

US\$1,150,000,000



Mexichem, S.A.B. de C.V.

US\$750,000,000 4.875% Senior Notes due 2022

US\$400,000,000 6.750% Senior Notes due 2042

We are offering US\$750,000,000 aggregate principal amount of Senior Notes due 2022, or the 2022 Notes, and US\$400,000,000 aggregate principal amount of Senior Notes due 2042, or the 2042 Notes and, together with the 2022 Notes, the Notes. The 2022 Notes will bear interest at a rate of 4.875% per year. The 2042 Notes will bear interest at a rate of 6.750% per year. We will pay interest on the Notes semiannually in arrears on March 19 and September 19 of each year, beginning March 19, 2013.

The Notes will be unconditionally guaranteed by certain of our subsidiaries. The Notes and the subsidiary guarantees will be our and our subsidiary guarantors' senior unsecured obligations (subject to certain obligations that are preferred by statute). The Notes and the subsidiary guarantees will rank equally with each other and with all of our and our subsidiary guarantors' respective existing and future senior unsecured indebtedness.

We may redeem some or all of the Notes at any time at the greater of 100% of their principal amount outstanding and a make-whole amount described in this offering memorandum, in each case plus any Additional Amounts and accrued interest through the date of redemption. See "Description of notes — Redemption." If a change of control triggering event as described in this offering memorandum under the heading "Description of notes — Redemption upon change of control" occurs, we may be required to offer to purchase the Notes from the holders. In addition, we may redeem the Notes, in whole, but not in part, at a price equal to 100% of their outstanding principal amount, plus any Additional Amounts then payable, and accrued and unpaid interest, in the event of certain changes in Mexican tax laws applicable to the Notes.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market. This offering memorandum constitutes a prospectus for the purpose of the Luxembourg law dated July 10, 2005 on prospectuses for securities as amended. The Notes are and will be issued only in registered form in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

An investment in the Notes involves risks. See "Risk factors" beginning on page 18 for a discussion of certain risks you should consider in connection with an investment in the Notes.

2022 Notes Offering Price: 99.026% plus accrued interest, if any, from September 19, 2012

2042 Notes Offering Price: 100.00% plus accrued interest, if any, from September 19, 2012

THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS EXCLUSIVELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (COMISIÓN NACIONAL BANCARIA Y DE VALORES OR THE "CNBV"). THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (REGISTRO NACIONAL DE VALORES) MAINTAINED BY THE CNBV AND, THEREFORE, THE NOTES MAY NOT BE PUBLICLY OFFERED OR SOLD NOR BE THE SUBJECT OF BROKERAGE ACTIVITIES IN MEXICO, EXCEPT THAT THE NOTES MAY BE OFFERED IN MEXICO TO INSTITUTIONAL AND QUALIFIED INVESTORS, PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (LEY DEL MERCADO DE VALORES). AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, WE WILL NOTIFY THE CNBV OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE DELIVERED TO THE CNBV TO COMPLY WITH A LEGAL REQUIREMENT AND FOR INFORMATION PURPOSES ONLY, AND THE DELIVERY OF SUCH NOTICE TO, AND THE RECEIPT OF SUCH NOTICE BY, THE CNBV, DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN. THIS OFFERING MEMORANDUM MAY NOT BE PUBLICLY DISTRIBUTED IN MEXICO.

The Notes have not been registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or the securities laws of any other jurisdiction. We are offering the Notes only to qualified institutional buyers (as defined in Rule 144A under the Securities Act) and outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on the transfer of the Notes, see "Transfer restrictions."

Delivery of each series of the Notes was made to investors in book-entry form through the facilities of The Depository Trust Company, or DTC, and its participants, including Euroclear Bank S.A./N.V., or Euroclear, or Clearstream Banking Société Anonyme, Luxembourg, or Clearstream Luxembourg on September 19, 2012.

Joint Bookrunners

Citigroup

HSBC

J.P. Morgan

Morgan Stanley

Co-managers

Barclays

Rabo Securities

The date of this offering memorandum is October 26, 2012.

TABLE OF CONTENTS

	<u>Page</u>
Presentation of financial and other information.....	iv
Summary.....	1
The offering.....	10
Summary consolidated financial data.....	14
Risk factors.....	18
Forward-looking statements.....	33
Use of proceeds.....	34
Exchange rates.....	35
Capitalization.....	36
Selected consolidated financial data.....	37
Unaudited pro forma consolidated financial information.....	45
Management’s discussion and analysis of financial condition and results of operations.....	50
Industry.....	80
Business.....	92
Management.....	135
Principal shareholders.....	139
Certain relationships and related party transactions.....	140
Description of notes.....	141
Taxation.....	159
Plan of distribution.....	163
Transfer restrictions.....	169
General information.....	171
Legal experts.....	173
Independent auditors.....	173
Index to financial statements.....	F-1

NOTICE TO INVESTORS

In making your investment decision, you should rely only on the information contained in this offering memorandum. We have not, and the initial purchasers have not, authorized any other person to provide you with different information. If any person provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this offering memorandum is accurate as of the date on the front cover of this offering memorandum only. Our business, properties, results of operations or financial condition may have changed since that date. Neither the delivery of this offering memorandum nor any sale made hereunder will under any circumstances imply that the information herein is correct as of any date subsequent to the date on the front cover of this offering memorandum.

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the Notes described in this offering memorandum. This offering memorandum does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire Notes.

Neither we nor the initial purchasers are making an offer to sell the Notes in any jurisdiction except where such an offer or sale is permitted. You must comply with all applicable laws and regulations in force in your jurisdiction and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the Notes under the laws and regulations in force in your jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor the initial purchasers will have any responsibility therefor.

We are relying upon an exemption from registration under the Securities Act for an offer and sale of securities that do not involve a public offering. We have submitted this offering memorandum solely to a limited number of qualified institutional buyers in the United States and to investors outside the United States so they can consider a purchase of the Notes. This offering memorandum may only be used for the purposes for which it has been published. By accepting delivery of this offering memorandum and by purchasing Notes, you are deemed to have made certain acknowledgments, representations and agreements as set forth under “Transfer restrictions” in this offering memorandum. The Notes are subject to restrictions on transfer and resale and may not be transferred or

resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser of the Notes, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future.

None of the CNBV, the U.S. Securities and Exchange Commission, or the SEC, any state securities commission or any other regulatory authority has approved or disapproved of the Notes nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

In making an investment decision, prospective investors must rely on their own examination of our company and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the Notes under applicable legal, investment or similar laws or regulations.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are a publicly held variable capital stock corporation (*sociedad anónima bursátil de capital variable*) organized under the laws of Mexico. All of our directors and officers reside outside the United States. Substantially all of the assets of such persons are located in Mexico or elsewhere outside of the United States. Substantially all of our assets are located in Mexico or elsewhere outside the United States. As a result, it may not be possible for investors to effect service of process within the United States or in any other jurisdiction outside Mexico upon us, our directors or officers or to enforce against us or our directors or officers in any jurisdiction outside of Mexico judgments predicated upon the laws of any such jurisdiction, including any judgment predicated upon the United States federal and state securities laws. We have been advised by White & Case, S.C., our special Mexican counsel, that there is doubt as to the enforceability in Mexican courts, in original actions or in actions for enforcement of judgments obtained in courts of jurisdictions outside of Mexico, of civil liabilities arising under the laws of any jurisdiction outside of Mexico, including any judgment predicated solely upon the United States federal and state securities laws.

ADDITIONAL INFORMATION

While any Notes remain outstanding, we will make available, upon request, to any holder and any prospective purchaser of Notes the information required pursuant to Rule 144(A)(d)(4)(i) under the Securities Act, during any period in which we are not subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial information

This offering memorandum includes our audited consolidated financial statements as of December 31, 2011, 2010 and 2009 and for each of the years then ended, and our unaudited interim condensed consolidated financial statements as of June 30, 2012 and for the six and three months ended June 30, 2012 and 2011.

In 2012, we acquired two companies, Fluorita de México, S.A. de C.V., or Fluorita de México, and Wavin N.V., or Wavin. We acquired Wavin pursuant to an all-cash tender offer whereby our total shareholding came to 87% on May 7, 2012 pursuant to an initial tender offer, after which we acquired an additional 11% on May 23, 2012 from a subsequent offer during post-acceptance period, for total holding of 98%. The unaudited consolidated *pro-forma* financial information included in this offering memorandum under the heading “Unaudited Consolidated Pro Forma Financial Information” reflects the effects of these acquisitions on our financial information. The unaudited consolidated *pro-forma* financial information included in this offering memorandum for the year ended December 31, 2011 and for the six months ended June 30, 2012, give effect to the acquisition of Fluorita de México on January 26, 2012, and the acquisition of Wavin in a two-step process on May 7 and May 23, 2012, as if these acquisitions had taken place on January 1, 2011. The unaudited consolidated *pro-forma* financial information for the year ended December 31, 2011 and for the six months ended June 30, 2012 are not comparable to our historic financial information for the equivalent periods, given that they give effect to the acquisition of Fluorita de México and Wavin.

This offering memorandum also includes the audited consolidated financial statements of Wavin as of December 31, 2011 and for the year then ended.

During 2011 we acquired AlphaGary Corporation, or AlphaGary, and in 2010, we acquired Ineos Flúor, Polycyd S.A. de C.V., or Polycyd, and Plásticos Rex, S.A. de C.V., or Plásticos Rex. Our financial statements for the year ended December 31, 2011 reflect the consolidation of AlphaGary for twelve months. Our financial statements for the year ended December 31, 2010 reflect the consolidation of the acquisitions as follows: nine months for Ineos Flúor, two months for Polycyd and two months for Plásticos Rex.

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, or IFRS, issued by the International Accounting Standards Board, or IASB. Our unaudited condensed consolidated interim financial statements included in this offering memorandum have been prepared in conformity with IFRS for interim financial reporting in accordance with IAS 34 – *Interim Financial Reporting*.

Our consolidated financial statements reflect the effects of inflation in economies with hyperinflation, or where inflation in the past three years exceeds 100%. In 2011 and 2010, we recognized the effects of inflation for our operations in Venezuela.

Rounding

Certain figures included in this offering memorandum and in our financial statements have been rounded for ease of presentation. Percentage figures included in this offering memorandum have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this offering memorandum may vary from those obtained by performing the same calculations using the figures in our financial statements. Certain numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them due to rounding.

Operational divisions

We report our results of operations for our three operating divisions (which are also our financial segments). Our Chlorine-Vinyl Division produces chlorine, caustic soda, chlorine derivatives and resins. Our Integral Solutions Division produces pipes for the conveyance of fluids, mainly water, and PVC compounds manufactured primarily to meet the demands of the construction and agriculture industries. Our Fluorine Division includes our fluorspar mining operations and produces hydrofluoric acid and fluorocarbons.

In addition, our consolidated operating and financial information (including our net sales figures) set forth in this offering memorandum reflects our performance after the elimination of all inter- and intra-division transactions. In contrast, the operating and financial information (including our net sales figures) provided for each of our operating divisions in this offering memorandum only gives effect to the elimination of intra-division (but not inter-division) transactions.

EBITDA

This offering memorandum also includes our EBITDA, or earnings before interest, tax and depreciation and amortization, which we calculate as gross profit, less operating expenses (selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other income expenses) plus depreciation and amortization charged to cost of sales and operating expenses. EBITDA is not a measure recognized under IFRS, does not have a standardized meaning and may not be comparable to similarly titled measures provided by other companies either in Mexico or in other jurisdictions. In addition, we have not calculated EBITDA in accordance with the guidelines adopted by the SEC on presentation of non-GAAP financial measures. We disclose EBITDA because we use it as a measure of our consolidated operating performance. EBITDA should not be considered in isolation or as a substitute for net income or loss or as an indicator of operating performance or cash flow or as a measure of liquidity or our ability to service debt obligations.

Currency information

We publish our financial statements in Mexican *pesos*. Unless otherwise specified, references in this offering memorandum to “U.S. dollars,” “\$” or “US\$” are to United States dollars. Unless otherwise specified references to “*pesos*” or “Ps.” are to Mexican *pesos*, except for those entities that operate in inflationary environments, as defined by IFRS, and thus continue to recognize the effects of inflation in their financial statements. Unless otherwise specified, references to “*reais*,” “*real*” or “R\$,” are to Brazilian *reais*.

Unless otherwise indicated, the exchange rate used in translating Mexican *pesos* into U.S. dollars to calculate these convenience translations was determined by reference to the exchange rate published by the Banco de México in the Federal Official Gazette as the rate for the payment of obligations denominated in non-Mexican currency payable in Mexico as of such dates and at the average for the periods indicated, respectively. You should not construe these convenience translations as representations that the Mexican peso amounts actually represent the U.S. dollar amounts presented, or that they could be converted into U.S. dollars at the rate or at the dates indicated. See “Exchange rates.”

Industry and market data

Unless otherwise noted, market data and other statistical information used throughout this offering memorandum are based on our estimates, which are derived from our review of internal surveys and independent industry publications, government publications, and reports by market research firms or other published independent sources, including:

- the CMAI World Vinyls Analysis 2012 and the CMAI World Chlor-Alkali Analysis 2012 published by IHS Inc. (formerly CMAI);
- chemical economics handbook, process economics program yearbook and international marketing research reports prepared by SRI Consulting, or SRI, as follows: Fluorocarbons 2011 and Fluorspar and Inorganic Fluorine Compounds 2011; and
- 2011 SRI Consulting Market Research on Fluorspar and Hydrofluoric Acid, the Mexican National Chemical Industry Association (*Asociación Nacional de la Industria Química*), or ANIQ, and the Brazilian Chemical Industry Association (*Associação Brasileira da Indústria Química*), or ABIQUIM.

Although we believe these sources, including our estimates, are reliable, and take responsibility for the correct extraction and reproduction of this information, we have not independently verified the information and cannot guarantee its accuracy or completeness.

SUMMARY

This summary highlights selected information contained elsewhere in this offering memorandum. This offering memorandum includes a description of the terms of the Notes that we are offering, as well as a description of our business and detailed financial information. Unless otherwise expressly indicated or the context otherwise requires, the terms “we,” “our,” the “Company” and “Mexichem” each refer to Mexichem, S.A.B. de C V., and its subsidiaries.

This summary is not complete and does not contain all of the information you should consider before investing in our Notes. You should read the entire offering memorandum carefully, especially the risks of investing in our Notes discussed under “Risk factors” and our financial statements and the related Notes included elsewhere in this offering memorandum.

Mexichem

We are one of the largest chemical companies in Latin America based on average annual production capacity and net sales and the leader in plastic pipes and solutions in Europe. We produce a diverse portfolio of chemical products in our 98 plants, which are strategically located in 39 countries across Latin America, the United States, Canada, Japan, Taiwan, China, the United Kingdom, and 24 other European countries and we sell products in approximately 50 countries. We are the largest producer of pipes in Europe and Latin America, the largest producers of polyvinyl chloride, or PVC, resin in Latin America and one of the largest producers of chlorine and caustic soda in Latin America, according to CMAI. We have the largest production capacity for hydrofluoric acid in the world in addition to the world’s largest fluorspar mine, according to SRI Consulting, making us the only fully-integrated hydrofluoric acid producer in the Americas.

Our principal products include PVC resin and pipe, fluid transportation solutions, chlorine, caustic soda, fluorspar and hydrofluoric acid, aluminum fluoride, phosphates and coolants, which are widely used in the construction, housing, infrastructure, agriculture, potable water, sewage, irrigation, coolants and air conditioning industries. In Latin America in 2011, we had an approximate 43% market share in the sale of PVC resin and an approximate 31% market share in the sale of PVC pipes, based on market studies from CMAI, WVA and ANIQ. In addition, we have a leading market share in several European countries, such as Belgium, Czech Republic, Denmark, Germany, Hungary, the Netherlands and Poland. In 2011, our net sales, excluding intracompany sales, were Ps. 47.3 billion (US\$3.8 billion), which represents an annual increase of 34.4%. In 2010, our net sales, excluding intracompany sales, were Ps. 35.2 billion (US\$2.8 billion) and in 2009, our net sales, excluding intracompany sales, were Ps. 29.8 billion (US\$2.2 billion). In 2011, our consolidated EBITDA was Ps. 10.3 billion (US\$826 million), which represents an annual increase of 26.4%. In 2010 our consolidated EBITDA was Ps. 8.1 billion (US\$643 million) and in 2009, our consolidated EBITDA was Ps. 6.1 billion (US\$457 million). Wavin’s net sales in 2011 were €1.3 billion and its EBITDA was €98 million, approximately equivalent to US\$1.7 billion and US\$127 million, respectively.

In recent years, we have secured a strong competitive position and market share throughout Latin America, North America and in European and Asian markets both as a result of organic growth as well as acquisitions focused on expanding and vertically integrating our production processes. Our growth strategy is designed to be accretive to the main raw materials we produce. We have proven experience in integrating and operating acquired companies. We have made six acquisitions since December 31, 2009, most recently the acquisition of AlphaGary, a manufacturer of compounds, in 2011, the acquisition of Fluorita de México, including mineral concessions from the Las Sabinas mining unit, in the first quarter of 2012 and the acquisition of Wavin, a manufacturer of PVC pipes and resin headquartered in the Netherlands, during the second quarter of 2012.

Our business consists of three operating divisions:

- *Chlorine-Vinyl Division.* This division consists of three manufacturing processes: (i) the chlor-alkali process, which produces chlorine, caustic soda, sodium hypochlorite and phosphate; (ii) the vinyl process, which produces PVC resins; and (iii) the compounds process, which produces PVC compounds. Our Chlorine-Vinyl Division had net sales of Ps. 23.0 billion (US\$1.9 billion) in 2011 and Ps. 12.4 billion (US\$934 million) for the six months ended June 30, 2012, which accounted for approximately 48.6% and 41.2% of our consolidated net sales in those periods, respectively. We own rights to the largest salt dome in

Mexico according to the *Cámara Minera de México*, or the Mexican Mining Chamber, with over 40 years of proven reserves, and we operate modern chlorine, caustic soda and PVC resin and compound production facilities.

- *Integral Solutions Division.* This division produces pipes and pipe systems for the conveyance of fluids, mainly water, surface heating and cooling systems and water treatment systems, as well as PVC compounds manufactured primarily to meet the demands of the construction and agriculture industries. Beginning in May 2012, Wavin was consolidated into our Integral Solutions Division. Our Integral Solutions Division had net sales of Ps. 18.8 billion (US\$1.5 billion) in 2011 and Ps. 14.1 billion (US\$1.1 billion) for the six months ended June 30, 2012, which accounted for approximately 39.7% and 46.8% of our consolidated net sales in those periods, respectively.
- *Fluorine Division.* This division consists of three manufacturing processes: (i) the fluorspar process, which is the raw material used in the production of all fluorinated products, which in turn are used in the cement, ceramics, steel and glass industries. This division includes the mining concession to the world's largest fluorspar mine with installed annual production capacity of approximately one million tons and approximately 17% of global production in 2011, and proven reserves of 50 million tons for the next 49 years according to the 2011 SRI report; (ii) the hydrofluoric acid process, which encompasses the production of hydrofluoric acid, which is a principle source of fluorine and a chemical precursor to numerous pharmaceuticals and plastics, and aluminum fluoride, which is used for the production of aluminum by electrolysis; and (iii) the gas coolant process, which is used in the pharmaceutical, automotive, air conditioning and refrigerant industries. Our Fluorine Division had net sales of Ps. 10.9 billion (US\$873 million) in 2011 and Ps. 6.5 billion (US\$485 million) for the six months ended June 30, 2012, which accounted for approximately 22.9% and 21.4%, respectively, of our consolidated net sales in those periods.

The following table sets forth our principal products sold in 2011, together with our market position and market share for each of these products by country.

Country/Region	Product	Position	% Market Share
Integral Solutions			
Brazil	Pipe	2	31
Mexico	Pipe	1	39
Latin America	Pipe	1	31
Argentina	Pipe	2	13
Baltics	Pipe	2	10
Belgium	Pipe	1	20
Colombia	Pipe	1	52
Costa Rica	Pipe	1	46
Czech Republic	Pipe	1	21
Denmark	Pipe	1	11
Ecuador	Pipe	1	57
El Salvador	Pipe	1	59
France	Pipe	2	13
Germany	Pipe	1	41
Guatemala	Pipe	1	37
Honduras	Pipe	1	34
Hungary	Pipe	1	30
Italy	Pipe	3	6
Netherlands	Pipe	1	29
Nicaragua	Pipe	1	39
Norway	Pipe	2	27
Panama	Pipe	1	33
Peru	Pipe	1	24
Poland	Pipe	1	22
Romania	Pipe	3	13
Sweden	Pipe	3	16

Country/Region	Product	Position	% Market Share
Turkey	Pipe	2	9
United Kingdom	Pipe	2	22
Venezuela	Pipe	1	29
Fluorine Division			
United States.....	Fluorspar (acidic)	1	64
United States.....	Fluorspar (metallurgic)	1	100
United States.....	Fluorocarbons	1	32
United States.....	Hydrofluoric Acid	1	61
Mexico.....	Fluorspar	1	100
United Kingdom	Fluorspar	1	30
Canada	Fluorspar (metallurgic)	1	79
Canada	Fluorspar (acidic)	1	38
Japan.....	Fluorspar (metallurgic)	1	79
Japan.....	Fluorocarbons	2	30
Chlorine-Vinyl Division			
United States.....	Compounds	8	7
Mexico.....	Chlorine	1	83
Mexico.....	Compounds	1	36
Mexico.....	PVC Resin	1	78
Mexico.....	Caustic Soda	1	54
Latin America.....	PVC	1	43
Colombia	Compounds	1	52
Colombia	PVC Resin	1	80

(1) Based on installed annual production capacity.

Source: CMAI, CMAI Chlor-Alkali market report, SRI and our internal analyses.

Competitive Strengths

We focus on creating value for our shareholders, customers and suppliers by continuously developing and improving our products and services, adding value from our basic raw materials through vertical integration to achieve superior results. Our principal competitive strengths include the following:

Vertically-integrated operations with direct access to raw materials that provide economies of scale and reduce operating expenses.

We are fully integrated throughout our major chemical product chains, from the core natural resource to the end consumer. We hold rights to the largest salt dome in Mexico with over 40 years of proven reserves, according to the Mexican Mining Chamber, and we operate modern chlorine, caustic soda and PVC resin production facilities. In addition, we have entered into agreements with Occidental Chemical Corporation Group, or Oxy, and Petróleos Mexicanos, or Pemex, for the supply of vinyl chloride monomer, or VCM, which provides us with a reliable and continuous supply at attractive prices, which will be supplemented by the co-investment between us and Pemex for the production of VCM. We are the only fully integrated hydrofluoric acid producer in the Americas. We hold the rights to the world's largest fluorspar mine, according to SRI, with over 50 million tons or 49 years of proven fluorspar reserves. With the acquisition of Ineos Fluor in March 2010, we became the largest hydrofluoric acid producer in the world, according to SRI, with capacity of over 190,000 tons per year.

Leading position in Latin-American and European PVC and plastic pipe markets, with strong growth prospects and indisputable global leadership within the Fluorine Division.

We are the largest producer of pipes in Europe and Latin America, the largest producer of PVC resin in Latin America and one of the largest producers of chlorine and caustic soda in Latin America, according to CMAI. We believe the infrastructure and construction industries in the markets for these products should experience sustained

growth over the coming years. Mexico accounted for 35.4% of our consolidated net sales in 2011. Over the past three years, we have expanded our presence throughout the western hemisphere and as a result we now have production facilities in 10 countries in Latin America in addition to facilities in the United States, Canada, Japan, Taiwan, China, the United Kingdom and, as of May 2012, several European countries. Unlike the United States' and Western Europe's chlor-alkali and PVC industries, the principal markets for our products enjoy attractive infrastructure and construction growth prospects and are characterized by significant housing deficits, particularly in Argentina, Brazil, Colombia, Mexico and Venezuela, based on data from the World Economic Forum and its World Competition Report 2011-2012. We expect there will be continued demand for PVC and caustic soda in coming years throughout Latin America with growth rates more than doubling those in the United States or Western European markets, according to CMAI.

We believe we are also uniquely positioned as a key producer of fluorochemicals. We have a particularly strong market presence in Mexico and Canada, as the only provider of fluorspar. We hold the rights to the world's largest fluorspar mine, with modern hydrofluoric acid production facilities and have well-established relationships with key market players. In addition, our proximity to the attractive U.S. end-market for fluorochemicals gives us a competitive advantage compared to our competitors. We typically enter into long-term, U.S. dollar denominated contracts with reputable international customers for the sale of the fluorspar and hydrofluoric acid we produce. We believe that our unique global position will permit us to explore opportunities in providing more value-added fluorinated products.

Strong track record of integrating and operating acquired companies throughout Latin America and Europe.

We have grown rapidly in recent years, having completed 19 acquisitions (for an aggregate of 75 acquired companies) since 2003. See "—Recent events." The acquisitions completed in 2009 contributed Ps. 1,135.8 million and Ps. 19.3 million to net sales and EBITDA, respectively, which represented approximately 3.8% and 0.3% of total net sales and EBITDA for 2009; the acquisitions completed in 2010 contributed Ps. 3,783.1 million and Ps. 1,484.4 million to net sales and EBITDA, respectively, which represented approximately 10.7% and 18.3% of total net sales and EBITDA for 2010; and the acquisition completed in 2011 contributed Ps. 3,321.1 million and Ps. 428.0 million to net sales and EBITDA, respectively, which represented approximately 7.0% and 4.2% of total net sales and EBITDA for 2011. In addition, we completed the acquisition of Fluorita de México in the first quarter of 2012, which has proven reserves of 13 million tons of the highest purity fluorine, and in the second quarter of 2012, the acquisition of Wavin, a manufacturer of PVC pipes and resin headquartered in the Netherlands with 2011 net sales of €1.3 billion.

