll when the exercise of phantom shares is approved.

The methodology used to project share prices is in accordance with the Black & Scholes methodology, calculated in Mexican pesos, and payable in the local currency of each entity at the exchange rate in effect at the settlement date.

Current options represent liability instruments. The information on the share option plan is as follows:

	LTIP RESTRICTED	LTIP FOR PERFORMANCE	TOTAL
Balance, January 1, 2015	$ -	$ -	$ -
Charge to profit and loss and adjustments	1,137	1,990	3,127
Balance, December 31, 2015	**$ 1,137**	**$ 1,990**	**$ 3,127**
Charge to profit and loss and adjustments	642	678	1,320
Balance, December 31, 2016	**1,779**	**2,668**	**4,447**
Charge to profit and loss and adjustments	250	9,028	9,278
Balance, December 31, 2017	**$ 2,029**	**$ 11,696**	**$ 13,725**

dd. Revenue recognition - Revenues are 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.

Income from third party compensation

Offsets from third parties are recognized at the time they are due, determining the root cause of the loss through independent valuation experts.

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 years ended December 31, 2016 and 2015 have been reclassified to conform to the presentation of the 2017 consolidated financial statements, such as: (i) the separate presentation of the income taxes paid in the consolidated statements of cash flows and (i) the discontinued operations mentioned in Note 2e.

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. he 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. 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 Entity's operation and management.

6. BUSINESS COMBINATION

a. Business acquisitions - During 2016, 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, for $13 million.
- Mexichem acquired 100% of the shares of Vinyl Compounds Holdings, Ltd, for 24 million sterling pounds.

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	$	30,042
Gravenhurst Plastics, Inc.		13,006
	$	43,048

c. 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 (loss).

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.

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 de activos netos	**$**	**20,236**	**$**	**10,534**	**$**	**30,770**

d. Goodwill from 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**

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**

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.

	2016			
	NET SALES		NET (LOSS) INCOME	
Vinyl Compounds	$	3,221	$	(216)
Gravenhurst		3,832		179
Total	**$**	**7,053**	**$**	**(37)**

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 as if the acquisitions of Vinyl Compounds, Gravenhurst Plastics, Inc. had occurred as of January 1, 2016.

	2016			
	NET SALES		NET (LOSS) INCOME	
Total	**$**	**5,404,162**	**$**	**228,764**

7. TRANSACTIONS WHICH DID NOT RESULT IN CASH FLOWS

During 2016 and 2015, 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.
- Durante 2015 la Entidad adquirió $2,000 de maquinaria y equipo en arrendamiento financiero.

8. CASH AND CASH EQUIVALENTS

	2017		2016		2015	
Cash	$	594,875	$	325,184	$	371,502
CASH EQUIVALENTS:						
Government paper in Mexican pesos		-		-		3,000
Bank paper		30,060		19,685		50,264
Time deposits		1,270,207		248,721		148,480
Bank deposit certificates		4,698		120,017		80,028
	$	**1,899,840**	**$**	**713,607**	**$**	**653,274**

9. ACCOUNTS RECEIVABLE

	2017		2016		2015	
Customers	$	981,081	$	837,291	$	828,042
Less - Allowance for doubtful accounts		(42,193)		(34,445)		(29,263)
		938,888		**802,846**		**798,779**
Accounts receivable from insurance companies (PMV)		275,410		326,812		-
Recoverable and other taxes		115,696		50,923		85,565
	$	**1,329,994**	**$**	**1,180,581**	**$**	**884,344**

Trade receivables -

The average credit period on sales of goods is 50 days as of December 31, 2017. 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.

The accounts receivable from customers disclosed in the preceding paragraphs include the amounts that are due at the end of the reporting period (see below the analysis of antiquity greater than 60 days), but for which the Entity has not recognized any estimate for uncollectible accounts because there has been no significant change in credit quality and the amounts are still considered recoverable. The Entity, in some cases, has certain accounts receivable secured and does not maintain any collateral or other credit enhancements on those balances, nor does it have the legal right to offset them against any amount owed by the counterparty Entity.

	2017	2016	2015
60-90 days	$ 5,915	$ 14,523	$ 12,789
91-120 days	26,028	15,598	22,335
Total	**$ 31,943**	**$ 30,121**	**$ 35,124**
Average age (days)	**50**	**49**	**46**

Movement in the allowance for doubtful debts:

	2017	2016	2015
Balance at the beginning of the year	$ 34,445	$ 29,263	$ 28,367
Charge to results	11,889	10,156	8,355
Applications	(3,080)	(3,449)	(5,085)
Translation effects	(1,061)	(1,525)	(2,374)
Balance at the end of the year	**$ 42,193**	**$ 34,445**	**$ 29,263**

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

	2017	2016	2015
Finished products	$ 452,484	$ 371,690	$ 408,700
Raw materials	170,984	188,297	197,157
Goods in-transit	58,791	35,737	33,085
Spare parts	39,477	40,829	41,834
	721,736	**636,553**	**680,776**
Less - Allowance for obsolete and slow-moving inventory	(46,848)	(30,164)	(32,792)
	$ 674,888	**$ 606,389**	**$ 647,984**

At December 31, 2017, 2016 and 2015 the inventories recognized in the cost of goods sold for consumption of inventories during the period regarding continuing operations was $4,067 $3,854 and $4,074 million, respectively. During 2017, 2016 and 2015, there were no write-downs of inventory to the net realizable value.

The movement in the allowance for obsolete and slow-moving inventory is:

	2017	2016	2015
Balance at beginning of the year	$ 30,164	$ 32,792	$ 33,093
Charge to results	18,811	1,703	10,125
Applications	(2,511)	(3,838)	(7,076)
Business combination	-	785	-
Translation effects	384	(1,278)	(3,350)
Balance at end of the year	$ 46,848	$ 30,164	$ 32,792

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:

	2017	2016	2015
Net debt with cost	$ 1,356,468	$ 1,586,850	$ 1,703,211
EBITDA Pro Forma (12 months)	1,105,957	904,263	895,089
Indebtedness ratio	**1.23**	**1.75**	**1.90**
EBITDA Pro Forma (12 months)	1,105,957	904,263	895,089
Total interest expenses	194,896	191,769	212,075
Interest coverage ratio	**5.67**	**4.72**	**4.22**

Net debt with cost includes in 2017, 2016 and 2015, $942, $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.

	2017	2016	2015
Net debt with cost	$ 1,356,468	$ 1,586,850	$ 1,703,211
UAFIDA **	1,105,957	895,269	895,089
Indebtedness ratio	**1.23**	**1.77**	**1.90**
UAFIDA **	1,105,957	895,269	895,089
Total interest expenses	194,896	191,769	212,075
Interest coverage rate	**5.67**	**4.67**	**4.22**

** 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** - La 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 2017, 2016 and 2015 would have decreased by $1 million, $2 million and $2 million, respectively. This is mainly attributable to the exposure of the Entity to LIBOR and TIIE interest rates on their long-term loans it is not significant, because most bank loans and long-term debt cause interest at fixed rates.

