

# FINANCIAL AND SUSTAINABILITY REPORT



2017

**Mexichem**<sup>®</sup>

## 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

## 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)