Our successfully completed acquisitions have contributed significantly to our net sales and EBITDA and placed us in a leading position in the industries in which we operate. In 2011, our net sales increased 34.5% and our EBITDA increased 26.4% compared to 2010. We have invested over US\$3.5 billion in acquisitions since 2003 and these acquisitions have generated approximately US\$1.0 billion of EBITDA over this period.

Strong relationships and long-term agreements with principal suppliers.

We operate under long-term supply agreements with Oxy and Pemex, for the procurement of VCM, which we use to make PVC. We believe these long-term supply agreements provide us with a reliable supply of VCM on attractive terms. Based on growth potential and market size, we have identified our most desirable markets and have entered into and expect to enter into strategic agreements with leaders in those markets providing us a distinct advantage over our competitors who do not have similar strategic arrangements.

Experienced management team with significant industry experience.

Our senior management team has significant experience in the Latin American chemicals industry, with an average of over 17 years of experience in the industry. We believe our senior management team has a proven track record of successfully operating in the industry and in particular in streamlining our operations and integrating new acquisitions to grow and strengthen our business.

Significant economies of scale with strategically located facilities that result in low-cost operations.

We benefit from significant scale in the global fluorine market because we (1) hold rights to the largest fluorspar mine in the world, according to the latest survey conducted by SRI in 2011 and with the acquisition of Fluorita de Mexico, we added reserves of 13 million tons of the highest purity fluorine, (2) have the world's highest hydrofluoric acid production capacity following the acquisition of Ineos Flúor in the first quarter of 2010, according to the latest survey conducted by SRI in 2011, (3) have established strong relationships with key market participants, (4) have become the world leader in fluorine chemical segment, especially in the production of gas coolants, and (5) maintain proximity to the U.S. fluorocarbons market. The Fluorine Division operates through long-term contracts denominated in U.S. dollars with international customers. We believe that our global scale should allow us to explore opportunities within the fluorochemical products industry with more added value, either through joint ventures with established producers, or through direct acquisitions. The Chlorine-Vinyl Division begins its process by extracting salt from its own mines to make PVC resin, which is the main raw material used in making pipes for our Integral Solutions Division.

Our raw materials base and production facilities are uniquely situated in geographically advantageous locations, allowing us to reduce our operating costs. We also own and operate a port terminal, which in addition to further reducing costs, provides us reliable access to export markets. Our salt dome and our chlorine, caustic soda and PVC production facilities are located in proximity to the oil and gas rich Gulf of Mexico, while our fluorspar mine and hydrofluoric acid production facilities are located near the United States border and the Mexican gulf coast, providing us ready access to the United States, the most important fluorochemical market in the world. In addition, a significant portion of our downstream Integral Solutions production facilities are located within a reasonable distance of our PVC resin plants allowing us to capture incremental vertical integration economies of scale. Since 2009, we have invested approximately Ps. 386.8 million (US\$28.9 million) to construct and upgrade our facilities and equipment. Our EBITDA Margin for the year ended December 31, 2011 was 21.7% and we believe compares favorably to industry margins.

Record of innovation through research and development and proprietary production processes.

We are constantly conducting research and development. Our patented production processes provide a competitive advantage over global competitors. Our research centers in Mexico, the United States and the United Kingdom focus on developing new products and aligning processes to achieve safety and optimal production. Our development of a method for refining fluorine has allowed us to maximize the use of our fluorine mines in hydrofluoric acid production by treating raw fluorine with sulfuric acid. This innovation has reduced the annual cost of production of hydrofluoric acid by an estimated US\$50 million per year. We also have developed our own PVC technology for the production of resins. The benefits derived from our research and development efforts have resulted in quantifiable cost decreases in the production of PVC resin. Additionally, as a result of the acquisition of Wavin, we have gained access to new technologies and products developed by Wavin, with which we already had technology transfer agreements.

Strategy

Our business strategy emphasizes expanding our presence in new and existing markets through organic growth and acquisitions of companies that offer synergies, opportunities for vertical integration and that add value to our process of procuring raw materials. In pursuit of these objectives, we have implemented the following strategies:

Continue to increase focus on value-added products.

We will continue to focus on developing value-added products. We have developed a state-of-the-art process to purify fluorine from our mine at a significantly decreased cost in order to manufacture hydrofluoric acid, which is generally sold at ten times the average price of fluorine. Value-added products (principally pipes systems and compounds) accounted for approximately 53.3% of our consolidated net sales in 2011 and 55.5% in 2010. We will continue to leverage our competitive advantage in developing new and advanced production processes through Mexichem Research and Development Center, or Mexichem CID to develop new products geared towards addressing the needs of our customers and make them available through our extensive distribution networks in the markets we serve.

We will continue to develop and implement proprietary technologies and processes, which generate significant benefits for us and the industry as a whole. For example, we currently have proprietary technology for the production of PVC resin, PVC pipes, compounds, plasticizers and fluorspar purification. This technology allows us to produce a unique pipe that meets the requirements of most infrastructure projects, giving us an important competitive advantage. The improvements we have made to our fluorspar purification process have significantly changed the global hydrofluoric acid industry and positioned us as a leader in the space.

Focus on customer relationships.

We seek to be a leader in the markets we serve through the manufacture of high quality products at competitive prices. We intend to continue leveraging our scale and production efficiencies and our innovation through research to provide low-cost solutions for our customers. We will further develop long-term relationships with our customers through long-term contracts to encourage customer loyalty. We seek to expand our partnerships with new and existing customers by helping them develop new products. For example, we design custom-made products such as insulation for wire and cables with special applications, three gallon bottles and other materials used in construction, including window frames, laminated floor bases, sidings and shades, designed to meet the specific needs of our key markets. In addition, our customer service department provides our customers with technical assistance. By providing our clients with new products and customer service, we seek to generate new business and cultivate customer loyalty, which helps to generate sales during periods of lower demand.

Continue to focus on highly efficient operations, increased margins and reduction of volatility through acquisition opportunities that enhance our vertical integration strategy

We continue to pursue strategic acquisitions to improve our profitability by adding in-house production capabilities to our value chain wherever we believe it is advantageous to do so. We approach acquisitions with the goal of increasing each of our sales and EBITDA by 20% per year, while targeting a return on equity of 20%. The integration of our acquired entities has resulted in EBITDA margins of 22.8% for the six months ended June 30, 2012, compared to 21.7% as of December 31, 2011. We are continually evaluating acquisition opportunities that leverage our existing capabilities. We also intend to capitalize on our leadership position in the market segments in which we operate to continue to expand our operations and customer base by continuing to develop innovative, high-quality products that address our customers' needs.

Maintain a solid and agile financial structure.

We seek to maintain a solid and flexible financial base that will allow us to support our growth objectives. We seek to maintain a net debt to EBITDA ratio no greater than two to one. We have also secured credit lines in excess of one billion dollars. We continue to implement other financial strategies that will allow us to maintain the financial flexibility we require to continue to execute our growth strategies.

Implement our business culture.

We are the result of 19 acquisitions since 2003 of 75 companies from different parts of the world, bringing diverse cultures, ways of thinking and different personalities and perspectives into our business. As such, we believe a unified business culture is important for obtaining our goals, for which we have established and disseminated among our companies our unique mission, vision and values as part of our unified culture such that our employees are not only aware of our mission, vision and values, but they may apply them in their daily routines.

Commitment to social and environmental responsibility.

We will continue to focus not only on our economic development, but on our commitment to social and environmental sustainability. As part of this, we have established our Global Reporting Initiative, or GRI, as a way to evaluate and establish goals and work programs to pursue this joint commitment. In 2011, we obtained an "A" rating in our GRI, the highest rating the company can achieve under this initiative. The audit by Deloitte of our GRI initiative confirmed this result and further conferred a "+" distinction for our efforts. We believe we are among the few companies in the world in this sector that not only fulfill their social and environmental responsibility, but do so with the greatest level of commitment.

Recent Acquisitions

The following table sets forth our acquisitions carried out since 2009 together with the installed capacity and sales volume (in nominal pesos) for each company for 2011 and the six months ended June 30, 2012.

Date of acquisition	Company	Product	Operating Division	Annual installed production capacity (tons)(1)	Net sales in 2011 (Millions of Mexican pesos)	Net sales in the six months ended June 30, 2012 (Millions of Mexican pesos)
January 26, 2012	Fluorita de México	Fluorspar	Fluorine	120,000	354	256
May 23, 2012 (2)	Wavin	Pipe	Integral Solutions	620,000	22,979	10,789
January 7, 2011	AlphaGary	Compounds	Chlorine-Vinyl	120,000	3,373	2,070
May 31, 2011	Kawasaki Plant	Gas Coolants	Fluorine	497	0	44
March 31, 2009	Tubos Flexibles	Pipe	Integral Solutions	37,000	607	338
January 2010	Plastisur SA	Pipe	Integral Solutions	9,720	155,613	86,355
March 2010	Mexichem Fluor UK	Gas Coolants	Fluorine	38,150	2,909	1,328
March 2010	Mexichem Fluor USA	Gas Coolants	Fluorine	3,900	3,266	1,750
March 2010	Mexichem Fluor Japan	Gas Coolants	Fluorine	26,100	2,182	1,066
March 2010	Mexichem Fluor Canada	Gas Coolants	Fluorine	Commercialization	105	81
October 2010	Polycyd, SA de CV	Resins	Integral Solutions	182,380	2,367	1,236
October 2010	Plásticos Rex	Pipe	Integral Solutions	55,000	903	503

(1) Includes all products, accordingly.

(2) We acquired Wavin pursuant to an all-cash tender offer whereby our total shareholding came to 87% on May 7, 2012 pursuant to an initial tender offer, after which we acquired an additional 11% on May 23, 2012 from a subsequent offer during post-acceptance period, for total holding of 98%. As of June 30, 2012 we held 99.28% of Wavin. Peso amounts presented above with respect to Wavin were converted from euros at a rate of Ps. 17.20315 per €1.00.

For amounts invested in these acquisitions since 2009, see “Business—Subsidiaries.” Other recent acquisitions and joint ventures by division include:

Chlorine-Vinyl Division

AlphaGary Acquisition

With an emphasis on obtaining important synergies through leveraging our distribution channels, geographic diversification, vertical integration, product development and compound manufacturing, on January 7, 2011, we acquired AlphaGary from Rockwood Specialties Group, Inc. AlphaGary focuses on the production of compounds for different industry sectors, including the medical, the electrical cables and construction industry segments. AlphaGary operates facilities in the United States and the United Kingdom. This acquisition, which is downstream of our PVC resin manufacturing capabilities, strengthens our presence in the compounds market and we expect it will enhance our research and development efforts in the compounds process of our Chlorine-Vinyl Division. The acquisition cost was approximately US\$322 million.

Pemex/Mexichem Joint Venture

On November 4, 2011, we announced that the Mexican Federal Competition Commission authorized a joint venture between Pemex and Mexichem for US\$556 million (the aggregate contribution of both entities) which will form a new company to produce VCM in Mexico with a goal of exponentially increasing VCM production from 24 tons in its first year of operation, to 146,000 tons in the second year and 217,000 tons in the third year. We expect to commence this joint venture in 2012. We will have a 60% share in this joint venture and expect to invest approximately US\$100 million in 2012 and US\$100 million in 2013, which we intend to fund with cash flows from operations.

Oxy/Mexichem Joint Venture

On August 16, 2012, we entered into a memorandum of understanding with Oxy to evaluate the creation of a joint venture to build a “cracker” based on ethane, which would produce approximately 500,000 tons of ethylene per year. Oxy will use nearly all of the ethylene produced at this plant, to be located in Ingleside, Texas, to produce approximately one million metric tons of VCM, which we would purchase under a long-term supply agreement. Pursuant to the memorandum of understanding, Oxy and we would each hold a 50% interest in the joint-venture.

We will not make any investments in 2012 while certain basic engineering studies are being performed, but we expect to invest in 2013, with a projected investment of approximately US\$150 million in 2013, which we intend to fund with cash flows from operations.

With the agreement described above and the joint venture with Pemex, we intend to secure our supply of VCM for our PVC plants. We expect that the feasibility study and basic engineering for the construction of the ethylene “cracker” will be ready for final review during the second quarter of 2013. If we decide to proceed, we expect the ethylene plant to begin operating in 2016, which will provide for additional vertical integration in our Chlorine-Vinyl Division through direct access to the production of one of the main raw materials for this division, and improve our competitive position in the manufacture of PVC products. This agreement is still subject to final approval.

Integral Solutions Division

Wavin

In May 2012, we completed the acquisition of Wavin, the leading supplier of plastic pipe systems and solutions in Europe. Wavin produces and distributes plastic pipe systems and solutions for tap water, surface heating and cooling, soil and waste, rain and storm water, distribution of drinking water and for gas and telecom applications. Wavin is headquartered in Zwolle, in The Netherlands, and is present in 25 European countries, employs approximately 6,000 people and reported total revenues of €1.3 billion for 2011. Outside of Europe, Wavin has a global network of agents, licensees and distributors. In an all-cash tender offer and subsequent post-acceptance period, we acquired 98% of Wavin’s total issued and outstanding share capital at a total acquisition cost of €526 million, financed through cash from operations and existing credit facilities.

Fluorine Division

New Plant in Kawasaki, Japan

On May 31, 2011 Mexichem Fluor Japan, Limited purchased a gas coolant plant located in Kawasaki, Japan from Showa Denko, K.K. The plant began operations in November 2011 and has a capacity of 5,000 tons per year. This acquisition represents a significant step in our strategy to accelerate our growth and market position in the gas coolant market and is complemented by our capacity expansion in the United Kingdom. The acquisition cost was US\$26 million, which was financed through a bank loan.

Acquisition of Fluorita de México

On January 26, 2012, we acquired Fluorita de México from Corporación Amati, S.A. de C.V., which contributes to our fluorspar production capacity, turning out fluorspar with the highest purity level in the world, which we expect will ensure our fluorspar raw materials supply for our United Kingdom operations. The Fluorita de México mine, located in Múzquiz, Coahuila in Northern Mexico, has proven reserves in excess of 13 million tons and has over 40 years of estimated production and an annual extraction capacity of 120,000 tons. The approximate value of the acquisition was US\$75 million.

Other Recent Events

New chief executive officer

In May 2012, Antonio Carrillo Rule was appointed as our new chief executive officer, effective June 2012, replacing Rafael Dávalos Sandoval, who has assumed responsibility for the vertical integration of the Chlorine-Vinyl Division.

Increase and issuance under our debt securities program

On March 15, 2012, the CNBV authorized to increase the maximum authorized amount of our long-term revolving debt program of Mexican debt securities called *certificados bursátiles* to up to Ps. 10,000,000,000.00 or its equivalent in UDI and for a period of up to five years from the date of such extension. On March 15, 2012, we increased the amount borrowed under the second issuance of *certificados bursátiles* by \$2,000 million; these

certificados bursátiles continue to mature on September 2, 2016 and bear monthly interest payable at the Mexican Interbank Equilibrium Rate (TIIE) rate plus 60 basis points. On the same date, we completed the third issuance of *certificados bursátiles* for \$3,000 million, maturing on March 9, 2022 and bearing interest at a fixed semiannual rate of 8.12%. The interest on both issuances is paid every 28 days. The *certificados bursátiles* were offered in Mexico through the Mexican Stock Exchange.

Dividend payable in kind to our shareholders

At the Stockholders' Ordinary and Extraordinary General Meetings on April 30, 2012 and May 18, 2012, respectively, the stockholders approved the payment of a dividend of up to Ps. 1,800,000, payable from the balance of the Net Tax Income Account (CUFIN) of the Company. The dividend was payable, at the election of each stockholder, either in-kind by delivering one share for every 45 shares held by the respective stockholder, or in cash for Ps. 1 per share held by the respective stockholder. To facilitate the payment of this dividend, the stockholders authorized a capital increase of up to 40,000,000 single series, ordinary, nominative shares with full voting rights. As a result, at the Stockholders' Meeting on May 18, 2012, the stockholders approved the issuance of 28,029,771 ordinary, normative single series, class II shares at a subscription price of Ps. 45 for each new share, which such proceeds were used to pay the dividend to those stockholders who elected to receive the dividend in cash. The remaining 11,970,229 shares were issued as a payment of the dividend in-kind for those stockholders who elected to receive the dividend in shares.

Tender offer for our 8.750% senior notes due 2019

On September 14, 2012, we announced the results of our cash tender offer to acquire any and all of our US\$350 million 8.750% senior notes due 2019, or the 2019 notes, which we refer to herein as the "tender offer", and the related consent solicitation to amend the indenture under which the 2019 notes were issued. The tender offer and consent solicitation expired on September 13, 2012, and as of the expiration date, US\$267.1 million in aggregate principal amount of the 2019 notes (or 76.32% of the 2019 notes outstanding) were tendered and with respect to which we received consents. We settled the tender offer on September 19, 2012 paying total consideration of US\$1,245.00 per US\$1,000 principal amount of 2019 notes plus accrued and unpaid interest up to, but not including, the settlement date.

Shareholders' call notice

On August 31, 2012, we issued a call notice for a shareholders' meeting to approve a proposed offering of our common shares. The shareholders' meeting is currently scheduled for September 18, 2012. Any equity offering is subject to shareholder and regulatory approval and market conditions.

THE OFFERING

The summary below describes the principal terms of the Notes. Certain of the terms and conditions described below are subject to important limitation and exceptions. The “Description of notes” section of this offering memorandum contains a more detailed description of the terms and conditions of the Notes.

Issuer	Mexichem, S.A.B. de C.V.
Notes offered	US\$750,000,000 aggregate principal amount of 4.875% Senior Notes due 2022. US\$400,000,000 aggregate principal amount of 6.750% Senior Notes due 2042.
Offering Price	99.026%, plus accrued interest, if any, from September 19, 2012 for the 2022 Senior Notes. 100.00%, plus accrued interest, if any, from September 19, 2012 for the 2042 Senior Notes.
Maturity Date.....	September 19, 2022 for the 2022 Notes and September 19, 2042 for the 2042 Notes.
Interest Rate.....	Interest on the 2022 Notes accrues at a rate of 4.875% per year; interest on the 2042 Notes accrues at a rate of 6.750% per year.
Interest Payment Dates	March 19 and September 19, of each year, beginning on March 19, 2013.
Subsidiary Guarantors	Certain of our subsidiaries identified in “Description of notes — General.” As of and for the six months ended June 30, 2012, the subsidiary guarantors (in addition to Mexichem, on a stand-alone basis) accounted for 48.9% of our total assets and 56.1% of our EBITDA on a consolidated basis.
Guarantees	The Notes are fully and unconditionally guaranteed on a senior unsecured basis by our subsidiary guarantors.
Ranking	The Notes and subsidiary guarantees are our and our subsidiary guarantors’ respective senior unsecured obligations rank: • equally with all of our and the subsidiary guarantors’ respective existing and future senior unsecured indebtedness (subject to certain obligations that are preferred by statute); and • senior to all of our and our subsidiary guarantors’ respective existing and future subordinated indebtedness. The Notes and the subsidiary guarantees effectively rank junior to all of our and the subsidiary guarantors’ respective existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness. The Notes and the subsidiary guarantees are structurally subordinated to all indebtedness, and trade payables, of our non-guarantor subsidiaries.

As of June 30, 2012, after giving pro forma effect to the issuance

	and sale of the Notes and the application of the net proceeds from this offering as described under “Use of Proceeds,” we and our subsidiaries would have had consolidated total indebtedness of Ps. 35,024 million. Of this amount, no amount would have been secured by collateral and all of this debt would have been indebtedness of non-guarantor subsidiaries (excluding guarantees and intercompany loans).
Optional Redemption.....	We may redeem the Notes, in whole or in part, at the greater of 100% of their principal amount outstanding and a make-whole amount described in this offering memorandum, in each case, plus Additional Amounts, if any, and any accrued and unpaid interest up to the date of redemption. See “Description of notes — Redemption — Optional redemption.”
Tax Redemption	We may redeem the Notes, in whole but not in part, at 100% of their principal amount plus accrued interest and Additional Amounts, if any, upon the occurrence of specified events relating to Mexican tax law, that result in higher withholding taxes with respect to interest payments under the Notes. See “Description of notes — Redemption — Tax redemption.”
Change of Control	Upon the occurrence of a Change of Control Triggering Event (as defined in “Description of notes”), we will be required to make an offer to purchase the Notes at a purchase price equal to 101% of the principal amount thereof, plus any accrued and unpaid interest and Additional Amounts through the purchase date. See “Description of notes — Redemption upon change of control.”
Additional Amounts	Payments of interest on the Notes to investors that are non-residents of Mexico for tax purposes will generally be subject to Mexican withholding taxes at a rate of 4.9%. Subject to certain specified exceptions, we and the subsidiary guarantors will, jointly and severally, pay such additional amounts as may be required so that the net amount received by the holders of the Notes in respect of principal, interest or other payments on the Notes, after any such withholding or deduction, will not be less than the amount each holder of Notes would have received if such withholding or deduction had not applied. See “Description of notes — Additional amounts.”
Certain Covenants.....	The indenture governing the Notes contains covenants that, among others, limit the creation of liens by us and our subsidiaries, and permit us and our subsidiaries to consolidate or merge with, or transfer all or substantially all of our assets to, another person only if any such transaction complies with certain requirements. However, these covenants are subject to a number of important exceptions and qualifications. See “Description of notes — Covenants.”
Events of Default.....	The indenture sets forth the events of default applicable to the Notes.
Further Issuances	We may from time to time without notice to or consent of the holders of the Notes create and issue an unlimited principal amount of additional Notes of the same series as the Notes initially issued in this offering.
Use of Proceeds	The gross proceeds in the notes offering were US\$1,150 million.

	The global amount of net proceeds received by us in the notes offering, after deducting underwriting commissions and other expenses in connection with the offering, was approximately US\$1,137 million. We used the net proceeds from the notes offering primarily for repayment of indebtedness. In particular, we used approximately US\$600 million to repay our revolving credit facility dated August 26, 2011 and approximately US\$436 million to pay down our long term debt, US\$333 million of which was used to repurchase US\$267 million in aggregate principal amount of our senior notes due 2019 that were repurchased through a tender offer that expired on September 13, 2012. Additionally we used US\$38 million to repay our loan with BBVA Bancomer and US\$65 million to pay down our loan with Bancolombia, and anticipated fees and commission paid in the amount of US\$16 million. The remainder was retained as cash.
Taxation	For a summary of Mexican federal income tax consequences and U.S. federal income tax consequences of an investment in the Notes, see “Taxation.”
Book Entry; Form and Denominations	Each series of Notes has been issued in the form of global Notes in fully registered form without interest coupons. The global Notes are exchangeable or transferable, as the case may be, for definitive certificated Notes in fully registered form without interest coupons only in limited circumstances. Each series of Notes has been issued in registered form in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. See “Description of notes — Form, denomination and title.”
Settlement	Each series of Notes was delivered in book-entry form through the facilities of The Depository Trust Company, or DTC, for the accounts of its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking, S.A. Luxembourg, or Clearstream Luxembourg.
Transfer Restrictions	We have not registered the Notes under the Securities Act or the securities laws of any other jurisdiction. Each series of Notes are subject to restrictions on transfer and may only be offered in transactions exempt from or not subject to the registration requirements of the Securities Act. See “Transfer restrictions.” As required under the Mexican Securities Market Law, we notified the CNBV of the offering of the Notes outside of Mexico. The Notes will not be registered with the Mexican National Registry of Securities and may not be offered or sold publicly or otherwise be subject to brokerage activities in Mexico, except to Mexican institutional and qualified investors pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law.
Listing of the Notes	We have applied to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF Market.
Governing Law	The indenture, the Notes and the subsidiary guarantees are and will be governed by, and construed in accordance with, the laws of the

State of New York.

Trustee, Registrar, Transfer Agent and
Paying Agent Deutsche Bank Trust Company Americas

Luxembourg Paying Agent, Transfer Agent
and Listing Agent Deutsche Bank Luxembourg S.A.

Risk factors

An investment in the Notes involves risks. See “Risk factors” beginning on page 18 for a discussion of certain risks that you should consider in connection with an investment in the Notes.

Additional information

Our registered offices are located at Río San Javier No.10, Fraccionamiento Viveros del Río, Tlalnepantla, Estado de México, México, C.P. 54060. Our telephone number at that address is 52 (55) 5366 4000.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table presents our summary consolidated financial data. The summary consolidated financial data as of and for the years ended December 31, 2011, 2010 and 2009 is derived from our audited consolidated financial statements and the accompanying notes appearing elsewhere in this offering memorandum. The summary interim consolidated financial data as of June 30, 2012 and for the six months ended June 30, 2012 and 2011 is derived from our unaudited condensed consolidated interim financial statements and the accompanying notes appearing elsewhere in this offering memorandum. Our consolidated financial statements have been prepared in accordance with IFRS.

The U.S. dollar amounts provided below are translations from the Mexican peso amounts, solely for the convenience of the reader. See “Presentation of Financial Information and Other Information—Currency information” for an explanation of the exchange rates used to translate Mexican peso amounts into U.S. dollars. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate.