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, 2017	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	3 MONTHS	6 MONTHS	1 YEAR	BETWEEN 1 AND 3 YEARS	MORE THAN 3 YEARS	TOTAL
Bank loans	5.56%	$ 86,166	$ 38,070	$ 88,146	$ 425,105	$ 6,123,058	$ 6,760,544
Suppliers and credit letters	1.00%	779,709	581,512	845	-	-	1,362,066
Other accounts payable and others		456,844	89,506	80,810	107,862	7,593	742,615
Finance lease	5.32%	6,874	7,669	25,866	36,779	32,175	109,363
Derivative financial instruments (Net cash flow)		7,415	-	7,415	40,275	125,793	180,898
Total		**1,337,007**	**716,757**	**203,082**	**610,021**	**6,288,619**	**9,155,486**
Cash and cash equivalents		1,899,840	-	-	-	-	1,899,840
Trade accounts receivable and others		1,249,304	67,858	15,025	-	-	1,332,187
Total		**3,149,144**	**67,858**	**15,025**	**-**	**-**	**3,232,027**
Net		**$ 1,812,137**	**$ (648,899)**	**$ (188,057)**	**$ (610,021)**	**$ (6,288,619)**	**$ (5,923,459)**

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**
Neto		**$ 309,285**	**$ (449,656)**	**$ (196,412)**	**$ (449,873)**	**$ (4,241,747)**	**$ (5,028,403)**

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, 2017, the Entity has access to a line of revolving credit with a balance not executed of $1,500 million and 138.1 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		
	2017	2016	2015	2017	2016	2015
EUROS	170,198	157,970	675,750	1,125,419	1,134,734	1,271,234
BRAZILIAN REAL	440,751	369,330	427,402	220,139	219,793	239,141
MEXICAN PESOS	2,372,308	2,491,061	2,220,211	3,689,435	7,245,894	8,370,724
COLOMBIAN PESOS	204,492,631	205,452,231	155,713,132	156,820,208	201,012,783	279,169,550

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:

	2017	2016	2015
EUROS	114,083	102,463	65,122
BRAZILIAN REAL	(6,669)	(4,588)	(1,746)
MEXICAN PESOS	6,674	23,881	35,563
COLOMBIAN PESOS	(1,598)	(148)	3,889

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 rates for the U.S. dollar in the following countries where the Entity operates were as follows:

	2017	2016	2015
ARGENTINA	18.65	15.89	12.98
BRAZIL	3.30	3.25	3.90
COLOMBIA	2,984.00	3,001.71	3,149.47
MEXICO	19.73	20.66	17.20
UNITED KINGDOM	0.74	0.81	0.67
EUROPEAN UNION (EURO)	0.84	0.95	0.91
VENEZUELA	3,345.00	673.76	198.69

f. **Financial risk management objectives -** 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 4% and 8.75%.

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.

Mexichem has evaluated and measured the effectiveness, and concluded that the hedge strategy is highly effective as of December 31, 2017, 2016 and 2015. 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, 2017, 2016 and 2014, the fair value of the currency swaps represents a liability of $181 million, $100 million and $68 million, respectively. The effect recognized in equity for the hedge of the investment in the foreign subsidiaries is $(63) million, $(7) million and $71 million, with a deferred income tax effect. With regard to the portion covering the debt in Mexican pesos, the effect of the change in fair value is $0.3 million, $28 million and $27 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 31/12/2017	31/12/2016	31/12/2015	FAIR VALUE HIERARCHY	PRINCIPAL VALUATION TECHNIQUES AND ENTRY DATA
1) Exchange rate and interest rate Swap (see Note 13)	Liabilities (64,758)	Liabilities (79,131)	Liabilities (60,341)	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.
2) Principal-only swap EUR/USD (see Note 13)	Liabilities (116,439)	Liabilities (20,031)	Liabilities (8,141)	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.
3) Contracts forward (see Note 13)	Assets 298	Liabilities (483)	-	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.
	(180,899)	(99,645)	(68,482)		
Less- current portion	(14,830)	(483)	-		
Total	$ (166,069)	$ (99,162)	$ (68,482)		

b. Los importes en libros de los instrumentos financieros por categoría y sus valores razonables estimados al December 31, son como sigue:

	2017		2016		2015	
	CARRYING AMOUNT	FAIR VA LUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS:						
Cash and cash equivalents	$ 1,899,840	$ 1,899,840	$ 713,607	$ 713,607	$ 653,274	$ 653,274
LOANS AND ACCOUNTS RECEIVABLE:						
Customers and other current assets	1,332,187	1,332,187	1,183,846	1,176,272	885,921	885,921
Accounts payable	(2,131,318)	(2,131,318)	(1,994,225)	(1,994,225)	(1,913,132)	(1,913,132)
Bank loans and current portion of long-term debt	(3,255,366)	(2,449,968)	(2,299,063)	(1,915,606)	(2,335,075)	(1,971,958)
Total	$ (2,154,657)	$ (1,349,259)	$ (2,395,835)	$ (2,019,952)	$ (2,709,012)	$ (2,345,895)

As of December 31, 2017, 2016 and 2015, the hierarchy of the fair value of cash and cash equivalents for $1,899,840, $713,607 and $653,274, respectively, is Level 1.

The fair values shown at December 31, 2017, 2016 and 2015 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

During 2017, a Forward of EUR / TRY exchange rate was contracted with Ak Bank with a validity from July 27, 2017 to January 26, 2018 for a notional amount of EUR 8 million. The agreed exchange rate is 4.406 Turkish Liras per Euro.

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.

b. Exchange Rate and Interest Rate Swaps and Principal-Only Swaps

Swap contract transactions performed in 2017, 2016 and 2015 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, 2017, 2016 and 2015 was $181,197, $99,162 and $68,482, 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:

2017

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	
Exchange rate and interest rate Swap	Morgan Stanley	09/October/2013	05/March/2021	MXN$	750,000,000	USD$	56,775,170	December 2017	5.2385% /19.7354	$	(14,012)
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	5.2385% /19.7354		(14,192)
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	5.2385% /19.7354		(26,902)
Exchange rate and interest rate Swap	Banamex	16/January/2017	09/March/2022	MXN$	1,500,000,000	USD$	83,892,617	3.09% / 17.8800	8.12% /19.7354		(9,652)
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	1.1943		(26,877)
Principal-Only swap EUR/USD	Santander	11/June/2015	17/March/2022	USD$	97,402,597	EUR$	101,050,000	1.7200% / 0.9639	1.1943		(26,360)
Principal-Only swap EUR/USD	HSBC	17/September/2014	17/September/2024	USD$	132,000,000	EUR$	104,761,905	1.4350% / 1.2600	1.1943		320
Principal-Only swap EUR/USD	Bancomer	05/May/2015	18/March/2025	USD$	228,316,800	EUR$	204,000,000	1.7087% / 1.1192	1.1943		(22,547)
Principal-Only swap EUR/USD	Banamex	03/December/2015	17/March/2025	USD$	121,011,000	EUR$	114,000,000	1.7500% / 1.0615	1.1943		(20,471)
Principal-Only swap EUR/USD	Barclays	03/December/2015	17/March/2025	USD$	121,011,000	EUR$	114,000,000	1.5500% / 1.0615	1.1943		(20,504)
Exchange rate Forward	Ak Bank	27/July/2017	26/January/2018	EUR$	8,000,000	TRY$	28,272,000	3.534	3.775		298
										$	(180,899)

2016

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
Exchange rate and interest rate Swap	Morgan Stanley	09/October/2013	05/March/2021	MXN$ 750,000,000	USD$ 56,775,170	3.88% / 13.2100	5.2385% /20.664	$ (20,216)
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	5.2385% /20.664	(20,503)
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	5.2385% /20.664	(38,412)
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	1.0489	(13,162)
Principal-Only swap EUR/USD	Santander	11/June/2015	17/March/2022	USD$ 97,402,597	EUR$ 101,050,000	1.7200% / 0.9639	1.0489	(12,025)
Principal-Only swap EUR/USD	HSBC	17/September/2014	17/September/2024	USD$ 132,000,000	EUR$ 104,761,905	1.4350% / 1.2600	1.0489	13,329
Principal-Only swap EUR/USD	Bancomer	05/May/2015	18/March/2025	USD$ 228,316,800	EUR$ 204,000,000	1.7087% / 1.1192	1.0489	3,008
Principal-Only swap EUR/USD	Banamex	03/December/2015	17/March/2025	USD$ 121,011,000	EUR$ 114,000,000	1.7500% / 1.0615	1.0489	(6,160)
Principal-Only swap EUR/USD	Barclays	03/December/2015	17/March/2025	USD$ 121,011,000	EUR$ 114,000,000	1.5500% / 1.0615	1.0489	(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)

2015

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
Exchange rate and interest rate Swap	Morgan Stanley	09/October/2013	05/March/2021	MXN$ 750,000,000	USD$ 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	1.0923	(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	1.0923	(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	1.0923	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	1.0923	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	1.0923	(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	1.0923	(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)