	Six months ended June 30,			Year ended December 31,		
	2012	2012	2011	2011	2010	2009
(Thousands of U.S. dollars unless indicated otherwise)	(Thousands of Mexican pesos, unless indicated otherwise)					
Statement of Comprehensive Income Data						
Net sales	2,265,827	30,164,957	23,523,732	47,309,622	35,195,391	29,752,237
Cost of sales	1,492,090	19,864,197	15,131,703	31,396,206	22,856,307	18,965,239
Gross profit	773,737	10,300,760	8,392,029	15,913,416	12,339,084	10,786,998
Selling and development expenses	264,163	3,516,808	2,593,277	5,596,446	4,164,048	3,449,075
Administrative expenses	93,781	1,248,504	1,062,259	2,046,506	2,026,202	2,032,663
Depreciation and amortization	44,101	587,120	394,462	920,444	672,717	608,446
Other expenses (income)	(6,125)	(81,539)	154,970	67,274	(169,074)	295,456
Exchange gain	(49,726)	(662,007)	(652,834)	(2,449,913)	(1,127,893)	(946,573)
Exchange loss	13,050	173,735	169,150	3,740,200	780,954	849,677
Interest expense	70,344	936,491	685,914	1,381,664	1,254,677	861,846
Interest income	(13,238)	(176,236)	(43,508)	(119,206)	(105,004)	(112,036)
Monetary position loss	874	11,637	15,120	45,007	32,263	46,292
Tax on assets	—	—	102,764	210,482	—	—
Equity in income of associated companies	(588)	(7,829)	—	—	—	(12,230)
Profit before income taxes	357,099	4,754,076	3,910,455	4,474,512	4,810,194	3,714,382
Income tax expense	104,184	1,386,998	1,336,515	1,697,277	751,249	789,036
Profit from continuing operations	252,915	3,367,078	2,573,940	2,777,235	4,058,945	2,925,346
Discontinued operations, net	—	—	(3,044)	(66,083)	(146,324)	43,960
Consolidated profit	252,915	3,367,078	2,570,896	2,711,152	3,912,621	2,969,306
Other comprehensive income (loss):						
Exchange differences on translating foreign operations	(86,103)	(1,146,293)	1,231,495	2,462,989	(575,573)	(39,426)
Net gain (loss) on cash flow hedging instruments	—	—	—	—	217,900	128,444
Net gain (loss) on available-for-sale financial assets	3,306	44,010	(60,990)	(121,981)	51,451	—
Income taxes on net gain (loss) on cash flow hedging instruments and net gain (loss) on available-for-sale financial assets	(959)	(12,763)	17,686	35,374	(80,805)	(35,964)
Consolidated comprehensive income	169,159	2,252,032	3,759,087	5,087,534	3,525,594	3,022,360
Attributable to:						
Owners of the company	169,604	2,257,944	3,752,133	5,075,647	3,515,011	3,005,500
Non-controlling interests	(444)	(5,912)	6,954	11,887	10,583	16,860
Earnings per share:						
From continuing operations	0.14	1.86	1.43	1.54	2.26	1.72
From discontinued operations	—	—	—	(0.04)	(0.08)	0.03
Basic earnings per share	0.14	1.86	1.43	1.50	2.18	1.75
Weighted average common shares outstanding	1,809,333,333	1,809,333,333	1,800,000,000	1,800,000,000	1,799,359,514	1,702,427,876

	As of June 30,		As of December 31,		
	2012	2012	2011	2010	2009
	(Thousands of U.S. dollars)		(Thousands of Mexican pesos)		
Statement of Financial Position Data					
Assets:					
Current assets:					
Cash and cash equivalents	510,298	6,827,781	7,319,536	6,609,552	10,364,684
Investments in available-for-sale securities	—	—	355,968	536,234	—
Accounts receivable, net.....	1,217,133	16,285,249	10,578,514	7,804,710	5,963,776
Related parties	6,559	87,757	71,826	21,145	39,687
Inventories, net	754,457	10,094,635	6,657,677	4,466,417	3,073,296
Prepaid expenses	46,823	626,491	172,302	135,495	237,332
Derivative financial instruments	11,102	148,544	—	—	—
Assets held for sale	—	—	—	186,366	72,129
Total current assets	2,546,372	34,070,457	25,155,823	19,759,919	19,750,904
Non-current assets					
Property, plant and equipment, net.....	2,164,159	28,956,450	22,945,893	20,950,624	18,439,693
Other assets, net	41,514	555,452	349,983	302,660	488,215
Investment in shares of associated companies	27,091	362,479	—	—	64,301
Employee benefits	—	—	53,471	110,944	59,968
Intangible assets, net	873,955	11,693,523	5,955,205	4,562,364	2,648,691
Deferred income taxes	37,489	501,604	577,113	598,290	382,225
Goodwill	651,720	8,720,012	5,419,273	4,446,517	2,689,917
Total non-current assets	3,795,928	50,789,520	35,300,938	30,971,399	24,773,010
Total assets	6,342,300	84,859,977	60,456,761	50,731,318	44,523,914
Liabilities:					
Current liabilities:					
Bank loans and current portion of long-term debt	120,205	1,608,340	3,792,465	2,176,521	2,364,290
Suppliers	1,017,616	13,615,700	8,269,840	6,297,614	5,249,302
Related parties	32,436	433,993	374,679	273,753	218,302
Other accounts payable and accrued liabilities	259,904	3,477,514	2,604,212	2,332,423	1,132,970
Provisions	51,282	686,156	551,899	408,046	1,114,752
Employee benefits	4,661	62,363	154,082	174,957	166,902
Derivative financial instruments	—	—	138,161	36,687	160,322
Total current liabilities	1,486,104	19,884,066	15,885,338	11,700,001	10,406,840
Non-current liabilities					
Bank loans and long-term debt	2,362,075	31,604,563	16,836,010	15,662,682	13,896,977
Other liabilities.....	99,918	1,336,907	999,039	732,587	860,361
Employee benefits.....	57,862	774,190	—	—	—
Deferred income taxes	333,155	4,457,620	2,671,234	2,852,884	2,679,089
Derivative financial instruments	15,738	210,578	—	—	63,506
Total non-current liabilities	2,868,748	38,383,858	20,506,283	19,248,153	17,499,933
Total liabilities.....	4,354,852	58,267,924	36,391,621	30,948,154	27,906,773
Stockholders' equity:					
Paid-in capital					
Nominal.....	181,422	2,427,433	2,374,661	2,374,661	2,353,106
Additional paid-in capital	404,174	5,407,844	3,602,085	3,566,659	3,479,792
Cumulative effect of restatement.....	14,433	193,120	193,120	193,120	193,120
Earned capital					
Retained earnings.....	1,045,428	13,987,831	12,435,935	10,452,916	7,056,033
Other comprehensive income	261,999	3,505,541	4,599,493	2,226,865	2,612,737
Reserve for reacquisition of shares.....	62,206	832,312	787,866	908,850	872,843
Controlling interest.....	1,969,662	26,354,081	23,993,160	19,723,071	16,567,631
Non-controlling interest	17,786	237,972	71,980	60,093	49,510
Total stockholders' equity	1,987,448	26,592,053	24,065,140	19,783,164	16,617,141
Total liabilities and stockholders' equity	6,342,300	84,859,977	60,456,761	50,731,318	44,523,914

Results by operating division

The following table contains a breakdown of our consolidated results of operations by operating division based upon the financial information reported by each division. All amounts below and elsewhere in this offering memorandum, reflect our current operating division structure.

	Six months ended June 30,			Year ended December 31,		
	2012	2012	2011	2011	2010	2009
	(Thousands of U.S. dollars)	(Thousands of Mexican pesos, except as otherwise indicated)				
Chlorine-Vinyl Division(1)						
Income Statement Data:						
Net sales.....	933,924	12,433,334	11,543,451	23,015,520	15,533,023	14,695,932
Cost of sales.....	735,790	9,795,549	9,214,560	18,515,909	12,476,071	10,967,038
Gross profit.....	198,134	2,637,785	2,328,891	4,499,611	3,056,952	3,728,894
Operating expenses (2).....	55,432	737,995	811,961	1,414,310	1,148,956	1,883,889
Other Data:						
EBITDA.....	177,402	2,354,236	2,000,716	3,948,946	2,748,591	2,568,034
Volume (thousands of tons)	1,039	1,039	1,064	2,044	1,790	1,716
Integral Solutions Division (1)						
Income Statement Data:						
Net sales.....	1,061,938	14,137,577	8,825,812	18,770,775	16,294,383	14,947,274
Cost of sales.....	709,453	9,444,950	5,702,581	12,274,646	10,554,434	9,688,198
Gross profit.....	352,485	4,692,627	3,123,231	6,496,129	5,739,949	5,259,076
Operating expenses (2).....	227,629	3,030,431	2,091,773	4,447,565	3,868,383	3,829,639
Other Data:						
EBITDA.....	172,105	2,300,362	1,465,373	2,993,249	2,826,568	2,162,395
Volume (thousands of tons)	339	339	245	494	441	392
Fluorine Division(1)						
Income Statement Data:						
Net sales.....	484,975	6,456,475	5,938,343	10,852,773	6,926,653	2,531,336
Cost of sales.....	268,842	3,579,091	2,901,642	5,661,487	3,701,874	1,325,911
Gross profit.....	216,133	2,877,384	3,036,701	5,191,286	3,224,779	1,205,425
Operating expenses (2).....	63,577	846,407	1,114,311	2,001,190	1,095,135	248,572
Other Data:						
EBITDA.....	195,602	2,595,244	2,337,031	3,978,340	2,693,839	1,118,223
Volume (thousands of tons)	635	635	601	1,211	973	789
Holding Company						
Income Statement Data:						
Net sales.....	12,871	171,349	241,895	492,541	1,597,759	861,612
Cost of sales.....	(1,507)	(20,057)	-	-	-	(1,479)
Gross profit.....	14,378	191,406	241,895	492,541	1,597,759	863,091
Operating expenses (2).....	45,490	605,604	460,352	747,206	1,904,774	1,377,028
Other Data:						
EBITDA.....	(32,411)	(414,095)	(159,221)	137,291	(188,217)	(357,651)
Eliminations						
Income Statement Data:						
Net sales.....	(227,881)	(3,033,778)	(3,025,769)	(5,821,987)	(5,156,427)	(3,283,917)
Cost of sales.....	(220,486)	(2,935,336)	(2,687,080)	(5,055,836)	(3,876,072)	(3,014,429)
Gross profit.....	(7,395)	(98,442)	(338,689)	(766,151)	(1,280,355)	(269,488)
Operating expenses (2).....	3,792	50,456	(403,950)	20,399	(1,323,355)	(953,488)
Other Data:						
EBITDA.....	4,903	54,933	(65,261)	(786,550)	43,000	684,000

(1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.

(2) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

The following table sets forth, for the periods indicated, a reconciliation of operating income to EBITDA for our consolidated operations.

	Six months ended June 30,			Year ended December 31,		
	2012	2012	2011	2011	2010	2009
	(Thousands of U.S. dollars)			(Thousands of Mexican pesos)		
Gross profit.....	773,735	10,300,760	8,392,029	15,913,416	12,339,084	10,786,998
Less: Operating expenses (1)	395,920	5,270,893	4,204,968	8,630,670	6,693,893	6,385,640
Plus: Depreciation and amortization (2)	139,786	1,860,813	1,391,577	2,988,530	2,478,590	1,773,643
EBITDA	517,601	6,890,680	5,578,638	10,271,276	8,123,781	6,175,001

(1) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

(2) Includes depreciation and amortization in operating expenses and cost of sales.

The following table sets forth, for the periods indicated, a reconciliation of operating income to EBITDA for our three operating divisions:

	Six months ended June 30,			Year ended December 31,		
	2012	2012	2011	2011	2010	2009
	(Thousands of U.S. dollars)			(Thousands of Mexican pesos)		
Chlorine-Vinyl Division(1)						
Gross profit.....	198,134	2,637,785	2,328,891	4,499,611	3,056,952	3,728,894
Less: Operating expenses (2)	55,432	737,995	811,961	1,414,310	1,148,956	1,883,889
Plus: Depreciation and amortization (3).....	34,700	454,446	483,786	863,645	840,595	723,029
EBITDA.....	177,402	2,354,236	2,000,716	3,948,946	2,748,591	2,568,034
Integral Solutions Division(1)						
Gross profit.....	352,485	4,692,627	3,123,231	6,496,129	5,739,949	5,259,076
Less: Operating expenses (2)	227,629	3,030,431	2,091,773	4,447,565	3,868,383	3,829,639
Plus: Depreciation and amortization (3).....	47,249	638,166	433,915	944,685	955,002	732,958
EBITDA.....	172,105	2,300,362	1,465,373	2,993,249	2,826,568	2,162,395
Fluorine Division(1)						
Gross profit.....	216,133	2,877,384	3,036,701	5,191,286	3,224,779	1,205,425
Less: Operating expenses (2)	63,577	846,407	1,114,311	2,001,190	1,095,135	248,572
Plus: Depreciation and amortization (3).....	43,046	564,267	414,641	788,244	564,195	161,370
EBITDA.....	195,602	2,595,244	2,337,031	3,978,340	2,693,839	1,118,223
Holding Company						
Gross profit.....	14,378	191,406	241,895	492,541	1,597,759	863,091
Less: Operating expenses (2)	45,490	605,604	460,352	747,206	1,904,774	1,377,028
Plus: Depreciation and amortization (3).....	(1,299)	103	59,236	391,956	118,798	156,286
EBITDA.....	(32,411)	(414,095)	(159,221)	137,291	(188,217)	(357,651)
Eliminations						
Gross profit.....	(7,395)	(98,442)	(338,689)	(766,151)	(1,280,355)	(269,488)
Less: Operating expenses (2)	3,792	50,456	(403,950)	20,399	(1,323,355)	(953,488)
Plus: Depreciation and amortization (3).....	16,090	203,831	-	-	-	-
EBITDA.....	4,903	54,933	(65,261)	(786,550)	43,000	684,000

(1) Amounts have only been adjusted to eliminate intra-division (but not inter-division) transactions.

(2) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

(3) Includes depreciation and amortization in operating expenses and cost of sales.

RISK FACTORS

You should review and consider carefully the following risk factors, as well as all the other information presented in this offering memorandum, before purchasing our Notes. The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently think are immaterial may also impair our business operations. Any of the following risks, if they were to occur, could materially and adversely affect our business, results of operations, prospects and financial condition. In that event, the market price of our Notes could decline and you could lose all or part of your investment.

Risk factors related to our business and industry

The cyclical nature of the chemical industry may reduce our net sales and gross margins.

The chemical industry, including the markets in which we participate, is cyclical and sensitive to changes in supply and demand that in our case are, in turn, affected by political and economic conditions in Mexico, Latin America, the United States and elsewhere. This cyclical nature may reduce our net sales and gross margins, in particular:

- downturns in general business and economic activity may cause demand for our products to decline;
- when demand falls, we may face competitive pressures to lower our prices;
- low barriers to entry in certain markets may result in capacity being expanded to such markets, which is likely to affect the prices we charge; and
- if we decide to expand our plants or construct new plants, we may do so based on an estimate of future demand that never materializes or materializes at levels lower than we predicted.

Due to the global chemical industry cyclical nature, historically the international chemical market has experienced alternating periods of limited supply, which have caused prices and profit margins to increase, followed by expansion of production capacity, which has resulted in oversupply and reduced prices and profit margins. We establish the prices for the products we sell with reference to international market prices. The Mexican and Latin American chemical industries have become increasingly integrated with the global chemical industry for a number of reasons, including increased demand for, and consumption of, chemical products in Mexico and Latin America and the ongoing integration of regional and world markets for commodities. Our net sales and gross margins are increasingly linked to global industry conditions that we cannot control. We are particularly sensitive to economic cycles affecting the construction, infrastructure and agriculture industries.

Failure to develop new products and production technologies or to implement productivity and cost reduction initiatives successfully may adversely affect our competitive position.

The markets for many of our chemical products require continuous advances in quality and performance, and we need to develop and sell products that meet market needs on a timely basis in order to remain competitive. If markets shift in a manner that we did not anticipate, if new technologies are developed to which we do not have access or if we are otherwise incapable of providing products that meet market needs on a timely basis, our results of operations could be materially and adversely affected. In addition, we may not be able to recoup research and development costs or capital investments related to specific products if their product life cycles are shorter than our expectations.

Our business is subject to the risks generally associated with international business operations.

We engage in manufacturing and other business activities throughout Latin America, the United States, Europe, Japan and Taiwan. Our principal manufacturing facilities are located in Mexico, the United States, United Kingdom, Argentina, Brazil, Colombia, Costa Rica, Ecuador, Peru, Japan and various countries in Europe. As a result, our business is and will continue to be subject to the risks generally associated with international manufacturing and other business operations, including:

- governmental regulations applicable to manufacturing operations;
- changes in social, political and economic conditions;

- transportation delays;
- power and other utility shutdowns or shortages;
- restrictions on currency convertibility and volatility of foreign exchange markets;
- limits on the supply of skilled labor and changes in local labor conditions; and
- changes in tax and other laws and regulations.

Some of the countries in which we operate have been subject to social and political instability in the past, and interruptions in operations or terminations of operations in our foreign manufacturing facilities could occur in the future. Our sales could be adversely affected by many of the foregoing factors, as well as by government regulations applicable to the import, export or sale of our products and trade protection measures.

We face intense competition from other suppliers of similar products.

The markets for chemical products in Latin America and North America, where substantially all of our chemical products are sold, and other parts of the World where we sell our products, are highly competitive. With respect to the products we sell that are treated as commodities, such as chlorine, caustic soda, PVC resin and its compounds, fluorspar, gas coolant, etc., we generally have limited control over price in many of our markets. Competition with respect to other products, such as PVC pipes and compounds, is based on price, performance, product quality, product deliverability and customer service. It is difficult to protect our market position for many of our products by product differentiation, and we may not be able to pass on cost increases related to such products to our customers. In many cases, the competitive environments for our various chemical products could vary significantly at any given time, and our ability to adjust our product mix based on market conditions is limited due to the limitations inherent in the production processes. Our competitors include larger companies or those better established within the international and Latin American chemicals markets, or companies with more competitive advantages due to factors such as access to more financial resources, benefits from integration and economies of scale, availability of raw materials at lower costs, diversification and risk management. Our main competitors have received considerable capital investments, which allowed them to keep a significant market share in Latin America. Such increase in competition may have an adverse effect over our profitability.

Our business is dependent on the construction industry.

A decline in the growth of the construction industry in the countries where we operate, such as the recent experience in the United States or Europe, or a negative change in the economic and demographic factors influencing the construction industry may have a material adverse effect on our results of operations, cash flows and financial condition.

Fluctuations in the price of natural gas, petroleum and petroleum derivatives and sulfur our key raw materials may adversely affect our business and operating results.

The price of petroleum and petroleum derivatives which we use in our manufacturing processes have recently experienced significant increases in international markets, which has increased production costs, as well as the prices of the products manufactured and sold by us. Future fluctuations in the price of natural gas, petroleum and petroleum derivatives and sulfur may result in an increase in the cost of inputs used in our operations, which may adversely affect our results of operations.

Our agreements with Oxy and Pemex may not be sufficient for our business needs.

Pemex, a state-owned company subject to regulation and controlled by the Mexican government, historically has been the principal purchaser of chlorine we produce and the only producer of VCM in Mexico. In the past, due to operating irregularities at the VCM production plant of Pemex Petroquímica Pajaritos, Pemex has not purchased chlorine from us at expected levels nor supplied us with as much VCM as we anticipated. If such irregularities occur again, and we cannot assure you that the plant will achieve a full utilization of its production capacity which has adversely affected our operations and operating margins, or that the current utilization level will not decrease. Each of these factors has had, and may continue to have, a material adverse effect on Pemex's consumption of our chlorine and their supply to us of VCM.

Although we recently entered into an agreement with Oxy for the sale to them of chlorine and the purchase from Oxy by us of VCM, we cannot guarantee that Oxy will supply all our requirements of VCM to meet our contractual obligations to supply PVC to third parties. In such a case, we may be forced to purchase VCM on the spot market, as we have had to do in the past, which may materially and adversely impact our ability to meet production deadlines accordingly. Moreover, though we have recently entered into a joint venture agreement with Pemex in an effort to gain production capacity of VCM, there can be no assurance that this venture will provide the level of VCM production that we anticipate, if at all and we could lose the entire amount of any expected investments in this joint venture, which could materially and adversely affect our business and financial condition.

Any interruption in the supply of raw materials could disrupt our chemical production.

Our ability to achieve our strategic objectives and overall performance and prospects depends and will continue to depend, in large part, upon the successful, timely and cost-effective acquisition and deployment of raw materials, such as dry gas, electricity and VCM. We currently depend on a limited number of suppliers for the production and delivery of these supplies. Because the price of these supplies depends in large part on the international price of oil, which has increased significantly in recent years, we cannot assure that we will have a stable supply of gas, that the supplies will be available at reasonable prices or that our suppliers will be willing to continue supplying them to us on current terms or at all, all of which would adversely affect our financial condition and results of operations. In addition, a decrease in the supply of certain raw materials or a decrease in the number of suppliers thereof may result in higher prices, which could adversely affect our financial condition and results of operations.

Although we generally pass on the cost of increase in the price of raw material to clients, we are not always able to do so, which may have an adverse effect on our results of operations.

Maintenance of, increases in, and improvements related to our production capacity generally require significant investments, but there can be no assurance that we will be able to realize the expected return on these investments.

We have recently made and plan to continue to make significant capital investments related to our production capabilities, environmental security, efficiency and modernization. For example, in 2009, we invested US\$124 million in projects for all our productive chains, in 2010, we invested US\$126 million and in 2011 we invested US\$173 million in projects. There are also plans of expansion and to upgrade the existing facilities.

In May 2012, we acquired Wavin, the leading supplier of plastic pipe systems and solutions in Europe, with a presence in 25 European countries, employing approximately 6,000 people. The total acquisition cost was approximately €526 million, financed through cash from operations and existing credit facilities. On January 26, 2012, we acquired Fluorita de México from Corporación Amati, S.A. de C.V., which contributes to our fluorspar production capacity, for an acquisition cost of approximately US\$75 million.

During the second quarter of 2011, we acquired the gas coolant plant owned by Showa Denko in Kawasaki, Japan, which has an annual production capacity of 5,000 ton of gas coolant. The plant was modified and began operations in November. This acquisition represents an important step for our Fluorine Division, which leads us towards growth acceleration and to position ourselves in the gas coolants market, with support as well in its production capability in the United Kingdom. Kawasaki's plant complements the gas coolant business and makes us the only producer in Asia, outside of China. Our total investment was US\$26 million through bank financing.

We opened two plants in our Fluorine division in 2010: (1) in May 2010, we opened the sulfur plant located in the south of Veracruz, with a production capacity of 210,000 tons per annum for approximately US\$42 million. Sulfur is a raw material for the production of hydrofluoric acid; (2) in June 2010, we opened the hydrofluoric acid II plant in Matamoros, Tamaulipas, with a capacity of 30,000 tons per annum, for US\$40 million. These investments were financed with our operating cash flow and bank loans.

We may be unable to realize the expected return on our investments if adverse developments arise in the markets for our products, including if our decisions relating to the timing or the manner of such investments are based on projections regarding future market demands or other developments that prove to be inaccurate, or if we cannot secure sufficient resources to make any necessary capital expenditures. This could have a material adverse effect on our results of operations, including as a result of asset impairment charges. In addition, we may be unable

to complete our current projects, in a timely manner or at all due, for example, to an inability to secure financing, regulatory changes, unreliability or unavailability of contractors and subcontractors, and logistical problems.

Our concessions could be expropriated or revoked under Mexican law.

Our principal mining operations are located in Mexico. Mexican law provides the federal government with the right to expropriate our concessions and assets. Expropriation may occur if the government deems it to be in the public interest. In the event of expropriation, Mexican law requires compensation to be paid, but specifies no basis to determine the amount payable or the time for payment and such compensation may be limited or less than the fair market value of the assets. If there is disagreement as to the amount payable as compensation, we may require a judicial authority to determine such compensation. The compensation will be paid by the Government, within a 1-year period from the declaration of expropriation, in Mexican pesos or by a payment with another asset. If we are not able to secure fair compensation, our results of operations and financial condition could be adversely affected.

The terms of our concessions require us to comply with certain ongoing obligations. Failure to comply with these obligations could result in sanctions or termination of our concessions. Revocation of any of our concessions would result in a material adverse effect on our business, results of operations, financial condition and prospects and would impede our ability to operate our business as currently conducted.

We are exposed to potential risks and effect of expropriation or nationalization of our assets in some of the countries where we operate.

We are exposed to the risk of a potential expropriation and nationalization of our assets located in Venezuela, where 1.3% of our assets were located and 0.3% of our net income was generated as of December 31, 2011. Also, some of the countries where we operate have been subject to volatile political conditions in the recent past, and we cannot assure that the local governments will not impose changes retroactively that could affect our business, or that would force us to renegotiate our current agreements with such governments. The occurrence of such events could materially affect our financial condition and results.

Our inability to renew our existing concessions would adversely affect us.

Under Mexican law, mineral resources belong to the federal government and the federal government may grant concessions for the exploration and exploitation of such mineral resources. Our mining rights derive from a concession granted to us by the Ministry of Economy (*Secretaría de Economía*) under the Mexican Mining Law (*Ley Minera*), which is regulated by Article 27 of the Mexican Constitution.

Our mining operations are subject to the regulation and supervision of various governmental authorities. Our current concessions may be subject to additional conditions, cancelled under certain circumstances or not renewed upon their expiration.

We have several mining concessions that expire between 2029 and 2058. In addition, we have a mining concession for salt domes in Veracruz that expires in 2043.

Mexican law provides that concessions may be renewed for a period equal to the period of the original concession if the renewal is requested prior to the termination of the original concession and all requirements set forth in the concession and applicable law are satisfied. Although we expect to apply for, and to comply with, all necessary conditions to obtain renewals for our concessions, we cannot assure you that any of our concessions will be renewed, or what terms may apply to the renewals, as the government has discretion over final approval of the renewal of concessions. Our inability to renew any of our concessions would have a material adverse effect on our business, results of operations, financial condition and prospects.

In addition, our concessions may be revoked, without compensation, if we fail to comply with the terms of our concessions, or they may be expropriated for public interest reasons, with compensation. However, the amount payable as compensation and the timing of payment of the applicable amounts is unclear under applicable law.

The volume and grade of fluorspar reserves that we recover and our rate of production may be more or less than anticipated.

Our fluorspar and sulfur reserve amounts are determined in accordance with established mining industry practices and standards, using geological and engineering data to measure the estimated quantities of the deposits that can be recovered economically and processed through its extraction.

We have prepared reserve estimates applying the usual methods of evaluation and the assumptions generally used through the mining industry. Although we believe the results of such surveys are reasonable, they are subject to a number of uncertainties that are beyond our control and which could negatively affect our future fluorspar production levels. Fluorspar bodies may not conform to standard geological expectations, and estimates may change as new data becomes available. Because fluorspar bodies do not contain uniform grades and types of minerals, our metal recovery rates will vary from time to time.

We cannot assure you that the estimates of our fluorspar reserve amounts will not materially differ from the amounts that are ultimately recovered. In addition, fluctuations of market price and of production and capital costs may make some of our reserves not economically recoverable. If this were to occur, we may be unable to obtain sufficient raw materials to meet our production targets and other commitments, which would have a materially adverse impact on our business and results of operation.

Our inability to effectively manage our growth could adversely affect our business and our operating results.

As a result of the integration of new companies and the general improvement of markets, between 2007 and 2011, we experienced a rapid growth in net sales of 110% and a substantial increase in operating revenues and cash flow, which have allowed us the flexibility to keep growing as we keep fundamentally solid. This growth resulted in an improvement in our administrative, operating and financial infrastructure.

We will require additional growth, in order to improve the reach of our operations and the size of our customer base. Our success will depend in part upon the ability of our current senior management team to effectively manage this growth.

To effectively manage our business and planned growth, we must continue to improve our operational, financial and management processes and controls and our reporting systems and procedures. Furthermore, the additional headcount we are adding will increase our costs, which could make it more difficult for us to offset any future revenue shortfalls by offsetting expense reductions in the short term. If we are unable to implement these processes and procedures, our expenses may increase more than expected, our revenues could decline or grow more slowly than expected and we may be unable to implement our business strategy.

We have recently made and may make significant acquisitions which, if not successfully integrated with our company, may adversely affect our operating results.

We have recently made numerous significant acquisitions and are evaluating additional significant acquisitions to continue our growth. For more information on our acquisitions, see Management's discussion and analysis of financial condition and results of operations — Growth through acquisitions.”

Acquisitions involve risks, including the following:

- failure of acquired businesses to achieve expected results;
- failure to achieve expected savings arising from synergies;
- difficulties in integrating operations, technologies and control systems;
- possible inability to retain or hire key personnel of acquired businesses;
- possible inability to achieve expected economies of scale;
- unanticipated liabilities; and
- antitrust and regulatory considerations.

We have had, and may in the future have, difficulties in integrating the operations and accounting systems of some of the companies we have acquired. If we are unable to integrate or manage acquired businesses successfully, we may not realize anticipated cost savings, revenue growth and levels of integration, which may result in reduced profitability or operating losses. In addition, we expect to incur significant costs relating to integration of computer and accounting systems of those companies we have acquired. These costs could have a negative impact on our results of operations.

We may not have access to adequate capital to finance acquisitions or expansions, which may delay or prevent the implementation of our business strategy.

We expect that the continuing expansion and development of our business will require significant capital, which we may be unable to obtain on acceptable terms or at all, to fund our capital expenditures and operating expenses, including working capital needs. We may fail to generate sufficient cash flow from our operations to meet our cash requirements. Furthermore, our capital requirements may vary materially from those currently planned if, for example, our revenues do not reach expected levels or we have to incur unforeseen capital expenditures and make investments to maintain our competitive position. If this is the case, we may require additional financing sooner than anticipated, or we may have to delay some of our new development and expansion plans or otherwise forgo market opportunities. We may not be able to obtain future equity or debt financing on favorable terms, if at all. Future borrowing instruments such as credit facilities are likely to contain restrictive covenants and may require us to pledge assets as security for borrowings under those facilities. Our inability to obtain additional capital on satisfactory terms may delay or prevent the expansion of our business.

We are subject to covenants under the agreements governing our long-term indebtedness, which may limit our future business activities.

As of June 30, 2012, we had approximately Ps. 31.6 billion (US\$2.4 billion) of long-term indebtedness outstanding under a series of revolving credit facilities entered into by Mexichem. The agreements governing this indebtedness impose on our subsidiaries the obligation to comply with certain limitations on their operations and financial decisions. See “Management’s discussion and analysis of financial condition and results of operations — Liquidity and capital resources.” These covenants may restrict our ability to obtain additional financing, to finance our expansion or to refinance existing indebtedness. Due to recent acquisitions, we had to obtain waivers from our creditors to some of our obligations under such credit agreements. There is no assurance that in the future, similar waivers will be obtained. A default might limit our capability to make future acquisitions or enter in other transactions, including future financing or refinancing of the existing debt, which might have a negative impact in our operations, results and perspectives.

We depend upon key personnel, and the loss of any of our key employees could have a material adverse effect on us.

We depend to a significant degree on the talent, abilities and experience of our senior executives, each of whom would be difficult to replace due to their extensive experience in the chemical industry and technical knowledge relating to our operations. The loss of any of these individuals could have a material adverse effect on our business, results of operations, financial condition and prospects.

The costs of complying with environmental protection and health and safety laws, and any liabilities arising thereunder, may increase and adversely affect our business, results of operations, cash flows or financial condition.

We are subject to various environmental protection and health and safety laws and regulations governing among other things the generation, storage, handling, use, remediation, disposal and transportation of hazardous materials, the emission and discharge of hazardous materials into the ground, air or water, and the health and safety of our employees. In addition, chemical producers are sometimes subject to unfavorable market perceptions as a result of the environmental impact of their business, which can have an adverse effect on their results of operations.

We are also required to obtain permits from governmental authorities for certain operations. We cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. If we violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by

regulators. We could also be held liable for any and all consequences arising out of human exposure to hazardous substances or other environmental damage.

Environmental laws are complex, change frequently and have tended to become more stringent over time. While we have budgeted for future capital and operating expenditures to maintain compliance with environmental laws, we cannot assure you that environmental laws will not change or become more stringent in the future. Subsequent changes in or additions to existing laws or regulations, or stricter enforcement or application of such laws or regulations could force us to make significant additional capital expenditures, which could affect our profitability or financial condition in the future. Therefore, we cannot assure you that our costs of complying with current and future environmental and health and safety laws, or arising from stricter or different interpretations of such laws, and our liabilities arising from past or future releases of, or exposure to, hazardous substances will not adversely affect our business, results of operations, cash flow or financial condition. See “Business — Environmental matters.”

Labor disruptions could affect our results of operations.

As of December 31, 2011, approximately 58% of our employees were hired under collective bargaining agreements with labor unions. We negotiate separate agreements with each union annually with respect to salary, with each contract being renegotiated in full every two years in connection with all ancillary benefits. Although our employees have not gone on strike within the past three years, there can be no assurance that a work slowdown, or a work stoppage or strike as a result of political or economic conditions or for other reasons, will not occur prior to or upon the expiration of our labor agreements, and we are unable to estimate the adverse effect of any such work slowdown, stoppage or strike on our sales. Work slowdowns, stoppages or other labor-related developments affecting us could have a material adverse effect on our business, financial condition, results of operations or prospects.

Natural disasters, production hazards and other events could adversely affect our business.

Natural disasters, such as torrential rains, hurricanes and earthquakes, could impede operations, damage our infrastructure or adversely affect our production facilities. We could also be subject to acts of vandalism or disturbances, which could affect our infrastructure and/or our distribution network. Any of these events could increase our capital expenditures for repairs.

Our operations are subject to hazards, such as fires, explosions and other accidents, associated with the manufacture of chemicals and the storage and transportation of our products. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment and environmental damage. A significant accident at one of our plants or storage facilities could force us to suspend our operations temporarily and result in significant remediation costs and lost sales.

We have insured our plants against damage caused by natural disasters, accidents or other similar events and resulting consequential damages; however, if losses occur, we cannot assure you that losses caused by damage to our plants will not exceed policy limits. Damages significantly in excess of our insurance policy limits or that were not foreseeable and covered by our policies could have a material adverse effect on our business, results of operations, financial condition and prospects. In addition, even if we receive insurance proceeds as a result of a natural disaster, facilities could suffer interruptions in production as we complete repairs, which could materially and adversely affect our business, results of operations, financial condition and prospects.

We may be unable to protect our intellectual property rights.

We may be unable to prevent third parties from utilizing our patents and trademarks without our authorization or from violating our intellectual property rights in any other way. Intellectual property laws of several jurisdictions where we operate and the enforcement of such laws by authorities in such jurisdictions may not be efficient, which may impair our ability to protect our rights over the intellectual property we own. We cannot assure you that we will be successful if we attempt to enforce our intellectual property rights. Because we believe our patents and our trademarks are one of our competitive advantages, to the extent we are unable to enforce these intellectual property rights, our business could be materially and adversely affected. Furthermore, any legal proceedings to enforce our intellectual property rights may be costly, and could adversely affect our results of operations.

We are a holding company and have no significant assets other than shares of our subsidiaries; as a result we may not be able to comply with our obligations.

We are a holding company with no independent operations or substantial assets other than the capital stock of our operating companies. Accordingly, we depend on the results of the operations of our subsidiary companies. Our ability to service our debt and other obligations, including the Notes, depends on the generation of cash flow by our subsidiaries and their ability to make such cash available to us in the form of interest payments, debt repayment, as dividends or otherwise. Each of our subsidiaries is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. Furthermore, under Mexican law, our Mexican subsidiaries may only pay dividends out of retained earnings and after a legal reserve has been created and all losses from prior fiscal years have been absorbed. In addition, the distribution of dividends may be taxable, unless they are made from an after-tax profits account. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness, including the Notes, or honor our other obligations. Any adverse change in the financial condition or results of operations of our subsidiaries could affect our financial condition.

We are subject to risks related to our derivative transactions

We enter into derivative transactions to hedge the exchange rate and interest rate risk to which we are exposed. The execution of derivative transactions involves certain risks, including credit or default risk, fluctuations in the price of the underlying assets, the need to post additional collateral, among others. The occurrence of any of such risks could have an adverse effect on our results and financial condition.

Market practices and documentation for derivative transactions in Mexico may differ from those in other countries. In addition, the execution and performance of these transactions depend on our ability to develop adequate control and administration systems, and to hire and retain qualified personnel. Moreover, our ability to adequately monitor and analyze these transactions depends on our information technology systems. These factors may further increase the risks associated with these transactions and could materially and adversely affect our results of operations and financial condition.

Risk factors related to Mexico and the principal countries where we operate

Our financial condition and results of operations are exposed to the general economic conditions of the countries where we operate. We have a presence in different markets such as construction, coolants, industrial, automotive, retail and rural and urban infrastructure. We contribute actively to the development of Mexico and other countries in which we have subsidiaries, by serving each of our strategic sectors and funneling products to intermediate and end users. We have assets and manufacturing and distribution operations in several countries in the Americas, such as Mexico, Argentina, Brazil, Colombia, Costa Rica, Ecuador, El Salvador, the United States, Guatemala, Honduras, Nicaragua, Panama, Peru and Venezuela. As of 2010, with the acquisition of the gas coolant business and the acquisition on 2011 of AlphaGary, we also have operations in Japan and the United Kingdom. In addition, as a result of our acquisition of Wavin in 2012, we have over 40 manufacturing and assembly sites in Europe and China. Our activities, financial situation and operating results are subject to the situation of the local economies of the countries in which we have operations and the purchasing power of our populations.

Changes in governmental policies in Mexico and in the other principal countries in which we operate could adversely affect our business, results of operations, financial condition and prospects

The federal government of Mexico, as well as the governments of the principal countries in which we operate, including Colombia, Brazil and countries in Europe, have exercised, and continue to exercise, significant influence over the economy of their respective countries. In 2011, approximately 36.8% of our net sales were generated in Mexico, while approximately 15.2%, 13.8% and 12.6% of our net sales were generated in Brazil, Colombia and the United States, respectively. With the acquisition of Wavin in May 2012, we expect to increase our exposure to European markets significantly. Accordingly, the governmental actions and policies of those countries concerning the economy in general and the chemical industry in particular could have a significant impact on us, as well as on the market prices of our Notes. We cannot assure you that changes in the governmental policies of these countries will not adversely affect our business, results of operations, financial condition and prospects.

Political and economic developments in the countries in which we operate may adversely affect us.

Our business strategies, financial condition and results of operations could be adversely affected by changes in government policies of Mexico and the other countries in which we operate (which include Argentina, Colombia, Brazil, Ecuador, the United States, Japan, Peru, the United Kingdom, Taiwan, Venezuela and countries of Eastern Europe), and by other political developments in or affecting these countries and regulatory and legal changes or administrative practices of their authorities, over which we have no control. In addition, recent rates of gross domestic product growth in these countries may not continue in the future, and future developments in or affecting their economies could impair our ability to proceed with our business plan or materially adversely affect our business, financial condition or results of operations.

Certain of the countries in which we operate have in the past devalued their currency on various occasions and for various reasons and may do so again in the future. Argentina, Colombia and Venezuela have taken measures in the recent past, which have impacted exchange rates versus the U.S. dollar as well as other currencies. Such measures, and other measures these countries may take, would have a material adverse effect on our financial condition and results of operations.

Developments in other countries could adversely affect the Mexican and other Latin American economies, the market value of our Notes and our financial condition and results of operations.

The market value of securities of Mexican companies is affected by economic and market conditions in developed and other emerging market countries. Although economic conditions in those countries may differ significantly from economic conditions in Mexico, adverse economic conditions may expand regionally or investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Mexican issuers. In recent years, for example, prices of both Mexican debt and equity securities have sometimes suffered substantial drops as a result of developments in other countries and markets.

In addition, in recent years economic conditions in Mexico have been linked increasingly to economic conditions in the United States and Europe as a result of the free trade agreements signed by Mexico with the United States and the European Union, and increased economic activity among these countries, similar to what took place during the recent economic crisis affecting the United States and Europe. The Mexican economy is still strongly influenced by the U.S. and European economies and therefore the termination of free trade agreements and other related events, further deterioration in the economic conditions, or delays in the recovery of the U.S. economy or Europe, can affect recovery in Mexico and Latin America. These events could have a material adverse effect on our results operations, which could affect our liquidity, financial condition and the market price of the Notes.

As a result of the acquisition of Wavin, the debt crisis in Europe could have a material adverse effect on our financial position and results of operations.

Currently there is concern regarding the ability of certain European countries to meet their sovereign debt obligations and concerns relating to the overall stability of the euro and the use of the euro as a single currency, given the circumstances and economic policies of individual countries within the Eurozone. The recession and deteriorating global financial markets has raised concerns regarding access to capital markets and the solvency of the member states of the European Union, particularly Portugal, Ireland, Italy, Greece, and Spain, and has also raised concerns regarding financial institutions, which have direct or indirect exposure to debt issued by these countries. The current uncertainty regarding the outcome of the international programs for financial support, and the possibility that member states of the European Union may experience similar financial problems could further affect global markets. The deterioration of the ratings assigned to certain European sovereign debt, as well as the deterioration in the ratings assigned to certain European financial institutions, growing concerns of a potential breach of the government stations and possible withdrawals of one or more of the member states from the European Economic Zone continue to contribute to this uncertainty.

As a result, the economic activity of several European countries in which we operate through Wavin has been adversely affected, which in turn could result in lower demand for products manufactured and marketed by Wavin. If the current crisis in the European Union continues or becomes more severe, we may face deterioration in the economic condition of the area and overall industry slowdown, which could have a material adverse effect on our business, results of operations and financial condition.

Inflation and government measures to curb inflation, may adversely affect the economies in the countries where we operate, our business and operations and the market prices of our Notes.

At times in the past, Mexico, and certain countries in which we operate, including Argentina, Colombia, Brazil and Venezuela have experienced high rates of inflation. Although inflation rates in many of these countries have been low in the recent past, no assurances can be given that this trend will continue. The measures taken by the governments of these countries to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in many of these countries and to heightened volatility in their securities markets.

These countries may experience high levels of inflation in future periods. Periods of higher inflation may slow the rate of growth of their economies, which could lead to reduced demand for our products and decreased sales. Inflation is also likely to increase some of our costs and expenses, which we may not be able to pass on to our customers and, as a result, may reduce our profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing any floating-rate debt may increase, resulting in lower net income. Furthermore, inflation and its effect on domestic interest rates can lead to reduced liquidity in the domestic capital and lending markets, which could affect our ability to refinance our indebtedness in those markets. Any decline in our net sales or net income and any deterioration in our financial performance could affect our liquidity and financial situation.

We recognize the effects of inflation in hyperinflationary economies, where inflation over the past three years is over 100%. In 2011 and 2010, we recognized the effects of inflation on our operations in Venezuela.

Exchange rate fluctuations versus the U.S. dollar in Mexico and other countries where we operate and significant variations in interest rates could adversely affect our results of operations.

We are exposed to exchange rate risk, particularly in Mexico, in relation to the U.S. dollar and the euro. Approximately 64% of our outstanding debt and substantially all of our capital expenditures are denominated in U.S. dollars. Our income is generally denominated in local currency, though most of our contracts are pegged to the U.S. dollar, which provides a certain measure of natural protection against exchange rate fluctuations.

The loans denominated in dollars generate interest at a variable rate, based on Libor, while the loans in Mexican pesos generate interests on a variable rate based on TIIE.

As such, any increase in the value of the U.S. dollar with respect to the various currencies of the countries where Mexichem has operations, particularly the Mexican peso, or in interest rates would have an adverse impact on our net income, results of operations and financial condition.

Pavco de Venezuela, a subsidiary of Mexichem, has had problems acquiring currencies to engage in some commercial transactions. In January 2010, Venezuela's government devalued its currency by 2.15 bolivars for 1 U.S. dollar and established two exchange rates, one of 2.60 and another one of 4.30 bolivars. The 2.60 rate would govern the priority imports, including food, health, machinery, science and technology and imports from the government. For any other transaction the 4.60 bolivars for each U.S. dollar applies.

We have hedged some of the risk arising from fluctuations on interest rates and the exchange rate between the Mexican peso and the U.S. dollar by using swaps

We are exposed to interest rate risks because our debt incurs interest at variable rates. We manage interest rate risks through interest rates swaps, if the projected changes are between 100 and 200 basis points per quarter. Hedging is regularly evaluated to ensure it aligns with interest rates and their related risk, in order to obtain the most effective hedging strategy. We are exposed to interest rates risks mainly over LIBOR and TIIE. If TIIE and LIBOR would have increased 100 basis points in each of our annual reporting periods and all other variables remained stable, our income before taxes in 2011, 2010 and 2009 would have decreased to approximately Ps. 98.02 million, Ps. 88.46 million, Ps. 99.47 million, respectively. Our exposure to the interest rate risk is related mainly to the LIBOR and TIIE rates over our financial liabilities. We use stress tests to determine our exposure to fluctuations in interest rates based on our total financial debt based on floating rates, which is not hedged, and we inform our board of directors quarterly of our exposure to interest rate risk.

We cannot assure that the stress tests we perform are sufficient to hedge our possible contingencies derived from the stress scenarios considered or from significant fluctuations of the interest rates, which would adversely affect our financial conditions and results. We are also exposed to exchange rate risks. If the Mexican peso had depreciated 1% against the U.S. dollar, using the exchange rate on December 31, 2011, the expected exchange loss, based on our liabilities of Ps. 852.7 million on December 31, 2011, would have been Ps. 118.9 million.

Antitrust laws in Mexico and other countries in which we operate may limit our ability to expand our business.

The Mexican Federal Antitrust Law (*Ley Federal de Competencia Económica*), and related regulations, could adversely affect our ability to acquire and sell businesses and to enter into new or complementary businesses or joint ventures with competitors. Approval of the Mexican Antitrust Commission (*Comisión Federal de Competencia*) may be required for us to undertake significant acquisitions, dispositions or to enter into joint ventures. Failure to obtain any antitrust approvals may result in the imposition of fines on us, the mandatory divestiture of assets, the termination of the relevant acquisition agreements or our inability to complete agreed upon transactions. As we continue to expand our operations, it is possible that we will face greater scrutiny from antitrust regulators in the countries in which we operate. We cannot assure you that the Mexican or Colombian antitrust authorities, or those of any countries in which we may undertake acquisitions in the future, will approve any or all of the acquisitions that are under review or that we may pursue in the future. We currently maintain a leading market position in most of the markets in which we operate, both in Latin America and Europe. As our operations and market position increase, future acquisitions may face increased regulatory scrutiny and obstacles under anti-trust or competition regulations.

If we fail to comply with or become subject to more onerous government regulations, our business could be adversely affected.

We are subject to various federal, state and municipal laws and regulations in the countries in which we operate, including those relating to mining, manufacturing, hazardous materials, environmental protection, workplace safety and consumer protection. We are required to obtain, maintain and renew on a regular basis concessions, permits, licenses and authorizations from various governmental authorities to carry out our projects. We seek to maintain compliance with these laws and regulations. If we are unable to maintain or achieve compliance with these laws and regulations, we could be subject to fines, plant shutdowns, cancellation of licenses, revocation or expropriation of authorizations or concessions, imposition of fees greater than those originally set forth in our concessions and authorizations or other restrictions on our ability to operate, which could have an adverse impact on our financial condition.

Regulations governing the chemical industry have tended to become more restrictive over time. We cannot assure you that new and stricter standards will not be adopted or become applicable to us, or that stricter interpretation of existing laws and regulations will not apply. Any such event may require us to spend additional funds to achieve compliance with such new rules, if possible, and therefore increase our cost of operation.

The Mexican Congress passed new legislation that might increase tax liabilities.

On December 7, 2009, the Mexican Congress approved changes on the revenues-tax law (*Ley del Impuesto Sobre la Renta*), which mandates that: (1) the payment of the tax related to the benefits gained through consolidation from 1999 to 2004, will have to be made in partial payments beginning on 2010 and until 2015; and (2) the tax related to the tax-benefits gained through consolidation from 2005 and the following years will be paid from the sixth to the tenth following year on which such benefit was obtained. Payment of taxes related to the benefits gained through consolidation in 1982 (date on which fiscal consolidation began) to 1998 might be required in some cases.

We will not have to pay revenues tax for the consolidation benefits gained from 1999 to 2004. However, this reform applies to us beginning with 2006, the tax effect of which is expected to be approximately Ps. 619.3 million, which is recorded in our financial statements as a deferred tax. We cannot assure you that we will not be required to pay taxes and other additional contributions with the publication of new tax laws or reforms of the current legislation.

Mexican corporate disclosure and accounting standards differ in many regards from U.S. standards.

Both the United States and Mexico have enacted securities laws and regulations intended to promote full and fair disclosure of material corporate information to investors. However, we are not required to comply with most aspects of U.S. securities regulations, and as a result the information about us that is available to investors may

differ and be presented differently from the information that is available about companies that are required to prepare reports that comply with U.S. securities regulations or stock market listing standards. In addition, we prepare our financial statements in accordance with IFRS, which differs from U.S. GAAP in a number of respects.

We are subject to foreign currency exchange controls in certain countries in which we operate.

We are currently subject to foreign currency exchange controls in Venezuela (where our subsidiary, Mexichem Amanco Holding S.A. de C.V., or Amanco has operations). These controls restrict our access to foreign exchange and limit our ability to transfer funds out of Venezuela, including for the payment of interest or principal on outstanding debt. In addition, these controls affect our ability to receive dividends and other distributions from our subsidiaries in this country. As of December 31, 2011, net sales from our subsidiaries in Venezuela represented approximately 2.3% of our total net sales. If we are prohibited from transferring funds out of Venezuela, or if we become subject to similar restrictions in other countries in which we operate, our results of operations and financial condition could be adversely affected.

As has occurred in the past, currency transfer restrictions may be imposed in the future on our ability to issue dividends from our Colombian subsidiaries to us, which would limit our cash flow available for the repayment of our indebtedness, which would have an adverse impact on our financial condition and results of operation.

Risk factors related to our Notes and this offering

The indenture governing the Notes, and the instruments governing our existing indebtedness, impose significant operating and financial restrictions, which may prevent us from capitalizing on business opportunities.

The indenture governing each series of Notes, and the instruments governing our existing indebtedness, contain covenants that limit future actions to be taken, or transactions to be entered into, by us and our subsidiaries. In addition, under some of our existing indebtedness we are required to satisfy and maintain specified financial ratios and tests at all times. Events beyond our control may affect our ability to comply with those provisions and we may not be able to meet those ratios and tests. The breach of any of these covenants would result in a default, which could, in turn, lead to all the outstanding amounts under those debt documents becoming immediately due and payable. The covenants in the indenture, and the instruments governing our existing indebtedness, could limit our ability to seize attractive growth opportunities for our business that are currently unforeseeable, particularly if we are unable to incur financing or make investments to take advantage of these opportunities.

We have a significant amount of indebtedness.