14. PROPERTY, PLANT AND EQUIPMENT

	BALANCES AS OF DECEMBER 31, 2016	ADDITIONS	ACQUISITIONS THROUGH BUSINESS COMBINATIONS	FIXED ASSET SALES / DISCONTINUED	TRANSFERRED FROM PROPERTY, PLANT AND EQUIPMENT	SINISTER ON PLANT AND IMPAIRMENT EFFECTS	NET EFFECT OF INFLATION	TRANSLATION EFFECT	BALANCES AS OF DECEMBER 31, 2017
INVESTMENT:									
Land	$ 225,460	$ 5	$ -	$ (6,780)	$ (8,721)	$ -	$ 32,155	$ 8,348	$ 250,467
Buildings	922,494	1,920	-	(43,057)	29,376	-	79,269	52,614	1,042,616
Machinery and equipment	3,947,853	52,927	-	(107,867)	1,542,698	-	72,298	185,107	5,693,016
Furniture and fixtures	119,773	2,212	-	(14,247)	3,509	-	933	9,262	121,442
Vehicles	37,301	674	-	(2,413)	2,102	-	941	(56)	38,549
Construction in-progress	1,655,875	191,259	-	(177,465)	(1,568,964)	-	-	1,845	102,550
Total investment	**6,908,756**	**248,997**	**-**	**(351,829)**	**-**	**-**	**185,596**	**257,120**	**7,248,640**
DEPRECIATION:									
Buildings	494,326	37,162	-	(16,008)	-	-	43,032	29,615	588,127
Machinery and equipment	2,545,621	293,066	-	(116,053)	-	-	35,801	153,401	2,911,836
Furniture and fixtures	95,068	8,435	-	(13,516)	-	-	766	5,340	96,093
Vehicles	24,148	2,296	-	(1,269)	-	-	836	78	26,089
Total accumulated depreciation	**3,159,163**	**340,959**	**-**	**(146,846)**	**-**	**-**	**80,435**	**188,434**	**3,622,145**
Net investment	**$ 3,749,593**	**$ (91,962)**	**$ -**	**$ (204,983)**	**$ -**	**$ -**	**$ 105,161**	**$ 68,686**	**$ 3,626,495**

	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	NET EFFECT OF INFLATION	TRANSLATION EFFECT	BALANCES AS OF DECEMBER 31, 2016
INVESTMENT:									
Land	$ 232,665	$ 46	$ 20	$ (4,712)	$ -	$ -	$ 6,152	$ (8,711)	$ 225,460
Buildings	902,224	6,774	199	(7,734)	32,522	(1,119)	15,130	(25,502)	922,494
Machinery and equipment	4,234,325	48,330	11,009	(123,474)	131,087	(289,344)	13,775	(77,855)	3,947,853
Furniture and fixtures	120,017	4,492	128	(4,654)	5,433	(6)	184	(5,821)	119,773
Vehicles	35,302	281	648	(754)	578	-	183	1,063	37,301
Construction in-progress	1,272,755	548,896	-	(950)	(169,620)	1,356	-	3,438	1,655,875
Total investment	**6,797,288**	**608,819**	**12,004**	**(142,278)**	**-**	**(289,113)**	**35,424**	**(113,388)**	**6,908,756**
DEPRECIATION:									
Buildings	471,400	33,576	-	(6,194)	-	(181)	8,418	(12,693)	494,326
Machinery and equipment	2,475,783	218,068	2,551	(110,099)	-	(926)	7,077	(46,833)	2,545,621
Furniture and fixtures	96,057	7,878	94	(4,580)	-	(4)	151	(4,528)	95,068
Vehicles	21,515	2,514	273	(610)	-	-	176	280	24,148
Total accumulated depreciation	**3,064,755**	**262,036**	**2,918**	**(121,483)**	**-**	**(1,111)**	**15,822**	**(63,774)**	**3,159,163**
Net investment	**$ 3,732,533**	**$ 346,783**	**$ 9,086**	**$ (20,795)**	**$ -**	**$ (288,002)**	**$ 19,602**	**$ (49,614)**	**$ 3,749,593**

	BALANCES AS OF DECEMBER 31, 2014	ADDITIONS	ACQUISITIONS THROUGH BUSINESS COMBINATIONS	FIXED ASSET SALES / DISCONTINUED	TRANSFERRED FROM PROPERTY, PLANT AND EQUIPMENT	SINISTER ON PLANT AND IMPAIRMENT EFFECTS	NET EFFECT OF INFLATION	TRANSLATION EFFECT	BALANCES AS OF DECEMBER 31, 2015
INVESTMENT:									
Land	$ 312,626	$ 917	$ -	$ (6,386)	$ 24	$ -	$ 2,368	$ (76,884)	$ 232,665
Buildings	968,477	4,410	-	(14,488)	20,129	-	5,022	(81,326)	902,224
Machinery and equipment	4,338,229	53,597	-	(83,721)	226,574	-	3,735	(304,089)	4,234,325
Furniture and fixtures	143,999	3,269	-	(12,595)	4,424	-	10	(19,090)	120,017
Vehicles	38,703	351	-	(4,144)	931	-	59	(598)	35,302
Construction in-progress	614,779	926,453	-	(2,757)	(252,082)	-	-	(13,638)	1,272,755
Total investment	**6,416,813**	**988,997**	**-**	**(124,091)**	**-**	**-**	**11,194**	**(495,625)**	**6,797,288**
DEPRECIATION:									
Buildings	507,536	29,240	-	(7,115)	-	-	2,972	(61,233)	471,400
Machinery and equipment	2,489,736	230,393	-	(46,327)	-	-	2,169	(200,188)	2,475,783
Furniture and fixtures	118,463	6,380	-	(12,223)	-	-	124	(16,687)	96,057
Vehicles	18,179	7,218	-	(3,947)	-	-	76	(11)	21,515
Total accumulated depreciation	**3,133,914**	**273,231**	**-**	**(69,612)**	**-**	**-**	**5,341**	**(278,119)**	**3,064,755**
Assets classified as held for sale	3,089	5,413	-	(8,502)	-	-	-	-	-
Net investment	**$ 3,285,988**	**$ 721,179**	**$ -**	**$ (62,981)**	**$ -**	**$ -**	**$ 5,853**	**$ (217,506)**	**$ 3,732,533**

15. INTANGIBLE ASSETS AND GOODWILL

a. Intangible assets -

	USEFUL LIFE	2017	2016	2015
Non - compete agreements	5	$ 1,248	$ 1,800	$ 2,921
Customer portfolio	25	653,948	650,473	681,760
Use of trademark	Indefinite/definitive	416,477	402,570	411,889
Intellectual property	10	113,075	113,555	119,574
Other intangibles	5	27,208	24,410	32,996
		$ 1,211,956	**$ 1,192,808**	**$ 1,249,140**

COST	NON - COMPETE AGREEMENT	CUSTOMER PORTFOLIO	USE OF TRADEMARKS	INTELLECTUAL PROPERTY	OTHER INTANGIBLES	TOTAL
Balances as of January 1, 2015 (cost)	$ 182,770	$ 971,017	$ 448,914	$ 177,802	$ 105,572	$ 1,886,075
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 (cost)	**182,770**	**901,673**	**429,182**	**172,077**	**102,600**	**1,788,302**
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**	**884,367**	**422,248**	**177,729**	**101,936**	**1,770,795**
New developments and investments	-	50	-	2,420	5,146	7,616
Effect of foreign currency exchange differences	(156)	36,059	16,189	7,551	3,608	63,251
Balances as of December 31, 2016 (cost)	**$ 184,359**	**$ 920,476**	**$ 438,437**	**$ 187,700**	**$ 110,690**	**$ 1,841,662**