As of June 30, 2012, our total debt was Ps. 33.2 billion (US\$2.5 billion) and our stockholders' equity was approximately Ps. 26.6 billion (US\$2.0 billion). Our level of debt may have important consequences to you. Among other things, it may:

- make it more difficult for us to generate sufficient cash flow to satisfy our obligations to make payment on the Notes, particularly if an event of default arises under our existing debt instruments;
- limit our ability to use our cash flow, or obtain additional financing, for future working capital, capital expenditures, acquisitions or other general corporate purposes;
- restrict our ability to pay dividends;
- require a substantial portion of our cash flow from operations to make debt service payments;
- limit our flexibility to plan for, or react to, changes in our business and industry conditions;
- limit our ability to undertake additional acquisitions;
- place us at a competitive disadvantage compared to our competitors with lower levels of indebtedness; and
- increase our vulnerability to the impact of adverse economic and industry conditions and, to the extent of our outstanding debt under our floating rate debt facilities, the impact of increases in interest rates.

We cannot assure you that we will continue to generate sufficient cash flow in amounts sufficient to enable us to service our debt, meet our working capital and capital expenditure requirements or undertake our expansion plans. To the extent that we are unable to generate sufficient cash flows from operations, or if we are unable to borrow additional funds, we may be required to sell assets, reduce capital expenditures, refinance all or a portion of our existing debt, or obtain additional financing through equity or debt financings. We cannot assure you that we will be able to refinance our debt, sell assets, or obtain additional financing on terms acceptable to us, if at all. In addition, our ability to incur additional debt will be restricted under the covenants contained in our credit facilities. See “Management’s discussion and analysis of financial condition and results of operations — Liquidity and capital resources.” Moreover, we may incur additional debt in the future. The indenture governing the Notes will permit, and the instruments governing our existing debt currently permit, us and our existing and future subsidiaries to incur additional debt. If we incur additional debt, the risks described above could be exacerbated.

The instruments governing our debt, including the Notes, contain cross-default provisions that may cause all of the debt issued under such instruments to become immediately due and payable as a result of a default under an unrelated debt instrument.

The indenture governing the Notes contains certain covenants, and instruments governing our other debt also contain covenants and, in some cases, require us and our subsidiaries to meet certain financial ratios and tests. Any failure to comply with these covenants could result in an event of default under the applicable instrument, which could result in the related debt and the debt issued under other instruments becoming immediately due and payable. In such event, we would need to raise funds from alternative sources, which may not be available to us on favorable terms, on a timely basis or at all. Alternatively, any such default could require us to sell our assets or otherwise curtail operations in order to satisfy our obligations to our creditors.

We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture governing the Notes.

Under the indenture governing the Notes, if a Change of Control Triggering Event (as defined in the indenture) occurs, we must offer to purchase each series of Notes for a price equal to 101% of the principal amount of each series of Notes, plus any accrued and unpaid interest to the date of purchase. In the event of a Change of Control Triggering Event, we may need to refinance large amounts of our debt, including the Notes and indebtedness under certain of our credit facilities or other debt instruments. We may not have sufficient funds available to us to make any required repurchases of the Notes upon a Change of Control Triggering Event. If we fail to repurchase the Notes in those circumstances, we will be in default under the indenture, which default may, in turn, trigger cross-default provisions in our other debt instruments. Any future debt that we incur may also contain restrictions on repurchasing the Notes upon a Change of Control Triggering Event.

The subsidiary guarantees may not be enforceable.

Each series of Notes will be fully and unconditionally guaranteed, jointly and severally, by certain of our subsidiaries. The subsidiary guarantees provide a basis for a direct claim against the subsidiary guarantors; however, it is possible that the subsidiary guarantees may not be enforceable under applicable law.

While Mexican law does not prohibit the giving of subsidiary guarantees and, as a result, it does not prevent the subsidiary guarantees of the Notes from being valid, binding and enforceable against the subsidiary guarantors, in the event that a subsidiary guarantor becomes subject to a judicial reorganization proceeding (*concurso mercantil*) or to bankruptcy (*quiebra*), its subsidiary guarantee may be deemed to have been a fraudulent transfer and declared void based upon the subsidiary guarantor being deemed not to have received fair consideration in exchange for such subsidiary guarantee. If any such event were to occur, the creditworthiness of the Notes, and the market value of the Notes in the secondary market may be materially and adversely affected.

If we or any of the subsidiary guarantors were to be declared insolvent or bankrupt, holders of the Notes may find it difficult to collect payment on the Notes.

Under the *Ley de Concursos Mercantiles* (Mexican Bankruptcy Law), if we or any of the subsidiary guarantors are declared bankrupt or become subject to *concurso mercantil* (judicial reorganization), our obligations and the obligations of the subsidiary guarantors in respect of the Notes, (i) would be converted into pesos and then from pesos into UDIs (a unit that is adjusted to the inflation rate officially recognized by Banco de México) and would

not be adjusted to take into account any devaluation of the peso relative to the U.S. dollar occurring after such conversion, (ii) would be satisfied at the time claims of all our creditors are satisfied, (iii) would be subject to the outcome of, and priorities recognized in, the relevant proceedings, (iv) would cease to accrue interest from the date a *concurso mercantil* is declared and (v) would be subject to certain statutory preferences, including tax, social security and labor claims and claims of secured creditors.

Provisions of Mexican law may make it difficult for holders of the Notes to convert payments they receive in pesos into U.S. dollars or to recognize the full value of payments to them.

We are required to make payments in respect of the Notes in U.S. dollars. However, under the Mexican Monetary Law (*Ley Monetaria de los Estados Unidos Mexicanos*), obligations to make payments in Mexico in foreign currency, whether by agreement or upon enforcement of a judgment, may be discharged in pesos at the exchange rate for pesos prevailing at the time and place of payment or judgment. Accordingly, we will be legally entitled to make payment of amounts due on the Notes in pesos if payment of the Notes is sought in Mexico, whether by seeking payment directly or through the enforcement of a non-Mexican judgment. If we elect to make payments due on the Notes in pesos in accordance with the Mexican Monetary Law, we can make no assurance that the amounts paid may be converted by the payee into U.S. dollars or that, if converted, such amounts would be sufficient to purchase U.S. dollars equal to the amount of principal, interest or additional amounts due on the Notes.

You may not be able to effect service of process on us or to enforce judgments against us in Mexican courts.

We and certain of our subsidiary guarantors are companies organized under the laws of Mexico. Almost all of our directors and executive officers, and the directors and executive officers of many of our subsidiary guarantors, are Mexican residents. A majority of our assets and the assets of certain of our subsidiary guarantors are located in Mexico, and a majority of our net sales and the net sales of certain of our subsidiary guarantors are derived from sources in Mexico. As a result, it may not be possible for investors to effect service of process outside Mexico on us or our directors or executive officers or on those subsidiary guarantors, or to enforce against such parties judgments of courts located outside Mexico predicated on civil liabilities under the laws of jurisdictions other than Mexico, including judgments predicated on the civil liability provisions of the U.S. federal securities laws or other laws of the United States. See “Service of process and enforcement of civil liabilities.”

The collection of interest on interest may not be enforceable in Mexico.

Mexican law does not permit the collection of interest on interest and, as a result, the accrual of default interest on past due ordinary interest accrued in respect of the Notes may be unenforceable in Mexico.

There are restrictions on your ability to transfer the Notes.

The Notes have not been registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Such exemptions include offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act and in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers as defined under Rule 144A under the Securities Act. For a discussion of certain restrictions on resale and transfer, see “Transfer restrictions.”

We cannot assure investors that an active trading market for the Notes will develop.

Each series of Notes constitute a new issue of securities, for which there is no existing market. Although we have applied to admit each series of Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market, we cannot provide investors with any assurances that the application will be accepted. Further, no assurance can be provided regarding the future development of a market for the Notes, the ability of holders of the Notes to sell their Notes, or the price at which such holders may be able to sell their Notes. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, our results of operations and financial condition, prospects for other companies in our industry, political and economic developments in and affecting Mexico, risk associated with Mexican issuers of such type of securities and the market for similar securities. If an active market for the Notes does not develop or is interrupted, the market price and liquidity of the Notes may be adversely affected.

Payments on the Notes and the subsidiary guarantees will be junior to our secured debt obligations and effectively junior to debt obligations of our non-guarantor subsidiaries.

The Notes will constitute our unsecured obligations and will rank equal in right of payment with all of our and our subsidiary guarantors other existing and future unsecured indebtedness. Although the holders of the Notes will have a direct, but unsecured claim on our assets and property, payment by us in respect of the Notes will be subordinated to our secured debt to the extent of the assets and property securing such debt. Payment by us in respect of the Notes will also be structurally subordinated to the payment of secured and unsecured debt and other creditors of our non-guarantor subsidiaries. As of June 30, 2012, we and the Subsidiary Guarantors had Ps. 25,009.5 million of total indebtedness, none of which is secured debt and Ps. 8,203.4 million of which is unsecured debt of our non-guarantor Subsidiaries, all of which is structurally senior to the Notes. In addition, under Mexican law, our obligations under the Notes are subordinated to certain statutory preferences, including claims for salaries, wages, secured obligations (to the extent of the security provided), social security, employee housing fund contributions, taxes and court fees and expenses. Similar statutory preferences may be applicable in other jurisdictions where the subsidiary guarantors are incorporated. In the event of our liquidation, such statutory preferences will have preference over any other claims, including claims by any holder of the Notes.

We face risks related to fluctuations in interest rates.

We are exposed to fluctuations in interest rates. As of June 30, 2012, after giving effect to this offering and the use of net proceeds therefrom and taking into account related derivative financial instruments, approximately US\$1,078 million, representing 41.19%, of our outstanding indebtedness, bore interest at a variable rate. Accordingly, changes in interest rates would affect the cost of these interest-bearing borrowings. If interest rates increase, our debt service obligations on such variable rate indebtedness would increase even though the amount borrowed would remain the same, and our net income and cash available for servicing our indebtedness, including the Notes, would decrease. As a result, our financial condition, results of operations and liquidity could be materially adversely affected. Furthermore, our attempts to mitigate interest rate risk by financing long-term liabilities with fixed interest rates and our use of derivative financial instruments, such as floating-to-fixed interest rate swaps in connection with certain of our indebtedness, to manage our risk could result in our failure to realize savings if interest rates fall.

A downgrade in our credit ratings could adversely affect our ability to access credit markets.

If any of our credit ratings are downgraded or if our existing ratings become subject to negative actions by the rating agencies, our ability to access credit markets could be adversely affected and our borrowing costs could be increased. Changes in ratings could also affect the price of the Notes.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements within the meaning of the United States securities laws. These statements are subject to certain known and unknown risks, uncertainties and other circumstances out of our control that could cause actual results and expectations on such statements to differ materially from those included in the forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include “believes,” “expects,” “intends,” “plans,” “projects,” “estimates” or “anticipates” and similar expressions and appear in, among others, the sections in this offering memorandum captioned “Summary,” “Risk factors,” “Management’s discussion and analysis of financial condition and results of operations,” “Industry” and “Business.” Specific forward-looking statements contained in this offering memorandum include, among others, statements regarding:

- the availability and important price variations that may affect the cost of raw material and electricity;
- the expected cost and timing of the planned expansion and upgrade of our plants and our current and projected estimated capital expenditures;
- our plans regarding new products and services and estimated increases in our sales, EBITDA and return on equity;
- growth trends and projected sales of competitors in our industry;
- general economic, political, social and business conditions in Mexico, Latin America and Europe, including changes in currency exchange and interest rates;
- trends in the chemical industry, including changes in capacity, industry price movements and costs;
- changes in market prices, customer preferences, competitive conditions and general level of demand for our products;
- our ability to successfully undertake or complete potential acquisitions or joint ventures and to integrate acquisitions we have entered into or completed recently;
- extraordinary events affecting our operations and facilities, including unexpected equipment failures, strikes, emergency safety measures, military or terrorist attacks and natural disasters;
- our ability to manage, implement and monitor billing and operational support systems;
- our ability to service our debt, fund our working capital requirements and comply with financial covenants in certain of our debt instruments; and
- other factors as set forth in the offering memorandum, including factors under “Risk factors.”

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict. For additional information on factors that could cause our actual results to differ from expectations reflected in forward-looking statements, please see “Risk factors.”

We caution you not to place reliance on forward-looking statements, which merely reflect our management’s view as of the date of this offering memorandum.

USE OF PROCEEDS

The gross proceeds in the notes offering were US\$1,150 million. The global amount of net proceeds received by us in the notes offering, after deducting underwriting commissions and other expenses in connection with the offering, was approximately US\$1,137 million. We used the net proceeds from the notes offering primarily for repayment of indebtedness. In particular, we used approximately US\$600 million to repay our revolving credit facility dated August 26, 2011 and approximately US\$436 million to pay down our long term debt, US\$333 million of which was used to repurchase US\$267 million in aggregate principal amount of our senior notes due 2019 that were repurchased through a tender offer that expired on September 13, 2012. Additionally we used US\$38 million to repay our loan with BBVA Bancomer and US\$65 million to pay down our loan with Bancolombia, and anticipated fees and commission paid in the amount of US\$16 million. The remainder was retained as cash.

EXCHANGE RATES

The following table sets forth, for the periods indicated, the period-end, average, high and low exchange rates published by Mexican Central Bank expressed in pesos per U.S. dollar. The average annual rates presented in the following table were calculated by using the average of the exchange rates on the last day of each month during the relevant period. The rates shown below are in nominal pesos that have not been restated in constant currency units. No representation is made that the peso amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all.

All amounts are stated in Mexican pesos per U.S. dollar. As of June 30, 2012, the free market exchange rate for the purchase of U.S. dollars as reported by the Banco de México in the Federal Official Gazette as the rate of payment of obligations denominated in non-Mexican currency payable in Mexico was Ps. 13.34 per U.S. dollar. We cannot assure you that the Federal Government will maintain its current policies with respect to the peso or that the peso will not appreciate or depreciate significantly in the future.

Year ended December 31, Month Ended	Exchange Rate(1)			
	High	Low	Average(2)	Period End
2007	11.27	10.66	10.93	10.92
2008	13.92	9.92	11.14	13.83
2009	15.37	12.60	13.50	13.07
2010	13.18	12.16	12.64	12.35
2011	14.24	11.50	12.43	13.98
February 29, 2012	12.89	12.63	12.76	12.81
March 31, 2012	12.98	12.62	12.74	12.80
April 30, 2012	13.23	12.73	13.07	12.99
May 31, 2012	14.30	12.96	13.66	14.30
June 30, 2012	14.39	13.41	13.92	13.41
July 31, 2012	13.68	13.12	13.37	13.28
August 31, 2012	13.42	13.07	13.18	13.26
September 30, 2012	13.42	12.75	13.00	12.85
October 2012 (through October 25)	12.98	12.70	12.86	12.97

- (1) The exchange rates are the exchange rates published by the Banco de México in the Federal Official Gazette as the rate for the payment of obligations denominated in non-Mexican currency payable in Mexico.
- (2) Annual average rates reflect the average of month-end rates. Monthly average rates reflect the average of daily rates.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2012, and as adjusted to give effect to the sale of the Notes and the application of the net proceeds therefrom, as described in “Use of proceeds.” You should read this table together with the information under the section entitled “Management’s discussion and analysis of financial condition and results of operation” and our consolidated financial statements and the notes thereto included elsewhere in this offering memorandum. Solely for the convenience of the reader, Mexican peso amounts appearing in the table below have been translated to U.S. dollar amounts at an exchange rate of Ps. 13.38 to US\$1.00, the exchange rate published by the Banco de México in the Federal Official Gazette on June 30, 2012 as the rate for the payment of obligations denominated in non-Mexican currency payable in Mexico on such date.

	As of June 30, 2012			
	Actual	As adjusted	Actual	As adjusted
	(Thousands of Mexican pesos)		(Thousands of U.S. dollars)	
Short-term debt(1).....	1,608,340	1,608,340	120,205	120,205
Long-term debt(2).....	31,604,563	33,415,345	2,362,075	2,497,410
2011 Revolving Loan.....	8,028,000	—	600,000	—
2019 Senior Notes(3).....	4,683,000	—	350,000	—
Notes issued hereby.....	—	15,190,782	—	1,135,335
Other long-term debt.....	18,893,563	18,224,563	1,412,075	1,362,075
Total debt.....	33,212,903	35,023,685	2,482,280	2,617,615
Total stockholders’ equity.....	26,592,053	26,592,053	1,987,448	1,987,448
Total capitalization.....	59,804,956	61,615,738	4,469,728	4,605,063

(1) Includes current portion of long-term debt.

(2) Represents bank loans and long-term debt.

(3) As adjusted assumes all outstanding 2019 Senior Notes are tendered in the tender offer.

Since June 30, 2012, there has not been any material change in our capitalization, other than as described above.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents our selected consolidated financial data. The selected consolidated financial data as of and for the years ended December 31, 2011, 2010 and 2009 is derived from our audited consolidated financial statements and the accompanying notes appearing elsewhere in this offering memorandum. The selected interim consolidated financial data as of June 30, 2012 and for the six months ended June 30, 2012 and 2011 is derived from our unaudited condensed consolidated interim financial statements and the accompanying notes appearing elsewhere in this offering memorandum. Our consolidated financial statements have been prepared in accordance with IFRS.

The U.S. dollar amounts provided below are translations from the Mexican peso amounts, solely for the convenience of the reader. See “Presentation of Financial Information and Other Information—Currency information” for an explanation of the exchange rates used to translate Mexican peso amounts into U.S. dollars. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate.

	Six months ended June 30,			Year ended December 31,		
	2012	2012	2011	2011	2010	2009
(Thousands of U.S. dollars unless indicated otherwise)	(Thousands of Mexican pesos, unless indicated otherwise)					
Statement of Comprehensive Income Data						
Net sales	2,265,827	30,164,957	23,523,732	47,309,622	35,195,391	29,752,237
Cost of sales	1,492,092	19,864,197	15,131,703	31,396,206	22,856,307	18,965,239
Gross profit	773,735	10,300,760	8,392,029	15,913,416	12,339,084	10,786,998
Selling and development expenses	264,163	3,516,808	2,593,277	5,596,446	4,164,048	3,449,075
Administrative expenses	93,781	1,248,504	1,062,259	2,046,506	2,026,202	2,032,663
Depreciation and amortization	44,101	587,120	394,462	920,444	672,717	608,446
Other expenses (income)	(6,125)	(81,539)	154,970	67,274	(169,074)	295,456
Exchange gain	(49,726)	(662,007)	(652,834)	(2,449,913)	(1,127,893)	(946,573)
Exchange loss	13,050	173,735	169,150	3,740,200	780,954	849,677
Interest expense	70,344	936,491	685,914	1,381,664	1,254,677	861,846
Interest income	(13,238)	(176,236)	(43,508)	(119,206)	(105,004)	(112,036)
Monetary position loss	874	11,637	15,120	45,007	32,263	46,292
Tax on assets	—	—	102,764	210,482	—	—
Equity in income of associated companies	(588)	(7,829)	—	—	—	(12,230)
Profit before income taxes	357,099	4,754,076	3,910,455	4,474,512	4,810,194	3,714,382
Income tax expense	104,184	1,386,998	1,336,515	1,697,277	751,249	789,036
Profit from continuing operations	252,915	3,367,078	2,573,940	2,777,235	4,058,945	2,925,346
Discontinued operations, net	—	—	(3,044)	(66,083)	(146,324)	43,960
Consolidated profit	252,915	3,367,078	2,570,896	2,711,152	3,912,621	2,969,306
Other comprehensive income (loss):						
Exchange differences on translating foreign operations	(86,103)	(1,146,293)	1,231,495	2,462,989	(575,573)	(39,426)
Net gain (loss) on cash flow hedging instruments	—	—	—	—	217,900	128,444
Net gain (loss) on available-for-sale financial assets	3,306	44,010	(60,990)	(121,981)	51,451	—
Income taxes on net gain (loss) on cash flow hedging instruments and net gain (loss) on available-for-sale financial assets	(959)	(12,763)	17,686	35,374	(80,805)	(35,964)
Consolidated comprehensive income	169,159	2,252,032	3,759,087	5,087,534	3,525,594	3,022,360
Attributable to:						
Owners of the company	169,643	2,257,944	3,752,133	5,075,647	3,515,011	3,005,500
Non-controlling interests	(484)	(5,912)	6,954	11,887	10,583	16,860
Earnings per share:						
From continuing operations	0.14	1.86	1.43	1.54	2.26	1.72
From discontinued operations	—	—	—	(0.04)	(0.08)	0.03
Basic earnings per share	0.14	1.86	1.43	1.50	2.18	1.75
Weighted average common shares outstanding	1,809,333,333	1,809,333,333	1,800,000,000	1,800,000,000	1,799,359,514	1,702,427,876

	As of June 30,		As of December 31,		
	2012	2012	2011	2010	2009
	(Thousands of U.S. dollars)		(Thousands of Mexican pesos)		
Statement of Financial Position Data					
Assets:					
Current assets:					
Cash and cash equivalents	510,298	6,827,781	7,319,536	6,609,552	10,364,684
Investments in available-for-sale securities	—	—	355,968	536,234	—
Accounts receivable, net.....	1,217,133	16,285,249	10,578,514	7,804,710	5,963,776
Related parties	6,559	87,757	71,826	21,145	39,687
Inventories, net	754,457	10,094,635	6,657,677	4,466,417	3,073,296
Prepaid expenses	46,823	626,491	172,302	135,495	237,332
Derivative financial instruments	11,102	148,544	—	—	—
Assets held for sale	—	—	—	186,366	72,129
Total current assets	2,546,372	34,070,457	25,155,823	19,759,919	19,750,904
Non-current assets					
Property, plant and equipment, net.....	2,164,159	28,956,450	22,945,893	20,950,624	18,439,693
Other assets, net	41,514	555,452	349,983	302,660	488,215
Investment in shares of associated companies	27,091	362,479	—	—	64,301
Employee benefits	—	—	53,471	110,944	59,968
Intangible assets, net.....	873,955	11,693,523	5,955,205	4,562,364	2,648,691
Deferred income taxes	37,489	501,604	577,113	598,290	382,225
Goodwill	651,720	8,720,012	5,419,273	4,446,517	2,689,917
Total non-current assets	3,795,928	50,789,520	35,300,938	30,971,399	24,773,010
Total assets	6,342,300	84,859,977	60,456,761	50,731,318	44,523,914
Liabilities:					
Current liabilities:					
Bank loans and current portion of long-term debt	120,205	1,608,340	3,792,465	2,176,521	2,364,290
Suppliers	1,017,616	13,615,700	8,269,840	6,297,614	5,249,302
Related parties	32,436	433,993	374,679	273,753	218,302
Other accounts payable and accrued liabilities	259,904	3,477,514	2,604,212	2,332,423	1,132,970
Provisions	51,282	686,156	551,899	408,046	1,114,752
Employee benefits	4,661	62,363	154,082	174,957	166,902
Derivative financial instruments	—	—	138,161	36,687	160,322
Total current liabilities	1,486,104	19,884,066	15,885,338	11,700,001	10,406,840
Non-current liabilities					
Bank loans and long-term debt	2,362,075	31,604,563	16,836,010	15,662,682	13,896,977
Other liabilities.....	99,918	1,336,907	999,039	732,587	860,361
Employee benefits.....	57,862	774,190	—	—	—
Deferred income taxes	333,155	4,457,620	2,671,234	2,852,884	2,679,089
Derivative financial instruments	15,738	210,578	—	—	63,506
Total non-current liabilities	2,868,748	38,383,858	20,506,283	19,248,153	17,499,933
Total liabilities.....	4,354,852	58,267,924	36,391,621	30,948,154	27,906,773
Stockholders' equity:					
Paid-in capital					
Nominal.....	181,422	2,427,433	2,374,661	2,374,661	2,353,106
Additional paid-in capital	404,174	5,407,844	3,602,085	3,566,659	3,479,792
Cumulative effect of restatement.....	14,433	193,120	193,120	193,120	193,120
Earned capital					
Retained earnings.....	1,045,428	13,987,831	12,435,935	10,452,916	7,056,033
Other comprehensive income	261,999	3,505,541	4,599,493	2,226,865	2,612,737
Reserve for reacquisition of shares.....	62,206	832,312	787,866	908,850	872,843
Controlling interest.....	1,969,662	26,354,081	23,993,160	19,723,071	16,567,631
Non-controlling interest	17,786	237,972	71,980	60,093	49,510
Total stockholders' equity	1,987,448	26,592,053	24,065,140	19,783,164	16,617,141
Total liabilities and stockholders' equity	6,342,300	84,859,977	60,456,761	50,731,318	44,523,914

Selected Guarantor Financial Information

The following tables present selected financial data on a subsidiary guarantor versus non-guarantor basis, as of June 30, 2012 and for the six months ended June 30, 2012, and as of and for the year ended December 31, 2011. As of and for the six months ended June 30, 2012, the subsidiary guarantors (in addition to Mexichem, on a stand-alone basis) accounted for 48.9% of our total assets and 56.1% of our EBITDA on a consolidated basis.

Six months ended June 30, 2012					
	Parent	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Total Consolidated
(Thousands of Mexican pesos except as otherwise indicated)					
Statement of Comprehensive Income Data					
Net sales.....	453,259	22,368,832	18,950,572	(11,607,706)	30,164,957
Cost of sales.....	—	16,765,618	14,015,285	(10,916,706)	19,864,197
Gross profit.....	453,259	5,603,214	4,935,287	(691,000)	10,300,760
Selling and development expenses.....	—	2,007,445	1,573,280	(63,917)	3,516,808
Administrative expenses.....	158,474	537,488	837,540	(284,998)	1,248,504
Depreciation and amortization.....	—	209,091	378,028	—	587,120
Other expenses (income).....	211,053	404,443	(348,994)	(348,041)	(81,539)
Exchange gain.....	(942,023)	(651,579)	(427,241)	1,358,836	(662,007)
Exchange loss.....	183,380	653,747	691,247	(1,354,638)	173,735
Interest expense.....	564,004	201,682	283,981	(113,176)	936,491
Interest income.....	(129,772)	(60,235)	(101,162)	114,933	(176,236)
Monetary position loss.....	—	—	11,637	—	11,637
Dividends.....	(1,301,596)	(949,825)	(762,808)	3,014,229	—
Equity in income of associated companies.....	—	—	(7,829)	—	(7,829)
Profit before income taxes.....	1,709,739	3,250,957	2,807,608	(3,014,228)	4,754,076
Income tax expense.....	50,561	751,900	584,537	—	1,386,998
Profit from continuing operations.....	1,659,178	2,499,057	2,223,071	(3,014,228)	3,367,078
Discontinued operations, net.....	—	—	—	—	—
Consolidated profit.....	1,659,178	2,499,057	2,223,071	(3,014,228)	3,367,078
Other comprehensive income (loss):					
Exchange differences on translating foreign operations.....	—	(644,053)	(502,240)	—	(1,146,293)
Net gain (loss) on cash flow hedging instruments.....	—	—	—	—	—
Net gain (loss) on available-for-sale financial assets.....	—	44,010	—	—	44,010
Income taxes on net gain (loss) on cash flow hedging instruments and net gain (loss) on available-for-sale financial assets.....	—	(12,763)	—	—	(12,763)
Consolidated comprehensive income.....	1,659,178	1,886,251	1,720,831	(3,014,228)	2,252,032

As of June 30, 2012					
	Parent	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Total Consolidated
(Thousands of Mexican pesos except as otherwise indicated)					
Statement of Financial Position Data					
Assets:					
Current assets:					
Cash and cash equivalents.....	1,630,830	1,373,754	3,823,197	—	6,827,781
Investments in available-for-sale securities.....	—	—	—	—	—
Accounts receivable, net.....	(585,387)	7,080,775	9,789,861	—	16,285,249
Related parties.....	11,227,578	7,623,502	11,333,801	(30,097,124)	87,757
Inventories, net.....	—	4,550,102	5,132,868	411,665	10,094,635
Prepaid expenses.....	7,994	208,570	409,927	—	626,491
Derivative financial instruments.....	169,628	1,248	-22,332	—	148,544
Assets held for sale.....	—	—	—	—	—
Total current assets.....	12,450,643	20,837,951	30,467,322	(29,685,459)	34,070,457
Non-current assets					
Property, plant and equipment, net.....	—	15,881,023	13,075,427	—	28,956,450
Other assets, net.....	—	430,380	125,072	—	555,452
Investment in shares of associated companies.....	25,279,621	9,695,379	25,438,365	(60,050,886)	362,479
Employee benefits.....	—	—	—	—	—
Intangible assets, net.....	—	996,053	13,225,356	(2,527,886)	11,693,523
Deferred income taxes.....	—	501,604	—	—	501,604

As of June 30, 2012					
Goodwill	—	1,146,963	11,735,781	(4,162,732)	8,720,012
Total non-current assets	25,279,621	28,651,402	63,600,001	(66,741,504)	50,789,520
Total assets	37,730,264	49,489,353	94,067,323	(96,426,963)	84,859,977
Liabilities:					
Current liabilities:					
Bank loans and current portion of long-term debt	—	887,236	721,104	—	1,608,340
Suppliers	6	6,268,940	7,346,754	—	13,615,700
Related parties	2,905,042	8,540,473	19,085,142	(30,096,664)	433,993
Other accounts payable and accrued liabilities	344,294	997,466	2,135,754	—	3,477,514
Provisions	2,057	284,162	399,937	—	686,156
Employee benefits	—	49,499	12,864	—	62,363
Derivative financial instruments	—	—	—	—	—
Total current liabilities	3,251,399	17,027,776	29,701,555	(30,096,664)	19,884,066
Non-current liabilities					
Bank loans and long-term debt	21,798,328	2,323,958	7,482,277	—	31,604,563
Other liabilities	—	534,355	802,552	—	1,336,907
Employee benefits	—	63,227	710,963	—	774,190
Deferred income taxes	434,786	2,645,451	1,377,383	—	4,457,620
Derivative financial instruments	—	—	210,578	—	210,578
Total non-current liabilities	22,233,114	5,566,991	10,583,753	—	38,383,858
Total liabilities	25,484,513	22,594,767	40,285,308	(30,096,664)	58,267,924
Stockholders' equity:					
Paid-in capital					
Nominal	2,427,433	18,389,479	12,274,127	(30,663,606)	2,427,433
Additional paid-in capital	5,407,844	24,334	203,895	(228,229)	5,407,844
Cumulative effect of restatement	193,120	2,000,294	1,224,306	(3,224,600)	193,120
Earned capital					
Retained earnings	3,403,828	3,980,032	38,958,012	(32,354,041)	13,987,831
Other comprehensive income	(18,786)	2,500,447	553,630	470,250	3,505,541
Reserve for reacquisition of shares	832,312	—	(80,188)	80,188	832,312
Controlling interest	12,245,751	26,894,586	53,133,782	(65,920,038)	26,354,081
Non-controlling interest	—	—	648,233	(410,261)	237,972
Total stockholders' equity	12,245,751	26,894,586	53,782,015	(66,330,299)	26,592,053
Total liabilities and stockholders' equity	37,730,264	49,489,353	94,067,323	(96,426,963)	84,859,977

Year ended December 31, 2011					
	Parent	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Total Consolidated
(Thousands of Mexican pesos except as otherwise indicated)					
Statement of Comprehensive Income Data					
Net sales	737,985	40,951,745	27,339,158	(21,719,266)	47,309,622
Cost of sales	—	32,400,845	19,878,583	(20,883,222)	31,396,206
Gross profit	737,985	8,550,900	7,460,575	(836,044)	15,913,416
Selling and development expenses	—	3,580,555	2,006,756	9,135	5,596,446
Administrative expenses	268,312	1,148,642	1,482,982	(853,430)	2,046,506
Depreciation and amortization	—	264,842	656,378	(776)	920,444
Other expenses (income)	5,678	35,142	17,429	9,025	67,274
Exchange gain	(316,206)	(1,567,414)	(566,293)	—	(2,449,913)
Exchange loss	1,293,558	1,775,846	670,796	—	3,740,200
Interest expense	916,096	517,915	514,851	(567,198)	1,381,664
Interest income	(354,333)	(190,721)	(141,350)	567,198	(119,206)
Monetary position loss	—	—	45,007	—	45,007
Tax on assets	—	109,990	100,492	—	210,482
Equity in income of associated companies	(1,497,052)	(575,951)	(1,420,846)	3,493,849	—
Profit before income taxes	421,932	3,452,054	4,094,373	(3,493,847)	4,474,512
Income tax expense	(265,143)	977,898	984,522	—	1,697,277
Profit from continuing operations	687,075	2,474,156	3,109,851	(3,493,847)	2,777,235
Discontinued operations, net	—	(9,607)	(56,476)	—	(66,083)
Consolidated profit	687,075	2,464,549	3,053,375	(3,493,847)	2,711,152
Other comprehensive income (loss):					
Exchange differences on translating foreign operations	—	986,011	1,476,978	—	2,462,989

Year ended December 31, 2011					
	Parent	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Total Consolidated
(Thousands of Mexican pesos except as otherwise indicated)					
Net gain (loss) on cash flow hedging instruments.....	—	—	—	—	—
Net gain (loss) on available-for-sale financial assets	(31,670)	(90,311)	—	—	(121,981)
Income taxes on net gain (loss) on cash flow hedging instruments and net gain (loss) on available-for-sale financial assets	9,184	26,190	—	—	35,374
Consolidated comprehensive income	664,589	3,386,439	4,530,353	-3,493,847	5,087,534

As of December 31, 2011					
	Parent	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Total Consolidated
(Thousands of Mexican pesos except as otherwise indicated)					
Statement of Financial Position Data					
Assets:					
Current assets:					
Cash and cash equivalents.....	2,801,009	2,216,559	2,301,968	—	7,319,536
Investments in available-for-sale securities	166,007	189,961	—	—	355,968
Accounts receivable, net	452,250	6,438,956	3,687,308	—	10,578,514
Related parties	7,339,185	7,693,295	7,119,524	(22,080,178)	71,826
Inventories, net	—	4,633,865	2,585,229	(561,417)	6,657,677
Prepaid expenses	28,641	98,159	45,502	—	172,302
Derivative financial instruments	—	—	—	—	—
Assets held for sale	—	—	—	—	—
Total current assets	10,787,092	21,270,795	15,739,531	(22,641,595)	25,155,823
Non-current assets					
Property, plant and equipment, net.....	—	15,380,578	756,962	(4314)	22,945,893
Other assets, net.....	—	326,532	23,451	—	349,983
Investment in shares of associated companies	18,187,538	9,254,736	13,972,414	(41,414,688)	—
Employee benefits	—	(4,539)	58,010	—	53,471
Intangible assets, net.....	—	299,520	8,259,813	(2,604,128)	5,955,205
Deferred income taxes.....	—	577,113	—	—	577,113
Goodwill.....	—	1,146,963	8,360,707	(4,088,397)	5,419,273
Total non-current assets	18,187,538	26,980,903	38,244,024	(48,115,272)	35,300,938
Total assets	28,974,630	48,251,698	53,983,555	(70,753,122)	60,456,761

Liabilities:

Current liabilities:					
Bank loans and current portion of long-term debt	2,203,721	630,436	958,308	—	3,792,465
Suppliers	—	6,233,202	2,036,638	—	8,269,840
Related parties	3,400,314	10,516,876	9,573,719	(23,116,230)	374,679
Other accounts payable and accrued liabilities.....	469,988	1,164,523	969,701	—	2,604,212
Provisions	20,000	330,263	201,636	—	551,899
Employee benefits	—	106,805	47,277	—	154,082
Derivative financial instruments	122,868	15,293	—	—	138,161
Total current liabilities	6,216,891	18,997,398	13,787,279	(23,116,230)	15,885,338
Non-current liabilities					
Bank loans and long-term debt.....	12,080,467	2,929,420	1,826,123	—	16,836,010
Other liabilities	—	789,279	209,760	—	999,039
Employee benefits	—	—	—	—	—
Deferred income taxes	204,463	2,407,828	62,345	(3,402)	2,671,234
Derivative financial instruments.....	—	—	—	—	—
Total non-current liabilities.....	12,284,930	6,126,527	2,098,228	(3,402)	20,506,283
Total liabilities	18,501,821	25,123,925	15,885,507	(23,119,632)	36,391,621

Stockholders' equity:

Paid-in capital					
Nominal	2,374,661	14,646,201	4,769,528	(19,415,729)	2,374,661
Additional paid-in capital	3,602,085	24,334	204,099	(228,433)	3,602,085
Cumulative effect of restatement.....	193,120	2,000,288	1,217,913	(3,218,201)	193,120
Earned capital					
Retained earnings.....	3,533,863	2,532,090	33,159,604	(26,789,622)	12,435,935

As of December 31, 2011					
Other comprehensive income	(18,786)	3,924,860	(1,616,280)	2,309,699	4,599,493
Reserve for reacquisition of shares	787,866	—	(81,503)	81,503	787,866
Controlling interest	10,472,809	23,127,773	37,653,361	(47,260,783)	23,993,160
Non-controlling interest	—	—	444,687	(372,707)	71,980
Total stockholders' equity	10,472,809	23,127,773	38,098,048	(47,633,490)	24,065,140
Total liabilities and stockholders' equity	28,974,630	48,251,698	53,983,555	(70,753,122)	60,456,761

Results by operating division

The following table contains a breakdown of our consolidated results of operations by operating division based upon the financial information reported by each division. All amounts below and elsewhere in this offering memorandum, reflect our current operating division structure.

	Six months ended June 30,			Year ended December 31,		
	2012	2012	2011	2011	2010	2009
(Thousands of U.S. dollars)	(Thousands of Mexican pesos, except as otherwise indicated)					
Chlorine-Vinyl Division(1)						
Income Statement Data:						
Net sales	933,924	12,433,334	11,543,451	23,015,520	15,533,023	14,695,932
Cost of sales	735,790	9,795,549	9,214,560	18,515,909	12,476,071	10,967,038
Gross profit	198,134	2,637,785	2,328,891	4,499,611	3,056,952	3,728,894
Operating expenses (2)	55,432	737,995	811,961	1,414,310	1,148,956	1,883,889
Other Data:						
EBITDA	177,402	2,354,236	2,000,716	3,948,946	2,748,591	2,568,034
Volume (thousands of tons)	1,039	1,039	1,064	2,044	1,790	1,716
Integral Solutions Division (1)						
Income Statement Data:						
Net sales	1,061,938	14,137,577	8,825,812	18,770,775	16,294,383	14,947,274
Cost of sales	709,453	9,444,950	5,702,581	12,274,646	10,554,434	9,688,198
Gross profit	352,485	4,692,627	3,123,231	6,496,129	5,739,949	5,259,076
Operating expenses (2)	227,629	3,030,431	2,091,773	4,447,565	3,868,383	3,829,639
Other Data:						
EBITDA	172,105	2,300,362	1,465,373	2,993,249	2,826,568	2,162,395
Volume (thousands of tons)	339	339	245	494	441	392
Fluorine Division(1)						
Income Statement Data:						
Net sales	484,975	6,456,475	5,938,343	10,852,773	6,926,653	2,531,336
Cost of sales	268,842	3,579,091	2,901,642	5,661,487	3,701,874	1,325,911
Gross profit	216,133	2,877,384	3,036,701	5,191,286	3,224,779	1,205,425
Operating expenses (2)	63,577	846,407	1,114,311	2,001,190	1,095,135	248,572
Other Data:						
EBITDA	195,602	2,595,244	2,337,031	3,978,340	2,693,839	1,118,223
Volume (thousands of tons)	635	635	601	1,211	973	789
Holding Company						
Income Statement Data:						
Net sales	12,871	171,349	241,895	492,541	1,597,759	861,612
Cost of sales	(1,507)	(20,057)	-	-	-	(1,479)
Gross profit	14,378	191,406	241,895	492,541	1,597,759	863,091
Operating expenses (2)	45,490	605,604	460,352	747,206	1,904,774	1,377,028
Other Data:						
EBITDA	(32,411)	(414,095)	(159,221)	137,291	(188,217)	(357,651)
Eliminations						
Income Statement Data:						
Net sales	(227,881)	(3,033,778)	(3,025,769)	(5,821,987)	(5,156,427)	(3,283,917)
Cost of sales	(220,486)	(2,935,336)	(2,687,080)	(5,055,836)	(3,876,072)	(3,014,429)
Gross profit	(7,395)	(98,442)	(338,689)	(766,151)	(1,280,355)	(269,488)
Operating expenses (2)	3,792	50,456	(403,950)	20,399	(1,323,355)	(953,488)
Other Data:						
EBITDA	4,903	54,933	(65,261)	(786,550)	43,000	684,000

- (1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.
(2) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

The following table sets forth, for the periods indicated, a reconciliation of operating income to EBITDA for our consolidated operations.

	Six months ended June 30,			Year ended December 31,		
	2012	2012	2011	2011	2010	2009
	(Thousands of U.S. dollars)			(Thousands of Mexican pesos)		
Gross profit.....	773,735	10,300,760	8,392,029	15,913,416	12,339,084	10,786,998
Less: Operating expenses (1)	395,920	5,270,893	4,204,968	8,630,670	6,693,893	6,385,640
Plus: Depreciation and amortization (2)	139,786	1,860,813	1,391,577	2,988,530	2,478,590	1,773,643
EBITDA	517,601	6,890,680	5,578,638	10,271,276	8,123,781	6,175,001

- (1) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).
(2) Includes depreciation and amortization in operating expenses and cost of sales.

The following table sets forth, for the periods indicated, a reconciliation of operating income to EBITDA for our three operating divisions:

	Six months ended June 30,			Year ended December 31,		
	2012	2012	2011	2011	2010	2009
	(Thousands of U.S. dollars)			(Thousands of Mexican pesos)		
Chlorine-Vinyl Division(1)						
Gross profit.....	198,134	2,637,785	2,328,891	4,499,611	3,056,952	3,728,894
Less: Operating expenses (2)	55,432	737,995	811,961	1,414,310	1,148,956	1,883,889
Plus: Depreciation and amortization (3).....	34,700	454,446	483,786	863,645	840,595	723,029
EBITDA.....	177,402	2,354,236	2,000,716	3,948,946	2,748,591	2,568,034
Integral Solutions Division(1)						
Gross profit.....	352,485	4,692,627	3,123,231	6,496,129	5,739,949	5,259,076
Less: Operating expenses (2)	227,629	3,030,431	2,091,773	4,447,565	3,868,383	3,829,639
Plus: Depreciation and amortization (3).....	47,249	638,166	433,915	944,685	955,002	732,958
EBITDA.....	172,105	2,300,362	1,465,373	2,993,249	2,826,568	2,162,395
Fluorine Division(1)						
Gross profit.....	216,133	2,877,384	3,036,701	5,191,286	3,224,779	1,205,425
Less: Operating expenses (2)	63,577	846,407	1,114,311	2,001,190	1,095,135	248,572
Plus: Depreciation and amortization (3).....	43,046	564,267	414,641	788,244	564,195	161,370
EBITDA.....	195,602	2,595,244	2,337,031	3,978,340	2,693,839	1,118,223
Holding Company						
Gross profit.....	14,378	191,406	241,895	492,541	1,597,759	863,091
Less: Operating expenses (2)	45,490	605,604	460,352	747,206	1,904,774	1,377,028
Plus: Depreciation and amortization (3).....	(1,299)	103	59,236	391,956	118,798	156,286
EBITDA.....	(32,411)	(414,095)	(159,221)	137,291	(188,217)	(357,651)
Eliminations						
Gross profit.....	(7,395)	(98,442)	(338,689)	(766,151)	(1,280,355)	(269,488)
Less: Operating expenses (2)	3,792	50,456	(403,950)	20,399	(1,323,355)	(953,488)
Plus: Depreciation and amortization (3).....	16,090	203,831	-	-	-	-
EBITDA.....	4,903	54,933	(65,261)	(786,550)	43,000	684,000

- (1) Amounts have only been adjusted to eliminate intra-division (but not inter-division) transactions.
(2) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).
(3) Includes depreciation and amortization in operating expenses and cost of sales.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The financial information below includes unaudited consolidated *pro-forma* financial information for the year ended December 31, 2011 and unaudited interim consolidated *pro-forma* financial information for the six months ended June 30, 2012, giving effect to the acquisitions of Fluorita de México and Wavin on January 26, 2012, and May 23, 2012, respectively, as if such acquisitions had taken place on January 1, 2011. Our management considers the estimates used to obtain the *pro-forma* results are reasonable, considering the available information. Notwithstanding, these estimates are subject to changes, which may be significant. The *pro forma* assumptions and adjustments are described in the accompanying notes presented below.

The unaudited pro forma consolidated financial information is provided for illustrative purposes only and does not purport to represent what our actual consolidated results of operations would have been had the acquisitions of Fluorita de México and Wavin occurred on the date assumed, nor is it necessarily indicative of the consolidated company's future consolidated results of operations or financial position. The unaudited pro forma consolidated financial information does not include the anticipated realization of cost savings from any operating efficiencies, synergies resulting from the acquisitions of Fluorita de México and Wavin and does not contemplate the liabilities that may be incurred in connection with the acquisitions.

This unaudited pro forma consolidated financial information should be read in conjunction with the accompanying notes presented below and the historical consolidated financial statements and accompanying notes of Mexichem and Wavin, each included elsewhere in this offering memorandum.

Six months ended June 30, 2012

	Mexichem	Wavin N.V.	Fluorita de México, S.A. de C.V	Pro Forma Adjustments	Mexichem Pro Forma
	(a)	(b)	(c)	(d)	
(Thousands of Mexican pesos)					
Continuing operations:					
Net sales	30,164,957	6,784,837	41,609	—	36,991,403
Cost of sales	19,925,883	5,254,399	22,062	—	25,202,344
	10,239,074	1,530,438	19,547		11,789,059
Net sales of finished goods purchased	984,133	—	—	—	984,133
Cost of sales	922,447	—	—	—	922,447
	61,686	—	—	—	61,686
Gross profit	10,300,760	1,530,438	19,547	—	11,850,745
Selling and development expenses	3,516,808	942,008	11,377	—	4,470,193
Administrative expenses	1,248,504	496,779	5,255	—	1,750,538
Depreciation and amortization	587,120	96,141	47	—	683,308
Other expenses (income)	(81,539)	(14,062)	—	(195,665)	(291,266)
Exchange gain	(662,007)	(57,490)	—	—	(719,497)
Exchange loss	173,735	—	3,552	—	177,287
Interest expense	936,491	277,457	360	131,339	1,345,647
Interest income	(176,236)	(53,934)	—	—	(230,170)
Loss on monetary position	11,637	—	—	—	11,637
Equity in income of associated companies	(7,829)	(6,366)	—	—	(14,195)
Profit before income taxes	4,754,076	(150,095)	(1,044)	64,326	4,667,263
Income tax expense	1,386,998	(90,314)	11,369	19,298	1,327,351
Profit from continuing operations	3,367,078	(59,781)	(12,413)	45,028	3,339,912
Loss from discontinued operations, net	—	—	—	—	—
Consolidated profit of the period	3,367,078	(59,781)	(12,413)	45,028	3,339,912
Exchange differences on translating foreign operations	(1,146,293)	206,231	—	—	(940,062)
Net (loss) gain on available-for-sale financial assets	44,010	—	—	—	44,010
Other	(12,763)	—	—	—	(12,763)
Other comprehensive income (loss)	(1,115,046)	206,231	—	—	(908,815)
Total consolidated comprehensive income for the period	2,252,032	146,450	(12,413)	45,028	2,431,097
Total comprehensive income attributable to:					
Owners of the Company	2,257,944	161,110	(12,413)	45,028	2,451,669
Non-controlling interests	(5,912)	(14,660)	—	—	(20,572)
	2,252,032	146,450	(12,413)	45,028	2,431,097

See accompanying notes to consolidated statements of comprehensive income.

Year ended December 31, 2011					
	Mexichem	Wavin N.V.	Fluorita de México, S.A. de C.V	Pro Forma Adjustments	Mexichem Pro Forma
	(a)	(b)	(c)	(d)	
(Thousands of Mexican pesos)					
Continuing operations:					
Net sales	47,309,622	22,978,706	353,735	—	70,642,063
Cost of sales	31,473,366	17,638,394	227,435	—	49,339,195
	<u>15,836,256</u>	<u>5,340,312</u>	<u>126,300</u>		<u>21,302,868</u>
Net sales of finished goods purchased	1,737,738	—	—	—	1,737,738
Cost of sales	1,660,578	—	—	—	1,660,578
	<u>77,160</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>77,160</u>
Gross profit	15,913,416	5,340,312	126,300	—	21,380,028
Selling and development expenses	5,596,446	2,997,987	49,111	—	8,643,544
Administrative expenses	2,046,506	1,424,453	31,533	—	3,502,492
Depreciation and amortization	920,444	317,293	1,634	—	1,239,371
Other expenses (income)	67,274	(14,696)	6,556	—	59,134
Exchange gain	(2,449,913)	(28,698)	(12,355)	—	(2,490,966)
Exchange loss	3,740,200	—	—	—	3,740,200
Interest expense	1,381,664	539,255	2,014	394,079	2,317,012
Interest income	(119,206)	(21,688)	(96)	—	(140,990)
Loss on monetary position	45,007	—	—	—	45,007
Equity in income of associated companies	—	(42,233)	—	—	(42,233)
Tax on assets	210,482	—	—	—	210,482
Profit before income taxes	4,474,512	168,639	47,903	(394,079)	4,296,975
Income tax expense	1,697,277	(108,071)	14,859	(118,224)	1,485,841
Profit from continuing operations	2,777,235	276,710	33,044	(275,855)	2,811,134
Loss from discontinued operations, net	(66,083)	35,424	—	—	(30,659)
Consolidated profit of the period	2,711,152	312,134	33,044	(275,855)	2,780,475
Exchange differences on translating foreign operations	2,462,989	(263,057)	—	—	2,199,932
Net (loss) gain on available-for-sale financial assets	(121,981)	10,112	—	—	(111,869)
Other	35,374	(1,922)	—	—	33,452
Other comprehensive income (loss)	<u>2,376,382</u>	<u>(254,867)</u>	<u>—</u>	<u>—</u>	<u>2,121,515</u>
Total consolidated comprehensive income for the period	<u>5,087,534</u>	<u>57,267</u>	<u>33,044</u>	<u>(275,855)</u>	<u>4,901,990</u>
Total comprehensive income attributable to:					
Owners of the Company	5,075,647	55,899	33,044	(275,855)	4,888,735
Non-controlling interests	11,887	1,368	—	—	13,255
	<u>5,087,534</u>	<u>57,267</u>	<u>33,044</u>	<u>(275,855)</u>	<u>4,901,990</u>

See accompanying notes to consolidated statements of comprehensive income.