AMORTIZATION	NON - COMPETE AGREEMENT	CUSTOMER PORTFOLIO	USE OF TRADEMARK	INTELLECTUAL PROPERTY	OTHER INTANGIBLES	TOTAL
Balances as of January 1, 2015 (amortization)	$ 166,501	$ 190,896	$ 16,226	$ 40,111	$ 64,377	$ 478,111
Amortization	13,348	29,017	1,067	12,392	5,227	61,051
Balances as of December 31, 2015 (amortization)	**179,849**	**219,913**	**17,293**	**52,503**	**69,604**	**539,162**
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	233,894	19,678	64,174	77,526	577,987
Amortization	**396**	**32,634**	**2,282**	**10,451**	**5,956**	**51,719**
Balances as of December 31, 2017 (amortization)	**$ 183,111**	**$ 266,528**	**$ 21,960**	**$ 74,625**	**$ 83,482**	**$ 629,706**
Net assets at December 31, 2017 (net)	**$ 1,248**	**$ 653,948**	**$ 416,477**	**$ 113,075**	**$ 27,208**	**$ 1,211,956**

b. Goodwill

		2017		2016		2015
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.		96,694		96,338		93,334
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.		29,375		25,802		26,867
VESTO PVC Holding GmbH		30,850		27,097		28,216
Others		55,378		54,788		43,582
Total	**$**	**698,455**	**$**	**690,183**	**$**	**678,157**
Balance at the beginning of the year	$	690,183	$	678,157	$	723,220
Business combinations which occurred during the year (Note 6d)		-		12,278		-
Effect of differences in foreign currency exchange rates		8,272		(252)		(45,063)
Balance at the end of the year	**$**	**698,455**	**$**	**690,183**	**$**	**678,157**

16. BANK LOANS AND LONG-TERM DEBT

Are integrated as follows:

	2017	2016	2015
SUMMARY OF AGREEMENTS OF LOANS IN U.S. DOLLARS, EUROS, YEN AND RUPEES:			
Issuance of an International Bond to ten years for $500 million which accrues semiannual interest at the fixed 4.00% rate. Principal will be settled through a single payment at maturity in September 2027.	$500,00	$ -	$ -
Issuance of an International Bond to thirty years for $500 million which accrues semiannual interest at the fixed 5.50% rate. Principal will be settled through a single payment at maturity in January 2048.	500,000	-	-
Issuance of an International Bond to thirty years for $750 million, which accrues semiannual interest at the fixed 5.875% rate. Principal will be settled through a single payment at maturity in September 2044.	750,000	750,000	750,000
Issuance of an International Bond to ten years for $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 to thirty years for $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 an International Bond to ten years for $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.	51,000	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
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%.	8,899	8,862	7,485
Others	6,048	14,54	8,077
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.	152,011	145,18	174,353
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
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.	108,393	133,687	178,389
	3,309,233	**2,336,711**	**2,375,220**
Less: Current portion of bank loans and current portion of long-term debt	-45,422	-57,693	-43,653
Less: Debt issuance costs	-53,867	-37,648	-40,145
	$ 3,209,944	**$ 2,241,370**	**$ 2,291,422**

Maturities of long-term debt as of December 31, 2017, net of the related placement expenses, are as follows:

PAYABLE DURING	
2019	$ 102,493
2020	82,106
2021	15,076
2022	893,509
2023 and thereafter	2,116,760
	$ 3,209,944

As of December 31, 2017, some of the credits establish specific covenants, which have been fulfilled and are calculated on consolidated figures of Mexichem, 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 2017, 2016 and 2015, respectively.

b. Financial liabilities from leases

	MINIMUM LEASE PAYMENTS			PRESENT VALUE OF MINIMUM LEASE PAYMENTS		
	2017	2016	2015	2017	2016	2015
Up to one year	$ 40,409	$ 59,722	$ 51,263	$ 36,772	$ 51,839	$ 44,053
Between 1 and 3 years	36,779	69,310	116,079	31,654	57,176	105,437
Three years or more	32,175	23,772	12,115	7,682	12,337	11,320
	109,363	152,804	179,457	76,108	121,352	160,810
Less future financing charges	33,255	31,452	18,647	-	-	-
Present value of minimum lease payments Up to one year	$ 76,108	$ 121,352	$ 160,810	$ 76,108	$ 121,352	$ 160,810

Included in the financial statements as:	2017	2016	2015
Short-term financial leases	$ 36,772	$ 51,839	$ 44,053
Long-term financial leases	39,336	69,513	116,757
	$ 76,108	**$ 121,352**	**$ 160,810**

	PRESENT VALUE OF MINIMUM LEASE PAYMENTS BY ITEM	PRESENT VALUE OF MINIMUM LEASE PAYMENTS BY ITEM	PRESENT VALUE OF MINIMUM LEASE PAYMENTS BY ITEM
	2017	2016	2015
Building	$ 11,227	$ 13,427	$ 17,054
Machinery and equipment	54,278	104,546	140,159
Furniture and fixtures	10,312	2,355	1,573
Vehicles	291	1,024	2,024
	$ 76,108	**$ 121,352**	**$ 160,810**

18. EMPLOYEE BENEFITS

a. Defined contribution plansa

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, 2017 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:

	2017	2016	2015
Discount rate(s)	3.38%	3.47%	3.96%
Expected rate(s) of salary increase	3.06%	2.77%	2.63%
Expected yield on defined contribution plan assets	3.38%	3.47%	3.96%
AVERAGE LONGEVITY AT RETIREMENT AGE FOR CURRENT PENSIONERS (YEARS)			
- Males	Males	21.1	21.4
- Females	Females	23.0	23.6
EXPECTED RETURN ON PLAN ASSETS			
AVERAGE LONGEVITY AT RETIREMENT AGE FOR CURRENT EMPLOYEES (YEARS)			
- Males	22.2	22.3	22.7
- Females	24.2	24.5	25.1

Amounts recognized in comprehensive income in respect of these defined benefit plans are as follows:

	2017		2016		2015	
SERVICE COST:						
Current service cost	$	8,814	$	5,126	$	6,782
Past service cost and (gain)/loss from settlements		(841)		(8,764)		(5,473)
Net interest expense		3,708		3,352		4,724
Components of defined benefit costs recognized in profit or loss	**$**	**11,681**	**$**	**(286)**	**$**	**6,033**

	2017		2016		2015	
REMEASUREMENT ON THE NET DEFINED BENEFIT LIABILITY:						
Return on plan assets (excluding amounts included in net interest expense)	$	(5,905)	$	(38,148)	$	3,309
Actuarial (gains) and losses arising from changes in demographic assumptions		(2,802)		69,724		(38,844)
Actuarial (gains) and losses arising from changes in financial assumptions		(1,064)		4,545		(4,732)
Actuarial (gains) and losses arising from experience adjustments		1,178		(2,194)		(230)
Components of defined benefit costs recognized in other comprehensive income		**(8,593)**		**33,927**		**(40,497)**
Total	**$**	**3,088**	**$**	**33,641**	**$**	**(34,464)**

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.

The current service and financial cost net of the year are included in benefits spending to employees in the consolidated statements of profit or loss and other comprehensive income (loss), 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:

	2017	2016	2015
Present value of funded defined benefit obligation	$ (503,957)	$ (458,608)	$ (448,784)
Fair value of plan assets	318,028	287,635	293,812
Net liability arising from defined benefit obligation	**$ (185,929)**	**$ (170,973)**	**$ (154,972)**

Movements in the present value of the defined benefit obligation in the current year were as follows:

	2017	2016	2015
Opening defined benefit obligation	$ 458,608	$ 448,784	$ 931,822
Current service cost	8,814	5,126	6,782
Interest cost	13,023	13,350	19,843
REMEASUREMENT (GAINS)/LOSSES:			
Actuarial (gains) and losses arising from changes in financial assumptions	(2,722)	74,521	(8,014)
Actuarial (gains) and losses arising from changes in financial assumptions	3,582	5,614	(521)
(Gains) / losses actuarial arising from past adjustments	(3,357)	(3,096)	(4,384)
Past service cost, including losses/(gains) on curtailments	(841)	(8,764)	(5,473)
Liabilities assumed in a business combination	45,574	(59,454)	(79,185)
Exchange differences on foreign plans	(18,844)	(17,533)	(18,469)
Benefits paid	120	60	50
Contributions from plan participants	-	-	(393,667)
Closing defined benefit obligation	**$ 503,957**	**$ 458,608**	**$ 448,784**