Notes to Pro Forma Unaudited Consolidated Statements of Comprehensive Income
For the six month period ended June 30, 2012 and for the year ended December 31, 2011
(Thousands of Mexican pesos)

1. Objective of the unaudited pro forma consolidated statements of comprehensive income

- a. **Objective of the unaudited pro forma consolidated statements of comprehensive income** - The objective of the accompanying unaudited *pro forma* consolidated statements of comprehensive income is to present the consolidated financial information of Mexichem, S.A.B. de C.V. and its consolidated subsidiaries (Mexichem or the Company) as if the acquisitions of the new businesses mentioned in the paragraph (b) below had occurred as of January 1, 2011. Given that the net assets of the new businesses are included in the Company's historical consolidated statement of financial position as of June 30, 2012, the Company is only presenting *pro forma* consolidated statements of comprehensive income for the six months ended June 30, 2012 and for the year ended December 31, 2011.

The *pro forma* consolidated statements of comprehensive income are unaudited and are presented exclusively to facilitate comparison of the Company's historical consolidated statements of comprehensive income. They do not purport to represent what the Company's consolidated comprehensive income would actually have been had the aforementioned acquisitions taken place on January 1, 2011, nor should they be taken to be indicative of the Company's future consolidated statements of comprehensive income.

Furthermore, as discussed further below, the Company is currently in the process of determining the fair values of the net assets acquired in the aforementioned acquisitions, for which reason all *pro forma* adjustments are based on preliminary estimates and assumptions and do not include adjustments with respect to the depreciation of tangible and intangible assets acquired.

b. **Acquisition of new businesses**

- i. In May 2012, the Company acquired 95.7% of the shares of Wavin N.V., or Wavin, a leading European company in the production of plastic piping systems and solutions. Wavin has its headquarters in Zwolle, the Netherlands, and operates in 25 European countries. This acquisition had an approximate value of €526 million, which was financed through drawing on existing lines of credit held with different financial institutions. At the date of the accompanying unaudited *pro forma* financial information, Mexichem has acquired 99.28% of the shares.
- ii. In January 2012, Mexichem acquired from Corporación Amati, S.A. de C.V. 100% of the shares of Fluorita de México S.A. de C.V., or Fluorita de México, located in the city of Múzquiz, Coahuila, Mexico. This acquisition provides access to the purest fluorite available in the world, and enables the Company to ensure the supply required for its United Kingdom operation. The mine has proven reserves in excess of 13,000,000 tons and annual extraction is 100,000 tons. This transaction had a value of US\$75,000,000, which was paid with the Company's own resources.

2. Basis of preparation

The accompanying *pro forma* consolidated statements of comprehensive income have been prepared based on assumptions that the Company's management considers to be adequate in the circumstances, taking into consideration the fact that the Company is in the process of determining the fair values of the net assets acquired from the two aforementioned acquisitions, as discussed in further detail below. These unaudited *pro forma* consolidated financial statements should be read in conjunction with the other financial information included elsewhere in the offering memorandum.

Pro forma adjustments with respect to depreciation of tangible and intangible assets acquired - The acquisitions of Wavin and Fluorita de México were accounted for in the historical unaudited condensed consolidated financial statements of Mexichem as of and for the six months ended June 30, 2012 then

ended using the purchase method. However, as of the date of the accompanying unaudited *pro forma* consolidated financial statements, the Company is still in the process of determining the fair values of the net assets acquired for these two acquisitions, which it expects to complete within one year of their acquisition dates, as permitted by International Financial Reporting Standard 3, *Business Combinations*. Therefore, the amounts reported in the historical condensed consolidated interim financial statements of the Company as of and for the six months ended June 30, 2012 with respect to these acquisitions reflect the historical cost of the net assets acquired and thus are provisional and are subject to change upon determination of the fair value of the net assets acquired. Consequently, the *pro forma* adjustments made to such historical consolidated financial information do not include adjustments with respect to the depreciation of tangible and intangible assets acquired.

Furthermore, the unaudited *pro forma* consolidated financial information does not include the anticipated realization of cost savings from any operating efficiencies, synergies resulting from the aforementioned acquisitions and does not contemplate the liabilities that may be incurred in connection with the acquisitions.

3. Description of *pro forma* adjustments

- (a) The historical information reflected in the Mexichem column is derived from the Company's unaudited condensed consolidated statements of comprehensive income for the six months ended June 30, 2012 and from the Company's audited consolidated statements of comprehensive income for the year ended December 31, 2011. These historical figures consolidate the comprehensive income of Wavin since May 2012 and of Fluorita de México since February 2012.
- (b) The historical information reflected in the Wavin N.V. column represents the unaudited historical comprehensive income of Wavin (i) from January 1, 2012 to April 30, 2012, with respect to the unaudited *pro forma* consolidated statement of comprehensive income for the six months ended June 30, 2012, and (ii) for the year ended December 31, 2011 with respect to the unaudited *pro forma* consolidated statement of comprehensive income for the year ended December 31, 2011.
- (c) The historical information reflected in the Fluorita de México, S.A. de C.V. column represents the unaudited historical comprehensive income of Fluorita de México (i) from January 1, 2012 to January 31, 2012, with respect to the unaudited *pro forma* consolidated statement of comprehensive income for the six months ended June 30, 2012, and (ii) for the year ended December 31, 2011 with respect to the unaudited *pro forma* consolidated statement of comprehensive income for the year ended December 31, 2011.
- (d) Amounts reflect the (i) effects of additional financing entered into to acquire Wavin, as if such financing was issued on January 1, 2011, (ii) removal costs of the acquisitions of Wavin and Fluorita de México, as such costs are considered non-recurring, which directly resulted from the acquisitions and were charged directly to Mexichem's consolidated statement of comprehensive income and (iii) deferred income tax effects of the aforementioned *pro forma* adjustments.

* * * * *

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is based on and should be read in conjunction with our audited and unaudited financial statements and the notes thereto, and other financial information included elsewhere in this offering memorandum, all of which have been prepared in accordance with IFRS. See "Presentation of financial and other information" and "Risk factors — Risk factors related to Mexico and to other principal countries where we operate — Mexican corporate disclosure and accounting standards differ in many regards from U.S. standards." This discussion does not include all of the information included in our consolidated financial statements.

Overview

We are one of the largest chemical companies in Latin America based on average annual production capacity and net sales and the leader in plastic pipes and solutions in Europe. We produce a diverse portfolio of chemical products in our 98 plants, which are strategically located in 39 countries across Latin America, the United States, Canada, Japan, Taiwan, China, the United Kingdom, and 24 other European countries and we sell products in approximately 50 countries. We are the largest producer of pipes in Europe and Latin America, the largest producers of polyvinyl chloride, or PVC, resin in Latin America and one of the largest producers of chlorine and caustic soda in Latin America, according to CMAI. We have the largest production capacity for hydrofluoric acid in the world in addition to the world's largest fluorspar mine, according to SRI Consulting, making us the only fully-integrated hydrofluoric acid producer in the Americas.

Our principal products include PVC resin and pipe, fluid transportation solutions, chlorine, caustic soda, fluorspar and hydrofluoric acid, aluminum fluoride, phosphates and coolants, which are widely used in the construction, housing, infrastructure, agriculture, potable water, sewage, irrigation, coolants and air conditioning industries. In Latin America in 2011, we had an approximate 43% market share in the sale of PVC resin and an approximate 31% market share in the sale of PVC pipes, based on market studies from CMAI, WVA and ANIQ. In addition, we have a leading market share in several European countries, such as Belgium, Czech Republic, Denmark, Germany, Hungary, the Netherlands and Poland. In 2011, our net sales, excluding intracompany sales, were Ps. 47.3 billion (US\$3.8 billion), which represents an annual increase of 34.4%. In 2010, our net sales, excluding intracompany sales, were Ps. 35.2 billion (US\$2.8 billion) and in 2009, our net sales, excluding intracompany sales, were Ps. 29.8 billion (US\$2.2 billion). In 2011, our consolidated EBITDA was Ps. 10.3 billion (US\$826 million), which represents an annual increase of 26.4%. In 2010 our consolidated EBITDA was Ps. 8.1 billion (US\$643 million) and in 2009, our consolidated EBITDA was Ps. 6.1 billion (US\$457 million). Wavin's net sales in 2011 were €1.3 billion and its EBITDA was €98 million, approximately equivalent to US\$1.7 billion and US\$127 million, respectively.

In recent years, we have secured a strong competitive position and market share throughout Latin America, North America and in European and Asian markets both as a result of organic growth as well as acquisitions focused on expanding and vertically integrating our production processes. Our growth strategy is designed to be accretive to the main raw materials we produce. We have proven experience in integrating and operating acquired companies. We have made six acquisitions since December 31, 2009, most recently the acquisition of AlphaGary, a manufacturer of compounds, in 2011, the acquisition of Fluorita de México, including mineral concessions from the Las Sabinas mining unit, in the first quarter of 2012 and the acquisition of Wavin, a manufacturer of PVC pipes and resin headquartered in the Netherlands, during the second quarter of 2012.

Our business consists of three operating divisions:

- *Chlorine-Vinyl Division.* This division consists of three manufacturing processes: (i) the chlor-alkali process, which produces chlorine, caustic soda, sodium hypochlorite and phosphate; (ii) the vinyl process, which produces PVC resins; and (iii) the compounds process, which produces PVC compounds. Our Chlorine-Vinyl Division had net sales of Ps. 23.0 billion (US\$1.9 billion) in 2011 and Ps. 12.4 billion (US\$934 million) for the six months ended June 30, 2012, which accounted for approximately 48.6% and 41.2% of our consolidated net sales in those periods, respectively. We own rights to the largest salt dome in Mexico according to the *Cámara Minera de México*, or the Mexican Mining Chamber, with over 40 years of proven reserves, and we operate modern chlorine, caustic soda and PVC resin and compound production facilities.
- *Integral Solutions Division.* This division produces pipes and pipe systems for the conveyance of fluids, mainly water, surface heating and cooling systems and water treatment systems, as well as PVC compounds manufactured primarily to meet the demands of the construction and agriculture industries. Beginning in May 2012, Wavin was consolidated into our Integral Solutions Division. Our Integral Solutions Division had net sales of Ps. 18.8 billion (US\$1.5 billion) in 2011 and Ps. 14.1 billion (US\$1.1 billion) for the six months ended June 30, 2012, which accounted for approximately 39.7% and 46.8% of our consolidated net sales in those periods, respectively.
- *Fluorine Division.* This division consists of three manufacturing processes: (i) the fluorspar process, which is the raw material used in the production of all fluorinated products, which in turn are used in the cement, ceramics, steel and glass industries. This division includes the mining concession to the world's largest fluorspar mine with installed annual production capacity of approximately one million tons and approximately 17% of global production in 2011, and proven reserves of 50 million tons for the next 49 years according to the 2011 SRI report; (ii) the hydrofluoric acid process, which encompasses the production of hydrofluoric acid, which is a principle source of fluorine and a chemical precursor to numerous pharmaceuticals and plastics, and aluminum fluoride, which is used for the production of aluminum by electrolysis; and (iii) the gas coolant process, which is used in the pharmaceutical, automotive, air conditioning and refrigerant industries. Our Fluorine Division had net sales of Ps. 10.9 billion (US\$873 million) in 2011 and Ps. 6.5 billion (US\$485 million) for the six months ended June 30, 2012, which accounted for approximately 22.9% and 21.4%, respectively, of our consolidated net sales in those periods.

Factors affecting the comparability of our historical and future financial condition and results of operations

The amounts in the consolidated financial data for the six months ended June 30, 2012 and 2011 and the years ended December 31, 2011, 2010 and 2009, including the analysis by operating division contained therein, are not necessarily comparable due to, among others, the following reasons:

With respect to the consolidated amounts:

Six months ended June 30 2012 vs. six months ended June 30, 2011

- the acquisition of Wavin completed in May 2012 and the acquisition of Fluorita de México in January 2012. See "Presentation of financial and other information." In addition, see "— Growth through acquisitions" for information regarding these acquisitions.

2011 vs. 2010

- the acquisition of AlphaGary completed during 2011. See "Presentation of financial and other information." In addition, see "— Growth through acquisitions" for information regarding these acquisitions; and
- the acquisitions of Ineos Flúor in March 2010 and Polycyd and Plásticos Rex in October 2010, among other acquisitions.

2010 vs. 2009

- the acquisition of Ineos Flúor, Polycyd and Plásticos Rex completed in 2010.

In addition, the net sales and other consolidated data discussed under “Consolidated results of operations” below reflects our performance after the elimination of all inter- and intra-division transactions. By comparison, the financial information provided for each of our operating divisions under “Results of operations by division” only gives effect to the elimination of intra-division (but not inter-division) transactions.

Other factors affecting our results

Global macroeconomic conditions

Our business is affected by several industries, including the construction, refrigeration, manufacturing, automotive, consumer goods and urban and rural infrastructure industries, among others. We have assets and manufacturing and distribution operations in a number of countries throughout the Americas, Asia and Europe, including Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Venezuela and the United States. With the acquisition of Wavin, our presence expanded to several European countries, including the Netherlands, Germany, Belgium, Denmark, Norway, Sweden, Finland, the United Kingdom, France, Ireland, Poland, Czech Republic, Lithuania, Estonia, Latvia, Russia, Ukraine, Slovakia, Belorussia, Italy, Turkey, Hungary, Romania, Croatia and Serbia. As a result, our activities, financial condition and results of operations are largely dependent upon the general economic conditions and the purchasing power of the population in each of the countries in which we operate and regional relations and tariff agreements and treaties. We have a presence in 29 countries in the Americas, including primarily Mexico, Colombia, Brazil and the United States and 25 European countries. In the past, the economies of these countries have been affected by a number of adverse factors, including:

- The global economic cycles generally and, particularly, in each country and in the chemical, residential and commercial construction, refrigeration and air conditioning, automotive and agricultural industries, among others. The following table shows the economic growth, measured in terms of GDP growth for the last three years, reported by the countries that contribute most significantly to our results of operations:

	2011	2010	2009
Mexico.....	3.9	5.5	(6.2)
United States.....	1.7	3.0	(3.5)
Brazil.....	2.7	7.5	(0.3)
Colombia.....	5.9	4.0	1.7
Euro Zone (27 countries).....	1.5	2.0	(4.3)
United Kingdom.....	0.7	2.1	(4.4)
Germany.....	3.0	3.7	(5.1)
Netherlands.....	1.2	1.7	(3.5)
France.....	1.7	1.7	(3.1)
Belgium.....	1.9	2.2	(2.8)
Denmark.....	1.0	1.3	(5.8)
Norway.....	1.4	0.7	(1.7)
Sweden.....	3.9	6.2	(5.0)
Finland.....	2.9	3.7	(8.4)
Ireland.....	(0.7)	(0.4)	(7.0)

Source: World Bank, except for the 27 Euro Zone countries, for which the source was Eurostat.

- Inflation and high interest rates. In the past, high interest rates in Mexico have had a significant effect in some of the major components of our cost of sales and operating expenses because of an increase in the price of non-commercial goods, such as the cost of electricity, natural gas and sulfur. In addition, price increases in petroleum and petroleum derivatives result in an increase in costs associated with some of the primary components of our cost of sales (*i.e.*, direct and indirect commodities), but can sometimes favorably affect the price of some of our products. See “Risk factors — Risk factors related to our business and industry —

Fluctuations in the price of petroleum and petroleum derivatives and sulfur may adversely affect our business and operating results.”

- The uncertainties with respect to future political, social and economic conditions, particularly during the years immediately preceding presidential and legislative elections in Mexico.
- The volatility of and uncertainty with respect to the global credit and capital markets.
- The potential devaluation of local currencies with respect to the U.S. dollar or the euro, and the potential imposition of foreign exchange restrictions. In 2011, many Latin American currencies depreciated against the U.S. dollar, which is reflected in our financial statements in the form of higher revenues from export sales. U.S. dollar-denominated revenues, when stated in Mexican pesos, have increased when compared with revenues in previous periods.
- Hedging of foreign-currency denominated obligations. Our business strategy is aimed at achieving diversification through our presence and participation in the global markets. Accordingly, we have significant levels of export activities around the world, which generate revenues in foreign currencies, particularly U.S. dollars and euros. A benefit of these non-peso denominated revenues is that they serve as a natural hedge to service our foreign-currency denominated debt, which as of June 30, 2012, was Ps. 21.6 billion out of our total debt of Ps. 33.2 billion. See “Risk factors — Risk factors related to our business and industry — We have a significant amount of indebtedness” and “—Liquidity and capital resources.”

An economic recession or significant increase in inflation and interest rates in Mexico, Brazil, Colombia and Europe, could have a material adverse effect on our business activities, results of operations, financial condition and prospects since, among other things, the demand for the products that we manufacture and our operating margins could be reduced. See “Risk factors — Risk factors related to Mexico and the principal countries where we operate — Inflation and government measures to curb inflation, may adversely affect the economies in the countries where we operate, our business and operations and the market prices of our Notes.”

Principal trends in our business

There is a significant market for our products in the construction, housing, infrastructure, cement, steel, potable water, urban sewage and irrigation systems industries in North and South America and in Europe. Our business strategy emphasizes expanding our presence in new and existing markets through organic growth and acquisitions of companies that offer synergies, opportunities for vertical integration and that add value to our process of procuring raw materials. This business strategy has enabled us to become one of the world’s five most efficient producers of chemical products, with the largest chlorine, caustic soda and PVC production plants in Latin America and we are the largest producer of PVC pipe in Latin America. In addition, we are one of the world’s largest integrated producers of hydrofluoric acid. As a result of the acquisition of Wavin, we are also the leading company in the plastic pipe solutions market in Europe.

Over the past five years, our sales and results have been driven primarily by the construction industry, which we estimate in 2011 accounted for nearly 70% of our net sales. Countries such as Brazil, Colombia, Ecuador, Peru and Venezuela have experienced double-digit growth in the last two years in the housing industry similar to that experienced in Mexico during the past several years. The construction industry in Latin America is expected to continue to grow significantly over the next six years. See “Risk factors — Risk factors related to our business and industry — Our business is dependent on the construction industry.”

In addition to growth in the construction industry, Latin America is expected to experience strong growth in its infrastructure industry fueled by the need for sanitation services, since more than 20% of the region’s population, or approximately 120 million people, do not have access to such services according to the Informe Regional Panamericano CPS 2000. Studies conducted by the World Forum on Latin America indicate that the region offers ample opportunities for investment and growth.

The agriculture industry is also an important growth industry for us in Latin America. For example, it is estimated that Mexico currently has 6.5 million hectares of operating farmland that require irrigation. As a result of this significant potential, our agricultural solutions manufacturing process focuses primarily on providing water-management solutions for major projects in the biofuels and food segments.

The Mexican federal government announced in July 2007 in the National Infrastructure Program (*Plan Nacional de Desarrollo 2007-2012*), or NIP, for investment of approximately Ps. 2.5 trillion in infrastructure projects through 2012. Of that amount, it is estimated that over those six years approximately Ps. 154 billion was to be spent on the potable water and sanitation industries, and Ps. 48 billion was to be spent on the hydro-agricultural and flood-control industries.

In the European plastic pipes market, we estimate that the main factors affecting Wavin's operations include:

- activity in the construction sector, resulting from population increases in Europe, the increase in the number of single-person homes and the real estate development to meet this increase in demand, as well as a strong tendency toward creating environmentally friendly living and working spaces;
- the increasing replacement of traditional materials for those that can be more easily installed and made from sustainable plastic;
- climate change, which we expect will result in an increase in the level of rainfall, and that the absorption of rainfall in the soil will be reduced by increased urbanization;
- regulatory focus on sustainability, which translates into stricter energy conservation requirements in the European construction sector;
- economic uncertainty that affects consumer confidence, generates stagnation in the market for raw materials and reduces public spending in the region, affecting the construction sector in Europe;
- increased competition resulting from an excess production capacity for pipe systems which depresses sales prices; and
- increases in the cost of raw material and a restriction in our ability to pass on these increases to consumers.

Growth through acquisitions

Part of our growth strategy includes the acquisition of businesses capable of adding value to our process for procuring raw materials and furthering the vertical integration of our production processes. This has resulted in increased efficiency and higher operating rates and margins, while reducing our dependence upon suppliers and intermediate customers.

Accordingly, we have acquired and integrated businesses with higher value-added products and in high-growth regions of Latin America. By virtue of these acquisitions, our net sales have increased from approximately US\$2.4 billion in 2009 to US\$3.8 billion in 2011 and our EBITDA has increased from approximately US\$524.7 million to US\$835.0 million over the same period.

Chlorine-Vinyl Division

AlphaGary Acquisition

With an emphasis on obtaining important synergies through leveraging our distribution channels, geographic diversification, vertical integration, product development and compound manufacturing, on January 7, 2011, we acquired AlphaGary from Rockwood Specialties Group, Inc. AlphaGary focuses on the production of compounds for different industry sectors, including for the medical industry, the electrical cables industry and segments of the construction industry. AlphaGary operates facilities in the United States and the United Kingdom. This acquisition strengthened our presence in the compounds market and we expect it will enhance our research and development efforts in the compounds process of our Chlorine-Vinyl Division. The acquisition cost was approximately US\$322 million.

PEMEX/Mexichem Joint Venture

On November 4, 2011, we announced that the Mexican Federal Competition Commission authorized a joint venture between PEMEX and Mexichem for US\$556 million (the aggregate contribution of both entities) which will form a new company to integrate VCM production in Mexico with a goal of exponentially increasing VCM

production from 24 tons in its first year of operation, to 146,000 tons in the second year and 217,000 tons in the third year. We expect to commence this joint venture in 2012. We will have a 60% share in this joint venture and expect to invest approximately US\$100 million in 2012 and US\$100 million in 2013 in connection with this joint venture, which we intend to fund with cash flow from operations.

These acquisitions, together with our capital expenditures, enabled us to increase our Chlorine-Vinyl Division's production volume by 14.2% and its net sales by 48.2% in 2011 as compared to 2010.

Integral Solutions Division

Wavin

In May 2012, we completed the acquisition of Wavin, the leading supplier of plastic pipe systems and solutions in Europe. Wavin produces and distributes plastic pipe systems and solutions for tap water, surface heating and cooling, soil and waste, rain- and storm water, gas and telecom applications and for distribution of drinking water. Wavin is headquartered in Zwolle, in the Netherlands and is present in 25 European countries, employs approximately 6,000 people and reported revenue of approximately €1.3 billion for 2011. Outside of Europe, Wavin has a global network of agents, licensees and distributors. In an all-cash tender offer and subsequent post-acceptance period, we acquired 98% of Wavin's total issued and outstanding share capital at a total acquisition cost of €526 million.

This acquisition, together with our capital expenditures, will enable us to increase our Integral Solutions Division's production volume and net sales.

Fluorine Division

New Plant in Kawasaki, Japan

On May 31, 2011 Mexichem Fluor Japan, Limited purchased a gas coolant plant located in Kawasaki, Japan from Showa Denko, K.K. The plant began operations in November 2011 and has a capacity of 5,000 tons per year. This acquisition represents a significant step in our strategy to accelerate our growth and market position in the gas coolant market and is complemented by our capacity expansion in the United Kingdom. The acquisition cost was US\$26 million, which was financed through a loan.

Acquisition of Fluorita de México

The acquisition of Fluorita de México contributes to our fluorspar production capacity, turning out fluorspar with the highest purity level in the world, which will ensure our fluorspar raw materials supply for our United Kingdom operations. The Fluorita de México mine has proven reserves in excess of 13 million tons and has annual extraction of 120,000 tons.

In 2011, total production volume in our Fluorine Division increased by 24.5% and net sales by 56.7% as compared to 2010.

Seasonality

Generally, annual sales at each of our operating divisions are not subject to seasonality.

Market position

As a result of our acquisitions of businesses that provide synergies and further our vertical integration, we have positioned ourselves as a leader in the markets and regions in which we operate. The following table shows our market share by product in each of our principal markets:

Product	2011 Net sales (Millions of Mexican pesos)	Percentage of our total net sales in 2011	Market Share (in %)	
PVC resin.....	13,539	26	Mexico	78
			Colombia	80
Compounds.....	7,263	14	Mexico	36
Pipe.....	18,771	36	Latin America	31
Chlorine and caustic soda.....	2,214	4	Chlorine, Mexico	83
			Caustic Soda, Mexico	54
Fluorspar and hydrofluoric acid.....	10,853	20	Fluorspar, Worldwide	23
			Hydrofluoric acid, U.S.	61

Source: CMAI and WVA 2011, except for PVC resin and Pipe with 2010 figures, and internal analysis

There is significant competition in the international market which has resulted in high levels of excess supply in some of our more significant product categories and led to market consolidation by competitors through mergers and acquisitions. Our competitors in the market for fluid conduction systems, in which our subsidiary Amanco operates, have made significant investments, increasing the level of competition in Latin America.

Basis for the presentation of financial information

Our unaudited interim condensed consolidated financial statements as of June 30, 2012 and for the six and three months ended June 30, 2012 and 2011, and our consolidated financial statements as of December 31, 2011, 2010 and 2009, and for the years then ended, have been prepared in accordance with IFRS.

Revenues

We derive revenues from the production and sale of chemical products through our subsidiaries, which are organized in operating divisions and whose activities range from the extraction of basic raw materials to the production of intermediate or final consumption goods. In addition, we are increasingly providing engineering and installation services. The products that most significantly contribute to our sales are:

- PVC pipes, which are produced by Amanco's 29 plants located in 10 Latin American countries and sold to end consumers in 29 countries within the region, primarily in the construction, infrastructure and agricultural industries, through approximately 55,000 points of sale;
- PVC resin, which is produced in Mexico and Colombia and sold to a number of companies for the subsequent production of PVC pipes, containers, medical equipment and other applications;
- caustic soda and chlorine, which are the raw materials used in the production of vinyl products and are sold to Oxy and Pemex, among others;
- salt, which is extracted from our saline dome in Mexico and used as a raw material for our production of chlorine and caustic soda in Mexico and Colombia and is also sold to third parties;
- fluorspar, a mineral extracted from our mines which, in its metallurgical grade, is sold to the cement and glass industries, among others, and in its acid grade is used to produce hydrofluoric acid; and
- hydrofluoric acid, which is used in the production of coolants and other fluorinated products.