Movements in the fair value of the plan assets in the current year were as follows:

	2017	2016	2015
Opening fair value of plan assets	$ 287,634	$ 293,812	$ 710,289
Interest income	9,316	9,998	15,117
REMEASUREMENT (GAINS)/LOSSES:			
Return on plan assets (excluding amounts included in net interest expense)	5,905	38,148	(3,308)
Contributions from the employer	6,181	5,189	8,450
Contributions from plan participants	(90)	52	50
Exchange differences on foreign plans	23,797	(45,745)	(59,694)
Assets acquired in a business combination	(13,640)	(13,819)	(14,730)
Benefits paid	(1,075)	-	(1,354)
Administrative cost	-	-	(361,008)
Closing fair value of plan assets	**$ 318,028**	**$ 287,635**	**$ 293,812**

The fair value of the plan assets at the end of the reporting period for each category, are as follows:

	2017		2016		2015	
Equity investments	$	92,733	$	84,860	$	127,159
Debt investments		147,041		168,478		149,947
Others		78,254		34,297		16,706
Total	**$**	**318,028**	**$**	**287,635**	**$**	**293,812**

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets.

As of December 31, 2017, 2016 and 2015, the plan assets include ordinary shares of the Entity with an accumulated fair value of $45, $86 and $654, 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.

In 2017, 2016 and 2015, if the discount rate is 1% higher or lower, the defined benefit obligation would decrease or ncrease $14,537, $12,764 and $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		
	2017	2016	2015
Equity instruments	1.00%	1.02%	1.71%
Debt instruments	2.38%	2.45%	2.25%
Weighted average expected return	**3.38%**	**3.47%**	**3.96%**

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:

	2017		2016		2015	
Present value of defined benefit obligation	$	503,957	$	458,608	$	448,784
Fair value of plan assets		(318,028)		(287,635)		(293,812)
Net liability	**$**	**185,929**	**$**	**170,973**	**$**	**154,972**
Adjustments based on experience on plan liabilities	**$**	**(4,535)**	**$**	**1,808**	**$**	**(4,270)**
Adjustments based on experience on plan assets	**$**	**(7,874)**	**$**	**(39,754)**	**$**	**(3,301)**

19. PROVISIONS

	LEGAL		RESTRUCTURING		GUARANTEES		OTHER		TOTAL	
Balance at January 1, 2015	$	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**
(Credit) debit to results		19,341		4,451		678		(756)		23,714
Applications		(711)		(6,214)		(655)		(1,620)		(9,200)
Translation effects		(194)		564		627		684		1,681
Balance at December 31, 2017	**$**	**23,158**	**$**	**3,899**	**$**	**5,623**	**$**	**9,209**	**$**	**41,889**
Current	$	224	$	3,899	$	2,683	$	1,783	$	8,589
Non-current		22,934		-		2,940		7,426		33,300
Balance at December 31, 2017	**$**	**23,158**	**$**	**3,899**	**$**	**5,623**	**$**	**9,209**	**$**	**41,889**

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, 2017, 2016 and 2015, 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, 2017, 2016 and 2015, 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

LBasic 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 25, 2017, the stockholders approved a partial cancellation of the repurchase fund balance which was not used from April 28, 2016 through April 27, 2017 of $551,579; similarly, the stockholders agreed to increase such reserve by $385,000 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, 2017, 2016 and 2015, the reserve balance was $379,802, $551,579 and $156,219, respectively; as of such dates, the Entity has 1,936,477; 877 and 48,585,778 of its own shares, respectively.

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.

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.

c. Earned capital

At a Stockholders' Ordinary General Meeting held on November 16, 2017, the stockholders approved the payment of a cash dividend of $147 millon, applied to retained earnings and the net tax income account (CUFIN) generated before December 31, 2013, payable in four installments during 2018.

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.

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, 2017, 2016 and 2015, it already represents 20% of the nominal capital stock in Mexican pesos and its amount amounts to $51,298 in each of the periods.

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:

	2017		2016		2015	
Contributed capital account	$	1,434,268	$	1,292,820	$	1,502,129
CUFIN	$	510,691	$	398,478	$	413,249

21. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances due from and payable to related parties are as follows:

	2017		2016		2015	
DUE FROM RELATED PARTIES:						
Pochteca Materias Primas, S.A. de C.V.	$	1,221	$	810	$	964
Eternit Colombiana, S.A.		409		431		178
Mexalit Industrial S.A. de C.V.		135		539		-
Elementia Servicios Administrativos, S.A. de C.V.		117		121		-
Elementia, S.A. de C.V.		73		1,157		212
Others		238		207		223
	$	2,193	$	3,265	$	1,577

	2017		2016		2015	
DUE TO RELATED PARTIES:						
Kaluz, S.A. de C.V.	$	63,756	$	49,447	$	26,355
Pochteca Materias Primas, S.A. de C.V.		335		810		-
Others		421		1,230		395
	$	64,512	$	51,487	$	26,750

b. The Entity carried out the following transactions with related parties:

	2017	2016	2015
REVENUES FROM –			
Sales	$ 6,057	$ 7,336	$ 7,640
Administrative services	998	1,036	1,610
	$ 7,055	**$ 8,372**	**$ 9,250**
EXPENSES FROM –			
Administrative services	$ 10,172	$ 10,507	$ 14,724
Purchases	1,968	1,347	1,270
Donations	-	445	1,364
Others	699	678	582
	$ 12,839	**$ 12,977**	**$ 17,940**

c. The compensation paid to management and other key members of management during the year was as follows:

	2017	2016	2015
Short-term benefits	$ 8,471	$ 7,695	$ 6,080
Postretirement benefits	-	729	583
Terminated benefits	159	659	337
	$ 8,630	**$ 9,083**	**$ 7,000**

22. COST OF SALES AND OPERATING EXPENSESES

a. Cost of sales

	2017	2016	2015
Changes in inventories of finished goods and work in progress and raw materials and consumables used	$ 4,067,112	$ 3,854,432	$ 4,073,597
Depreciation	308,328	223,185	231,865
	$ 4,375,440	**$ 4,077,617**	**$ 4,305,462**

b. Selling and development expenses:

	2017	2016	2015
Salaries, wages and other benefits	$ 182,974	$ 177,917	$ 179,936
Repair and maintenance	5,211	4,220	3,919
External services	32,262	34,665	31,706
Lease	18,330	17,000	17,379
Advertising and marketing	23,605	22,724	25,263
Commissions on sales	21,755	21,293	21,619
Taxes and duties	1,973	1,942	1,229
Insurance	2,491	3,006	3,174
Telephony	148	200	244
Packaging materials	3,055	5,688	3,236
Allowance for doubtful accounts	11,889	11,437	8,355
Others	48,466	41,040	59,721
Depreciation	13,908	16,098	14,909
Amortization	15,776	15,887	16,587
	$ 381,843	**$ 373,117**	**$ 387,277**

c. Administrative expenses

	2017	2016	2015
Salaries, wages and other benefits	$ 153,101	$ 144,761	$ 150,592
External services	42,479	41,577	44,592
Taxes and duties	5,649	7,184	9,223
Telephone	3,999	2,388	2,787
Repair and maintenance	19,932	13,315	14,279
Insurance	4,244	6,207	7,394
Lease	6,039	9,085	9,437
Administrative services affiliates	10,177	10,507	14,724
Others	31,054	33,136	26,541
Depreciation	16,963	13,220	15,436
Amortization	42,837	45,127	58,753
	$ 336,474	**$ 326,507**	**$ 353,758**

d. Other expenses (income)

	2017	2016	2015
EXPENSES:			
Provision judgments	$ 18,169	$ -	$ -
Extraordinary taxes	7,099	3,764	-
Loss on sale of fixed assets	1,557	-	-
Recuperación de seguros	2,530	1,987	-
Fixed asset impairment	-	3,322	-
Expenses related to acquisitions	11,814	-	-
Loss on items hedged with forwards	-	-	20,968
Donations	403	1,863	3,081
Other	5,556	3,364	-
	47,128	**13,334**	**24,049**

	2017	2016	2015
INCOME:			
Gain on sale of waste materials	$ (1,966)	$ (2,309)	$ (2,372)
Account receivable related to business interruption	(16,826)	(22,389)	-
Anticipated reduction of labor obligations	-	-	(6,582)
Recovery of expenses and claims	-	-	(10,327)
Recovery of insurances	-	-	(6,933)
Gain on sale of fixed assets	-	(1,333)	(2,990)
Extraordinary income	-	-	(6,417)
Others	(1,905)	(2,271)	(8,683)
	(20,697)	**(28,302)**	**(44,304)**
Other expenses (income), net	**$ 26,431**	**$ (14,968)**	**$ (20,255)**

23. INCOME TAXES

ISR is based on tax profit, which differs from the profit reported in the consolidated statements of profit and loss and other comprehensive income (loss), 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 2017 in the countries where the Entity operates are as follows:

	%		%
Germany	34	Ireland	13
Argentina	35	Italy	24
Austria	25	Japan	30
Belgium	33	Latvia	15
Brazil	34	Lithuania	15
Bulgaria	10	Mexico	30
Canada	27	Nicaragua	30
China	25	Noruega	24
Colombia	40	Oman	12
Costa Rica	30	Panama	25
Croatia	20	Peru	28
Denmark	22	Poland	19
Ecuador	22	United Kingdom	19
El Salvador	30	Czech Republic	19
Slovakia	21	Republic of Serbia	15
United States of America	42	Romania	16
Estonia	20	Russia	20
Finland	20	South Africa	28
France	33	Switzerland	22
Guatemala	25	Switzerland	24
Holland	25	Taiwan	17
Honduras	25	Turkey	20
Hungary	9	Ukraine	18
India	34	Venezuela	34

b. Deferred taxes

At December 31, the main items comprising the liability balance of deferred income tax are as follows::

	2017	2016	2015
Property, plant and equipment	$ 429,778	$ 329,119	$ 330,725
Inventories	446	1,015	765
Liabilities deductible upon payment	(12,997)	(18,393)	(17,349)
Tax loss carry forwards	(445,246)	(368,998)	(204,216)
Intangible assets	66,040	102,933	95,161
Others	40,315	39,149	(57,522)
	78,336	**84,825**	**147,564**
Deferred tax asset	152,883	66,025	186,989
Deferred tax liability	**$ 231,219**	**$ 150,850**	**$ 334,553**

c. A reconciliation of beginning and ending amount of the net deferred tax liability is as follows:

	2017	2016	2015
Beginning balance	$ 84,825	$ 147,564	$ 172,947
Income tax provision applied to results	66,525	(79,108)	(56,831)
Effect of assets and liabilities of acquired companies	-	7,220	-
Effect of foreign currency conversion	19,835	2,030	(18,161)
Discontinued operations	(68,271)	20,433	9,615
Effect on capital of other comprehensive income entries	(24,578)	(13,314)	39,994
	$ 78,336	**$ 84,825**	**$ 147,564**

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:

	2017	%	2016	%	2015	%
Profit before income taxes	$ 534,808	33.23	$ 422,110	26.22	$ 314,416	26.73
Permanent items that modified the tax base:						
Accruable annual adjustment for inflation	148,190	8.44	67,232	4.89	35,433	3.48
Non-accruable income	(38,377)	(2.18)	(4,507)	(0.32)	(16,888)	(1.65)
Non-deductible items	38,466	2.19	38,694	2.81	31,825	3.12
Assets for tax losses not recognized formerly and loss not recognized, net	(5,981)	(0.34)	81,638	5.94	13,321	1.30
Effect of changes in tax rate	(38,817)	(2.21)	234	0.01	857	0.08
Basis of others to the profit	6,198	0.35	18,320	1.33	2,330	0.22
Fixed asset and other tax incentives	(56,161)	(3.19)	(23,327)	(1.69)	(22,196)	(2.18)
Foreign exchange tax and translation effect, net	3,837	0.21	(238,105)	(17.34)	(85,658)	(8.41)
Others	(8,997)	(0.51)	(2,331)	(0.16)	(1,339)	(0.12)
Total permanent items	**48,358**	**2.76**	**(62,152)**	**(4.53)**	**(42,314)**	**(4.16)**
Base profit for income taxes	**$ 583,166**	**30.47**	**$ 359,958**	**30.75**	**$ 272,101**	**30.89**
Current income tax	$ 111,166		$ 189,795		$ 140,883	
Deferred income tax	66,525		(79,108)		(56,831)	
Total tax	$ 177,691		$ 110,687		$ 84,052	
Effective rate	33.23%		26.22%		26.73%	
Average legal rate	30.47%		30.75%		30.89%	

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, 2017 are as follows::

YEAR OF expiration	TAX LOSS carry forwards
2019	1,925
2020	10,115
2021	67,271
2022	5,302
2023	32,711
2024	113,330
2025 and thereafter	1,030,983
Without expiration	252,222
	$ 1,515,763

24. DISCONTINUED OPERATIONS

a. On December 20, 2017, Mexichem announced its decision to not reconstruct its VCM production capacity and discontinue such business, as well as all the assets and liabilities associated to Ethylene and the secondary services associated to VCM and Ethylene, treating such businesses as discontinued operations in its consolidated financial statements for the years 2017, 2016 and 2015.

b. 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 analyzing options to sell some of these assets internally, to date we have received offers to purchase some of these assets, which are still being analyzed. Mexichem expects to sell the assets in 2018.

c. 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.

d. 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.

		2017		2016		2015
Sales	$	18,727	$	37,289	$	139,608
Costs of sales		(36,772)		(68,249)		(144,795)
Other expenses, Net		(192,660)		(12,203)		(64,497)
Financial income, Net		(745)		(490)		1,552
Income tax		68,271		(20,433)		(9,615)
Net loss from discontinued operations	**$**	**(143,179)**	**$**	**(64,086)**	**$**	**(77,747)**

25. OPERATING LEASE ARRANGEMENTSS

As of December 31, 2017, 2016 and 2015, the Entity has contractual commitments for operating leases related to machinery and equipment and operating leases for real estate in the amount of $55,094, $62,926 and $85,789, respectively.

Maturities of contractual commitments at December 31, 2017, are as follows:

YEARS	AMOUNT	
2018	$	11,820
2019		11,590
2020		10,600
2021		8,905
2022 and thereafter		12,179
	$	55,094

OPERATING LEASE CONCEPT	AMOUNT 2017		AMOUNT 2016		AMOUNT 2015	
Buildings	$	23,798	$	32,047	$	33,319
Machinery and equipment		29,189		28,158		41,374
Furniture and office equipment		611		459		6,531
Transportation equipment		1,496		2,262		4,565
	$	55,094	$	62,926	$	85,789

26. ASSETS AND CONTINGENT LIABILITIES

Contingent assets:

As discussed in Note 3e, regarding the effect of the incident at the VCM plant of PMV, there is a difference between the amount recognized as an account receivable from the insurance companies for $283 million, and the economic impacts of the incident for $320 million, which depends on the assembly insurance, for which a claim is being filed. The environmental damage described in paragraph a. below is covered by an insurance policy, so any environmental damage that generates an impact could trigger a claim for an account receivable from the insurance companies.

Contingent liabilities: :

a. As a result of the incident at the VCM plant (Clorados III) described above, PMV performed an environmental assessment to determine if any contamination was deposited in areas surrounding the plant. Such assessment was delivered to the environmental authorities and they are working together to determine if there is any environmental damage. Also, PMV could be considered liable for damages payable to third parties, if any exist. With the information available at the date of these consolidated financial statements, there is no evidence that such liabilities are material.

b. The subsidiary Mexichem Brasil Industria de Transformação Plástica, Ltda. (formerly Amanco Brasil, Ltda.) was notified in 2017 by the Consejo Administrativo de Defensa Económica de Brasil (CADE for its initials in Portuguese), for alleged violations of economic competition standards in that country, committed by the subsidiary and some of its executives between 2003 and 2009. Mexichem is totally committed to compliance with local regulations in every country where it operates. At the date of these consolidated financial Mexichem has recognized the amount of the liability it was able to reliably estimate. This process is ongoing, so the related liability could increase depending on the result of such process

27. IINFORMATION 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 three business groups: Vinyl, 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, DE 2017						
	VINYL	FLUOR	FLUENT	OTHER	HOLDING ENTITY	ELIMINATIONS	CONSOLIDATED
Net sales	$ 2,316,777	$ 680,860	$ 3,022,666	$ 1,610	$ 25,461	$ (219,041)	$ 5,828,333
Cost of sales	1,852,820	411,711	2,300,581	1,493	-	(191,165)	4,375,440
Gross profit	**463,957**	**269,149**	**722,085**	**117**	**25,461**	**(27,875)**	**1,452,893**
General expenses	139,161	63,519	488,118	(33)	82,628	(28,645)	744,748
Other expenses (income) related parties	49,013	15,134	25,164	(3)	(89,309)	-	-
Exchange loss (gain), Net	19,959	5,241	26,642	(207)	(4,811)	770	47,594
Interest expense	44,053	5,685	47,462	7	146,653	(48,964)	194,896
Interest income	(2,542)	(7,022)	(12,961)	(19)	(44,665)	48,964	(18,245)
Monetary position loss	-	-	(48,723)	-	-	-	(48,723)
Income from dividends	(8,515)	-	(110)	-	(183,643)	192,268	-
Equity in income of associated	(206)	-	(1,979)	-	-	-	(2,185)
Profit before income taxes	**223,034**	**186,592**	**198,472**	**372**	**118,608**	**(192,268)**	**534,808**
Income taxes	61,395	32,095	43,680	(180)	40,701	-	177,691
Profit for the year from continuing operations	**161,637**	**154,498**	**154,792**	**552**	**77,906**	**(192,268)**	**357,117**
Discontinued operations	(142,052)	158	(1,285)	-	-	-	(143,179)
Consolidated profit (loss) of the year	**$ 19,585**	**$ 154,656**	**$ 153,507**	**$ 552**	**$ 77,906**	**$ (192,268)**	**$ 213,938**

	DECEMBER 31, DE 2016						
	VINYL	FLUOR	FLUENT	OTHER	HOLDING ENTITY	ELIMINATIONS	CONSOLIDATED
Net sales	$ 2,025,826	$ 582,858	$ 2,892,097	$ 1,601	$ 21,509	$ (180,053)	$ 5,343,838
Cost of sales	1,721,477	344,537	2,169,754	1,459	3,387	(162,997)	4,077,617
Gross profit	**304,349**	**238,321**	**722,343**	**142**	**18,122**	**(17,056)**	**1,266,221**
General expenses	134,494	62,142	437,349	248	67,479	(17,056)	684,656
Other expenses (income) related parties	44,258	14,720	14,586	(27)	(73,537)	-	-
Exchange loss (gain), Net	(31,472)	(6,151)	(14,578)	(139)	50,112	-	(2,228)
Interest expense	34,705	5,595	52,965	14	138,884	(40,394)	191,769
Interest income	(1,221)	(5,515)	(7,308)	(3)	(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	**124,411**	**167,592**	**259,471**	**49**	**(31,961)**	**(97,452)**	**422,110**
Income taxes	5,777	59,086	83,248	272	(37,696)	-	110,687
Profit for the year from continuing operations	**118,634**	**108,506**	**176,223**	**(223)**	**5,735**	**(97,452)**	**311,423**
Discontinued operations	(53,306)	(3,818)	(6,962)	-	-	-	(64,086)
Consolidated profit (loss) of the year	**$ 65,328**	**$ 104,688**	**$ 169,261**	**$ (223)**	**$ 5,735**	**$ (97,452)**	**$ 247,337**

	DECEMBER 31, DE 2015						
	VINYL	FLUOR	FLUENT	OTHER	HOLDING ENTITY	ELIMINATIONS	CONSOLIDATED
Net sales	$ 2,111,177	$ 607,545	$ 3,026,592	$ 245	$ 17,955	$ (179,907)	$ 5,583,607
Cost of sales	1,787,438	373,832	2,312,029	232	-	(168,069)	4,305,462
Gross profit	**323,739**	**233,713**	**714,563**	**13**	**17,955**	**(11,838)**	**1,278,145**
General expenses	137,742	47,579	455,933	(353)	91,718	(11,838)	720,780
Other expenses (income) related parties	53,520	16,231	12,073	-	(81,248)	(576)	-
Exchange loss (gain), Net	(17,350)	(5,028)	4,455	(39)	74,403	576	57,017
Interest expense	29,639	6,523	89,689	5	140,176	(53,957)	212,075
Interest income	(839)	(5,270)	(17,668)	-	(51,146)	53,957	(20,966)
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	**120,541**	**173,696**	**176,373**	**400**	**(74,916)**	**(81,679)**	**314,416**
Income taxes	46,869	60,886	46,130	-	(69,833)	-	84,052
Profit for the year from continuing operations	**73,672**	**112,810**	**130,243**	**400**	**(5,083)**	**(81,679)**	**230,364**
Discontinued operations	23,581	(48,869)	(5,296)	-	-	-	(77,747)
Consolidated profit (loss) of the year	**$ 50,091**	**$ 63,941**	**$ 124,947**	**$ 400**	**$ (5,083)**	**$ (81,679)**	**$ 152,617**

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, DE 2017						
	VINYL	FLUOR	FLUENT	OTHER	HOLDING ENTITY	ELIMINATIONS	CONSOLIDATED
CURRENT ASSETS:							
Cash and cash equivalents	$ 205,792	$ 128,948	$ 452,079	$ 303	$ 1,112,718	$ -	$ 1,899,840
Accounts receivable, Net	704,729	141,465	483,800	-	-	-	1,329,994
Other current assets	231,247	347,628	434,175	2,995	396,854	(700,195)	712,704
Assets classified as held for sale	-	4,228	5,174	-	-	-	9,402
Total current assets	**1,141,768**	**622,269**	**1,375,228**	**3,298**	**1,509,572**	**(700,195)**	**3,951,940**
Property, plant and equipment, Net	2,315,113	297,276	1,001,806	9,060	3,240	-	3,626,495
Other assets, Net	604,935	156,407	1,488,975	9,477	4,927,867	(5,006,717)	2,180,944
Total assets	**$ 4,061,816**	**$ 1,075,952**	**$ 3,866,009**	**$ 21,835**	**$ 6,440,679**	**$ (5,706,912)**	**$ 9,759,379**
CURRENT LIABILITIES:							
Bank loans and current portion of long-term debt	$ 15,553	$ 15,553	$ 14,316	$ -	$ -	$ -	$ 45,422
Suppliers and credit letters	832,667	51,970	468,279	-	9,149	-	1,362,066
Other current liabilities	493,664	37,633	399,701	1,045	482,112	(700,195)	713,960
Liabilities classified as held for sale	-	8,215	885	-	-	-	9,100
Total current liabilities	**1,341,885**	**113,371**	**883181**	**1,045**	**491,261**	**(700,195)**	**2,130,548**
Bank loans and long-term debt	89,664	38,624	631	-	3,081,025	-	3,209,944
Other non-current liabilities	453,823	184,747	636,941	88	107,431	(645,022)	738,008
Total liabilities	**$ 1,885,372**	**$ 336,742**	**$ 1,520,753**	**$ 1,133**	**$ 3,679,717**	**$ (1,345,218)**	**$ 6,078,500**

	DECEMBER 31, DE 2016						
	VINYL	FLUOR	FLUENT	OTHER	HOLDING ENTITY	ELIMINATIONS	CONSOLIDATED
CURRENT ASSETS:							
Cash and cash equivalents	$ 127,472	$ 124,235	$ 304,083	$ 813	$ 157,004	$ -	$ 713,607
Accounts receivable, Net	611,299	112,421	466,636	(2,687)	(7,088)	-	1,180,581
Other current assets	240,496	333,082	418,588	2,162	393,351	(742,714)	644,965
Assets classified as held for sale	-	7,566	13,484	-	-	-	21,050
Total current assets	**979,267**	**577,304**	**1,202,791**	**288**	**543,267**	**(742,714)**	**2,560,203**
Property, plant and equipment, Net	2,520,927	302,195	916,092	8,344	2,035	-	3,749,593
Other assets, Net	623,165	157,794	1,430,387	7,597	4,849,495	(5,024,219)	2,044,219
Total assets	**$ 4,123,359**	**$ 1,037,293**	**$ 3,549,270**	**$ 16,229**	**$ 5,394,797**	**$ (5,766,933)**	**$ 8,354,015**
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	40,997	437,575	2	5,851	-	1,269,704
Other current liabilities	544,422	48,906	352,422	773	454,789	(756,919)	644,393
Liabilities classified as held for sale	-	12,216	991	-	-	-	13,207
Total current liabilities	**1,348,408**	**121,592**	**810,501**	**775**	**460,640**	**(756,919)**	**1,984,997**
Bank loans and long-term debt	95,699	51,652	2,977	-	2,091,042	-	2,241,370
Other non-current liabilities	502,822	175,783	578,347	114	(76,266)	(634,758)	546,042
Total liabilities	**$ 1,946,929**	**$ 349,027**	**$ 1,391,825**	**$ 889**	**$ 2,475,416**	**$ (1,391,677)**	**$ 4,772,409**

	DECEMBER 31, DE 2015						
	VINYL	FLUOR	FLUENT	OTHER	HOLDING ENTITY	ELIMINATIONS	CONSOLIDATED
CURRENT ASSETS:							
Cash and cash equivalents	$ 128,778	$ 98,071	$ 254,181	$ 77	$ 172,167	$ -	$ 653,274
Accounts receivable, Net	283,084	125,863	484,233	(5)	(8,831)	-	884,344
Other current assets	269,751	349,241	423,497	307	444,090	(789,156)	697,730
Assets classified as held for sale	-	11,533	4,972	-	-	-	16,505
Total current assets	**681,613**	**584,708**	**1,166,883**	**379**	**607,426**	**(789,156)**	**2,251,853**
Property, plant and equipment, Net	2,446,306	324,286	956,606	5,078	257	-	3,732,533
Other assets, Net	620,781	179,868	1,440,082	-	3,139,702	(3,165,537)	2,214,896
Total assets	**$ 3,748,700**	**$ 1,088,862**	**$ 3,563,571**	**$ 5,457**	**$ 3,747,385**	**$ (3,954,693)**	**$ 8,199,282**
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	38,957	451,244	1	1,224	-	1,201,021
Other current liabilities	490,786	67,111	374,147	156	449,357	(827,287)	554,270
Liabilities classified as held for sale	-	19,617	-	-	-	-	19,617
Total current liabilities	**1,216,484**	**143,564**	**835,062**	**157**	**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	445,971	182,865	685,890	91	71,596	(647,078)	739,335
Total liabilities	**$ 1,745,900**	**$ 410,749**	**$ 1,526,723**	**$ 248**	**$ 2,640,063**	**$ (1,474,365)**	**$ 4,849,318**

Below other information shown by segment of business group consolidated financial statements:

	DEPRECIATION AND AMORTIZATION			ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT		
	2017	2016	2015	2017	2016	2015
Vinyl	$ 182,510	$ 113,602	$ 111,726	$ 146,028	$ 487,914	$ 818,313
Fluor	53,624	51,595	55,132	24,120	14,301	140,439
Fluent	150,978	136,280	150,500	74,953	99,353	30,236
Other	1,031	1,031	-	1,747	4,298	-
Holding Entity	9,669	11,009	20,192	2,149	2,953	9
	$ 397,812	**$ 313,517**	**$ 337,550**	**$ 248,997**	**$ 608,819**	**$ 988,997**

Below is the financial information classified by geographical area:

COUNTRY	NET SALES FROM EXTERNAL CUSTOMERS			PROPERTY, PLANT AND EQUIPMENT, NET		
	AT DECEMBER 31, 2017	AT DECEMBER 31, 2016	AT DECEMBER 31, 2015	AT DECEMBER 31, 2017	AT DECEMBER 31, 2016	AT DECEMBER 31, 2015
Mexico	$ 1,208,832	$ 1,088,655	$ 1,251,614	$ 724,621	$ 931,289	$ 1,201,753
Northwest Europe	1,171,420	1,071,944	996,536	340,596	312,624	338,926
U.S.A.	877,786	847,184	831,595	1,608,990	1,624,718	1,288,828
Southwest Europe	655,350	544,464	559,808	123,897	118,229	125,921
Colombia	494,081	467,551	492,436	233,569	245,734	251,776
Brazil	348,499	343,446	377,394	103,558	113,289	103,506
Central and Eastern Europe	242,220	214,618	241,621	76,752	68,909	74,968
Central America	182,495	180,542	174,174	72,597	72,935	74,622
Southeast Europe	154,926	159,077	152,104	31,943	33,263	39,684
Others	177,000	134,567	157,327	41,591	37,191	31,695
Ecuador	97,894	90,722	101,408	44,060	50,168	53,892
Peru	70,201	73,662	85,839	56,772	62,123	69,452
Japan	62,997	49,278	50,391	10,519	8,793	8,539
Argentina	45,398	35,877	54,782	4,942	5,878	5,337
Other European countries	8,140	26,753	46,464	47,823	44,205	51,393
Venezuela	31,094	15,498	10,114	104,265	20,246	12,241
Total	**$ 5,828,333**	**$ 5,343,838**	**$ 5,583,607**	**$ 3,626,495**	**$ 3,749,593**	**$ 3,732,533**

28. SUBSEQUENT EVENTS

a. On February 7, 2018, Mexichem announced that it completed the acquisition of 80% of the stock of Netafim, Ltd. (Netafim), a company backed by the Fondo Permira, after having obtained all the government authorizations and fulfilled the conditions precedent required under the Stock Purchase Agreement. Netafim is a privately owned Israeli company which is a leader in micro-irrigation solutions. The company's total value in the transaction was $1,895 million. Kibbutz Hatzerim will retain the remaining 20% of the common stock of Netafim. Mexichem financed the acquisition with a combination of cash and debt. The completion of this transaction represents a significant step forward in Mexichem's long-term strategy to position itself as a world global leader in specialized products and solutions serving high-growth markets. The Netafim financial statements will be consolidated in the financial statements of Mexichem as of this date.

The acquisition was financed mainly as follows (i) $241 million in cash, (ii) a new short-term loan for $200 million, and (iii) flows from the issuance of a long-term bond for $985 million.

b. On January 22, 2018, Mexichem announced that it acquired Sylvin Technologies Inc. (Sylvin), a specialized manufacturer of PVC compounds located in Denver, Pennsylvania, at a cost of $39 million, free from cash and debt. Sylvin is expected to have total sales of $29 million in 2017. Sylvin has a 30 year track record serving a wide range of industries that include electricity, industrial, automotive, medical and food products. Mexichem will consolidate Sylvin into the Vinyl Business Group, as part of the Compounds Business Unit. Combining the business model focused on Sylvin's customers, its solid work team and the development capacity of its applications with the global compounds business of Mexichem, will enable them to offer greater value added to its US customers. Sylvin's key raw materials are PVC resins, plastifiers and stabilizers, which should bring synergies to the operations of Mexichem's Vinyl Business Group.

29. FINANCIAL STATEMENT ISSUANCE AUTHORIZATION

The consolidated financial statements for the year ended December 31, 2015 were approved by the Audit Committee, Board of Directors and at the Stockholders' Ordinary Meeting on February 22 and 23 and April 28, 2016, respectively; those for the year ended December 31, 2016, were approved on February 21 and 22 and April 25, 2017, respectively. On February 19, 2018, the issuance of the accompanying consolidated financial statements for the year ended December 31, 2017 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.