The following table shows the percentage of our net sales contributed by each of our operating divisions as of the dates indicated (without elimination for inter-division transactions):

Operating division (in %)	Six months ended June 30,	Year ended December 31,		
	2012	2011	2010	2009
Chlorine-Vinyl Division	37.6	43.7	40.1	44.9
Integral Solutions Division	42.8	35.7	42.0	46.5
Fluorine Division	19.6	20.6	17.9	8.6

Expenditures

Costs of sales

The principal components of our cost of sales are our raw materials and the depreciation of our plants and industrial equipment. In 2011, our cost of sales, as a percentage of our sales, increased to 66.4% as compared with 65.1% in 2010, and as compared to 63.7% in 2009, as a result of the production and sale of higher value-added products across our three divisions in each year.

Operating expenses

Our principal operating expenses consist of:

- Selling and development expenses, including sales, marketing and advertising expenses, sales commissions, transportation costs and costs associated with our research and development center;
- Depreciation and amortization of assets other than plants and industrial equipment;
- Employee labor expenses, including wages, salaries, social security benefits and bonuses;
- General administrative expenses, including office and travel expenses, legal and auditing fees, advertising and other related expenses;
- Maintenance expenses associated with our production facilities; and
- Other operating expenses, which also include employee profit sharing expenses.

Taxes

Income tax and IETU

Our Mexican subsidiaries are subject to either income tax or the special flat rate tax (*impuesto especial a tasa única*, or IETU). Income tax is calculated based upon taxable income, which differs from income for accounting purposes in the treatment afforded to the comprehensive cost of financing, the provision for employment obligations, depreciation and other accounting provisions. Our tax liability is calculated using tax rates in effect at the end of each fiscal period in the countries in which the company and our subsidiaries operate. The income tax rate to which our Mexican subsidiaries are subject for fiscal years 2010 to 2012 is 30%, decreasing to 29% in 2013 and to 28% in 2014. Tax losses may be used to offset taxable profits in future years. IETU is applied at a rate of 17.5% following the application of certain deductions and tax credits. Income tax actually incurred will be the higher of the income tax and IETU.

The following table shows the statutory income tax rates in effect for 2011 in each of the countries in which we operate:

	Tax Rate (%)
Argentina	35
Brazil	34
Colombia	33
Costa Rica	30
Canada	32
Ecuador	24

	Tax Rate (%)
El Salvador	25
Guatemala.....	31
Honduras.....	30
Japan.....	42
Mexico.....	30
Nicaragua.....	30
Panama	30
Peru.....	30
Taiwan	17
United Kingdom	28
United States.....	34
Venezuela	34

Asset tax

Some of the countries in which we operate, including, Guatemala, Nicaragua, Argentina and Colombia have implemented an asset tax that, in general terms, is payable only to the extent the amount thereof exceeds the amount of income tax payable during a given year. This tax may be credited towards any income tax due. The amount of the asset tax due and payable is determined based upon a majority of the net assets in accordance with the local laws of each particular country, subject to the following rates:

	Tax Rate (%)
Guatemala.....	1.00
Nicaragua.....	1.00
Argentina.....	1.00
Colombia	1.00

Critical accounting policies

In the application of accounting policies, our 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:

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, liabilities incurred or assumed, and equity instruments issued by us in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognized at their fair value at the acquisition date.

Inventories

Inventories are stated at the lower of cost and net realizable value (estimated selling price, minus all estimated costs of completion necessary to make the sale). To determine net realizable value, we take into consideration production and sales volumes and changes in the demand for certain of its products. Reductions in the value of inventories to net realizable value are recognized via reserves, which represent the impairment of inventory.

Allowance for doubtful accounts

We use estimates to determine allowance for doubtful accounts. The factors which we consider 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.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost and are depreciated on the straight-line method based on the remaining useful lives of the related assets. We review the estimated useful life of property, plant and equipment at the end of each annual period. Based on a detailed analysis our management makes 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.

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

Intangible assets

Intangible assets are comprised of non-compete agreements, 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.

Impairment of long-lived assets

For impairment testing of assets, we are 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 us to determine the future cash flows for its cash-generating units and an appropriate discount rate to calculate their present value. We forecast our cash flows based on income projections using market assumptions, determination of prices and volumes of production and sale.

Mineral reserves

We periodically assess the estimates of our mineral reserves (fluorite and salt), which represent our estimate of the remaining amount not extracted in our 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. We update the estimate for mineral reserves at the beginning of each year.

Contingencies

We are subject to transactions or contingent events for which we use 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 our legal advisors.

Results of operations by operating division

The following tables set forth the results of each of our operating divisions and the reconciliation of these results to our consolidated results of operations for the periods set forth below.

Six months ended June 30, 2012					
	Net sales	Cost of sales	Gross profit	Operating expenses (1)	EBITDA
(Thousands of Mexican pesos)					
Chlorine-Vinyl Division	12,433,334	9,795,549	2,637,785	737,995	2,354,236
Integral Solutions Division	14,137,577	9,444,950	4,692,627	3,030,431	2,300,362
Fluorine Division	6,456,475	3,579,091	2,877,384	846,407	2,595,244
Eliminations	(3,033,778)	(2,935,336)	(98,442)	50,456	54,933
Holding Company	171,349	(20,057)	191,406	605,604	(414,095)
Consolidated	30,164,957	19,864,197	10,300,760	5,270,893	6,890,680

(1) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Six months ended June 30, 2011					
	Net sales	Cost of sales	Gross profit	Operating expenses (1)	EBITDA
(Thousands of Mexican pesos)					
Chlorine-Vinyl Division	11,543,451	9,214,560	2,328,891	811,961	2,000,716
Integral Solutions Division	8,825,812	5,702,581	3,123,231	2,091,773	1,465,373
Fluorine Division	5,938,343	2,901,642	3,036,701	1,114,311	2,337,031
Eliminations	(3,025,769)	(2,687,080)	(338,689)	(403,950)	(65,261)
Holding Company	241,895	—	241,895	460,352	(159,221)
Consolidated	23,523,732	15,131,703	8,392,029	4,204,968	5,578,638

(1) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Year ended December 31, 2011					
	Net sales	Cost of sales	Gross profit	Operating expenses (1)	EBITDA
(Thousands of Mexican pesos)					
Chlorine-Vinyl Division	23,015,520	18,515,909	4,499,611	1,414,310	3,948,946
Integral Solutions Division	18,770,775	12,274,646	6,496,129	4,447,565	2,993,249
Fluorine Division	10,852,773	5,661,487	5,191,286	2,001,190	3,978,340
Eliminations	(5,821,987)	(5,055,836)	(766,151)	20,399	(786,550)
Holding Company	492,541	—	492,541	747,206	137,291
Consolidated	47,309,622	31,396,206	15,913,416	8,630,670	10,271,276

(1) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Year ended December 31, 2010					
	Net sales	Cost of sales	Gross profit	Operating expenses (1)	EBITDA
(Thousands of Mexican pesos)					
Chlorine-Vinyl Division	15,533,023	12,476,071	3,056,952	1,148,956	2,748,591
Integral Solutions Division	16,294,383	10,554,434	5,739,949	3,868,383	2,826,568
Fluorine Division	6,926,653	3,701,874	3,224,779	1,095,135	2,693,839
Eliminations	(5,156,427)	(3,876,072)	(1,280,355)	(1,323,355)	43,000
Holding Company	1,597,759	—	1,597,759	1,904,774	(188,217)
Consolidated	35,195,391	22,856,307	12,339,084	6,693,893	8,123,781

(1) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Year ended December 31, 2009					
	Net sales	Cost of sales	Gross profit	Operating expenses (1)	EBITDA
	(Thousands of Mexican pesos)				
Chlorine-Vinyl Division	14,695,932	10,967,038	3,728,894	1,883,889	2,568,034
Integral Solutions Division	14,947,274	9,688,198	5,259,076	3,829,639	2,162,395
Fluorine Division	2,531,336	1,325,911	1,205,425	248,572	1,118,223
Eliminations	(3,283,917)	(3,014,429)	(269,488)	(953,488)	684,000
Holding Company	861,612	(1,479)	863,091	1,377,028	(357,651)
Consolidated	29,752,237	18,965,239	10,786,998	6,385,640	6,175,001

(1) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Six months ended June 30, 2012 compared with the six months ended June 30, 2011

Consolidated results of operations

The following table sets forth our results of operations for the six months ended June 30, 2012 and 2011.

	Six months ended June 30,	
	2012	2011
	(Thousands of Mexican pesos)	
Net sales	30,164,957	23,523,732
Cost of sales	19,864,197	15,131,703
Gross profit	10,300,760	8,392,029
Operating expenses (1)	5,270,893	4,204,968
Tax on assets	—	102,764
Net financial expense and exchange rate variation	283,620	173,842
Equity in income of associated companies	(7,829)	—
Income taxes	1,386,998	1,336,515
Income from continuing operations	3,367,078	2,573,940
Discontinued operations net	—	(3,044)
Consolidated net income	3,367,078	2,570,896

(1) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales

Our net sales increased 28.2%, to Ps. 30,165 million for the six months ended June 30, 2012, from Ps. 23,524 million for the six months ended June 30, 2011. This increase was primarily attributable to organic growth of our current business and increased sales as a result of the acquisitions of Wavin and Fluorita de México.

Cost of sales

Our cost of sales increased 31.3%, to Ps. 19,864 million for the six months ended June 30, 2012, from Ps. 15,132 million for the six months ended June 30, 2011. This increase was primarily attributable to an increase in sales and the costs associated therewith as a result of our acquisitions of Wavin and Fluorita de México.

Gross profit

As a result, our gross profit increased 22.7%, to Ps. 10,301 million for the six months ended June 30, 2012, from Ps. 8,392 million for the six months ended June 30, 2011. Our gross margin, which is calculated by dividing gross profit by net sales, decreased from 35.7% in the first six months ended June 30, 2011 to 34.1% in the same period in 2012.

Operating expenses

Our operating expenses increased 25.4%, to Ps. 5,271 million for the six months ended June 30, 2012, from Ps. 4,205 million for the six months ended June 30, 2011. This increase was primarily attributable to an increase in expenses associated with our operations of the new plants resulting from our acquisitions of Wavin and Fluorita de México. Our operating expenses represented 17.4% of our net sales for the six months ended June 30, 2012, compared to 17.9% of our net sales for the six months ended June 30, 2011.

Net financial expense and exchange rate variation

Our net financial expense and exchange rate variation increased 63.2%, to Ps. 284 million for the six months ended June 30, 2012, from Ps. 174 million for the six months ended June 30, 2011. This increase was primarily attributable to an increase in interest expense in the amount of Ps. 233 million, which was partially offset by an increase in our net foreign exchange gains and a decrease in our minority position losses, in the amounts of Ps. 5 million and Ps. 3 million respectively. Our net financial expense and exchange rate variation represented 0.9% and 0.7% of our net sales in the six months ended June 30, 2012 and 2011, respectively.

Income tax

Our income taxes amounted to Ps. 1,387 million for the six months ended June 30, 2012 and Ps. 1,337 million for the six months ended June 30, 2011. This decrease was primarily attributable to the increase in tax deductions available in connection with financing expenses.

Consolidated net income

Consolidated net income increased 31.0%, to Ps. 3,367 million for the six months ended June 30, 2012 from Ps. 2,571 million for the six months ended June 30, 2011, due to the factors discussed above.

Results of operations by division

Chlorine-Vinyl Division

	Six months ended June 30,	
	2012	2011
	(Thousands of Mexican pesos)(1)	
Net sales.....	12,433,334	11,543,451
Cost of sales.....	9,795,549	9,214,560
Gross profit.....	2,637,785	2,328,891
Operating expenses (2)	737,995	811,961
EBITDA	2,354,236	2,000,716

(1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.

(2) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales. Our Chlorine-Vinyl Division's net sales increased 7.7%, to Ps. 12,433 million for the six months ended June 30, 2012, from Ps. 11,543 million for the six months ended June 30, 2011. This increase was primarily attributable to increased sales volume and higher sales prices for our products in this division.

Cost of sales. Our Chlorine-Vinyl Division's cost of sales increased 6.3%, to Ps. 9,796 million for the six months ended June 30, 2012, from Ps. 9,215 million for the six months ended June 30, 2011. This increase was primarily attributable to increased raw materials prices, much of which we were able to pass on in the form of higher sales prices for our finished products; we also saw certain cost synergies obtained in this division following our acquisitions of Policyd and AlphaGary in prior periods.

Gross profit. As a result, our Chlorine-Vinyl Division's gross profits increased 13.3%, to Ps. 2,638 million for the six months ended June 30, 2012, from Ps. 2,329 million for the six months ended June 30, 2011.

Operating expenses. Our Chlorine-Vinyl Division's operating expenses decreased 9.1%, to Ps. 738 million for the six months ended June 30, 2012, from Ps. 812 million for the six months ended June 30, 2011. This decrease was primarily attributable to lower costs associated with operating synergies obtained following the acquisitions of Policyd and AlphaGary.

EBITDA. Our Chlorine-Vinyl Division's EBITDA increased 17.6%, to Ps. 2,354 million for the six months ended June 30, 2012, from Ps. 2,001 million for the six months ended June 30, 2011. This increase was primarily attributable to the results discussed above.

Integral Solutions Division

	Six months ended June 30,	
	2012	2011
	(Thousands of Mexican pesos)(1)	
Net sales.....	14,137,577	8,825,812
Cost of sales.....	9,444,950	5,702,581
Gross profit.....	4,692,627	3,123,231
Operating expenses (2)	3,030,431	2,091,773
EBITDA	2,300,362	1,465,373

(1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.

(2) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales. Our Integral Solutions Division's net sales increased 60.2%, to Ps. 14,138 million for the six months ended June 30, 2012, from Ps. 8,826 million for the six months ended June 30, 2011. This increase was primarily attributable to greater volume and better sales prices due in large part to the acquisition of Wavin.

Cost of sales. Our Integral Solutions Division's cost of sales increased 65.6%, to Ps. 9,445 million for the six months ended June 30, 2012, from Ps. 5,703 million for the six months ended June 30, 2011. This increase was primarily attributable to increased costs associated with Wavin's operations.

Gross profit. As a result, our Integral Solutions Division's gross profit increased 50.3%, to Ps. 4,693 million for the six months ended June 30, 2012, from Ps. 3,123 million for the six months ended June 30, 2011.

Operating expenses. Our Integral Solutions Division's operating expenses increased 44.9%, to Ps. 3,030 million for the six months ended June 30, 2012, from Ps. 2,092 million for the six months ended June 30, 2011. This increase was primarily attributable to costs associated with the operation of the new plants we acquired in the Wavin acquisition.

EBITDA. Our Integral Solutions Division's EBITDA increased 57.0%, to Ps. 2,300 million for the six months ended June 30, 2012, from Ps. 1,465 million for the six months ended June 30, 2011. This increase was primarily attributable to the results discussed above.

Fluorine Division

	Six months ended June 30,	
	2012	2011
	(Thousands of Mexican pesos)(1)	
Net sales.....	6,456,475	5,938,343
Cost of sales.....	3,579,091	2,901,642
Gross profit.....	2,877,384	3,036,701
Operating expenses (2)	846,407	1,114,311
EBITDA	2,595,244	2,337,031

(1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.

(2) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales. Our Fluorine Division's net sales increased 8.7%, to Ps. 6,457 million for the six months ended June 30, 2012, from Ps. 5,938 million for the six months ended June 30, 2011. This increase was primarily attributable to a 3% average increase in sales prices and a 6% increase in sales volume.

Cost of sales. Our Fluorine Division's cost of sales increased 23.3%, to Ps. 3,579 million for the six months ended June 30, 2012, from Ps. 2,902 million for the six months ended June 30, 2011. This increase was primarily attributable to an increase in sales volume and an increase in the prices paid for our raw materials.

Gross profit. As a result, our Fluorine Division's gross profit decreased 5.2%, to Ps. 2,877 million for the six months ended June 30, 2012, from Ps. 3,037 million for the six months ended June 30, 2011.

Operating expenses. Our Fluorine Division's operating expenses decreased 24.0%, to Ps. 846 million for the six months ended June 30, 2012, from Ps. 1,114 million for the six months ended June 30, 2011. This decrease was primarily attributable to a decrease costs for certain products produced for the refrigerants industry.

EBITDA. Our Fluorine Division's EBITDA increased 11.0%, to Ps. 2,595 million for the six months ended June 30, 2012, from Ps. 2,337 million for the six months ended June 30, 2011. This increase was primarily attributable to the results discussed above.

Year ended December 31, 2011 compared with the year ended December 31, 2010

Consolidated results of operations

The following table sets forth our results of operations for the years ended December 31, 2011 and 2010.

	Year ended December 31,	
	2011	2010
	(Thousands of Mexican pesos)	
Net sales.....	47,309,622	35,195,391
Cost of sales.....	31,396,206	22,856,307
Gross profit.....	15,913,416	12,339,084
Operating expenses (1)	8,630,670	6,693,893
Tax on assets.....	210,482	—
Net financial expense and exchange rate variation.....	2,597,752	834,997
Income taxes	1,697,277	751,249
Income from continuing operations.....	2,777,235	4,058,945
Discontinued operations net	(66,083)	(146,324)
Consolidated net income	2,711,152	3,912,621

- (1) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales

Our net sales increased 34.4%, to Ps. 47,310 million in 2011, from Ps. 35,195 million for 2010. This increase was primarily attributable to an approximate 14% increase in the price of our products and an approximate 18% increase in sales volume, with notable increases in sales of fluorspar, vinyl and compounds. The increases in fluorspar volume was driven by organic growth, the acquisition of Ineos Flúor in the first quarter of 2011, the acquisitions of Plásticos Rex and Policyd in October 2010 and the acquisition of AlphaGary in January 2011.

Cost of sales

Our cost of sales increased 37.4%, to Ps. 31,396 million in 2011, from Ps. 22,856 million for 2010. This increase was due in part to increased production activity, which led to a 31% increase in our energy consumption. The increase was also due to increased costs associated with the integration of the acquisitions described above.

Gross profit

Our gross profit increased 29.0%, to Ps. 15,913 million in 2011, from Ps. 12,339 million for 2010. Our gross margin, which is calculated by dividing gross profit by net sales, decreased from 35.1% in the year ended December 31, 2010 to 33.6% in the year ended December 31, 2011.

Operating expenses

Our operating expenses increased 28.9%, to Ps. 8,631 million in 2011, from Ps. 6,694 million for 2010. This increase was primarily attributable to a 35% increase in selling expenses related primarily to sales commissions, marketing and advertising, outsourcing and leasing costs.

Our operating expenses represented 18.2% of our net sales in 2011, a decrease from 19.0% of our net sales in 2010, primarily due to the increase in sales volume.

Net financial expense and exchange rate variation

Our net financial expenses and exchange rate variation was a loss of Ps. 2,598 million in 2011 compared to a loss of Ps. 835 million in 2010. The increase in the loss was primarily due to exchange rate losses generated from August to December of 2011 as a result of the devaluation of certain local currencies, primarily the Brazilian *real*, the Mexican peso and the Colombian peso, which devaluations were driven by global economic instability.

Income tax

Income taxes increased 125.9%, to Ps. 1,697 million in 2011, from Ps. 751 million for 2010. This increase was primarily attributable to the use of certain tax deductions for intangible assets relating to the acquisitions of Plásticos Rex and Policyd in October 2010 which were not available in 2011.

Consolidated net income

Our consolidated net income decreased 30.7% to Ps. 2,711 million in 2011, from Ps. 3,913 million in 2010. This decrease was due primarily to exchange rate losses of Ps. 1,290 million.

Results of operations by division

Chlorine-Vinyl Division

	Year ended December 31,	
	2011	2010
	(Thousands of Mexican pesos)(1)	
Net sales.....	23,015,520	15,533,023
Cost of sales.....	18,515,909	12,476,071
Gross profit.....	4,499,611	3,056,952
Operating expenses (2)	1,414,310	1,148,956
EBITDA	3,948,946	2,748,591

(1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.

(2) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales. Our Chlorine-Vinyl Division's net sales increased 48.2%, to Ps. 23,016 million in 2011, from Ps. 15,533 million for 2010. This increase was primarily attributable to an approximate 14% increase in sales volume and an approximate 30% increase in the average price of our products in this division, both driven in part by the acquisition of AlphaGary, which contributed net sales of Ps. 3,346 million in 2011.

Cost of sales. Our Chlorine-Vinyl Division's cost of sales increased 48.4%, to Ps. 18,516 million in 2011, from Ps. 12,476 million for 2010. This increase was primarily attributable to increased sales volume and the increase in certain raw materials costs, mainly PVC and compounds.

Gross profit. As a result, our Chlorine-Vinyl Division's gross profits increased 47.2%, to Ps. 4,500 million in 2011, from Ps. 3,057 million for 2010.

Operating expenses. Our Chlorine-Vinyl Division's operating expenses increased 23.1%, to Ps. 1,414 million in 2011, from Ps. 1,149 million for 2010. This increase was due in part to the acquisition of AlphaGary.

EBITDA. Our Chlorine-Vinyl Division's EBITDA increased 43.7%, to Ps. 3,949 million in 2011, from Ps. 2,749 million for 2010. This increase was primarily attributable to increased sales volume and sales prices as well as the acquisition of AlphaGary and our increased presence in North American and European markets together with our expanded product portfolio in Latin American markets which generated increased product synergies.

Integral Solutions Division

	Year ended December 31,	
	2011	2010
	(Thousands of Mexican pesos)(1)	
Net sales.....	18,770,775	16,294,383
Cost of sales.....	12,274,646	10,554,434
Gross profit.....	6,496,129	5,739,949
Operating expenses (2)	4,447,565	3,868,383
EBITDA	2,993,249	2,826,568

(1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.

(2) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales. Our Integral Solutions Division's net sales increased 15.2%, to Ps. 18,771 million in 2011, from Ps. 16,294 million for 2010. This increase was primarily attributable to an estimated 12% increase in sales volume and, to a lesser extent, to an approximate 3% increase in average product prices.

Cost of sales. Our Integral Solutions Division's cost of sales increased 16.3%, to Ps. 12,275 million in 2011, from Ps. 10,554 million for 2010. This increase was primarily attributable to increased sales volume.

Gross profit. Our Integral Solutions Division's gross profit increased 13.2%, to Ps. 6,496 million in 2011, from Ps. 5,740 million for 2010.

Operating expenses. Our Integral Solutions Division's operating expenses increased 15.0%, to Ps. 4,448 million in 2011, from Ps. 3,868 million for 2010. This increase was primarily due to increases in publicity, transportation costs, bad debt expense and information technology services.

EBITDA. Our Integral Solutions Division's EBITDA increased 5.9%, to Ps. 2,993 million in 2011, from Ps. 2,827 million for 2010. This increase was primarily attributable to an increase in net sales due in large part to our increased offering of differentiated products in this division, in particular, biaxial pipes, which, due to their manufacturing technology, are more durable, lighter and more flexible.

Fluorine Division

	Year ended December 31,	
	2011	2010
	(Thousands of Mexican pesos)(1)	
Net sales.....	10,852,773	6,926,653
Cost of sales.....	5,661,487	3,701,874
Gross profit.....	5,191,286	3,224,779
Operating expenses (2)	2,001,190	1,095,135
EBITDA	3,978,340	2,693,839

(1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.

(2) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales. Our Fluorine Division's net sales increased 56.7%, to Ps. 10,853 million in 2011, from Ps. 6,927 million for 2010. This increase was primarily attributable to an estimated 31% increase in sales volume and an estimated 19% increase in average sales prices due in part to the acquisition of Fluor Ineos and the synergies derived therefrom.

Cost of sales. Our Fluorine Division's cost of sales increased 52.9%, to Ps. 5,661 million in 2011, from Ps. 3,702 million for 2010. This increase was primarily attributable to increased sales volumes in addition to increased costs associated with the inclusion of the gas coolant business in this division beginning in April 2010.

Gross profit. Our Fluorine Division's gross profit increased 61.0%, to Ps. 5,191 million in 2011, from Ps. 3,225 million for 2010.

Operating expenses. Our Fluorine Division's operating expenses increased 82.7%, to Ps. 2,001 million in 2011, from Ps. 1,095 million for 2010. This increase was primarily attributable to increased transportation costs, increased selling expenses and increased administrative expenses.

EBITDA. Our Fluorine Division's EBITDA increased 47.7%, to Ps. 3,978 million in 2011, from Ps. 2,694 million for 2010. This increase was primarily attributable to increased sales volume and higher product prices, as well as the inclusion of the gas coolant business beginning in April 2010 and the benefits from the acquisition of this business.

Year ended December 31, 2010 compared with the year ended December 31, 2009

Consolidated results of operations

The following table sets forth our results of operations for 2010 and 2009.

	Year ended December 31,	
	2010	2009
	(Thousands of Mexican pesos)	
Net sales.....	35,195,391	29,752,237
Cost of sales.....	22,856,307	18,965,239
Gross profit.....	12,339,084	10,786,998
Operating expenses (1)	6,693,893	6,385,640
Net financial expense and exchange rate variation.....	834,997	699,206
Income taxes.....	751,249	789,036
Consolidated net income	3,912,621	2,969,306

(1) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales

Our net sales increased 18.3%, to Ps. 35,195 million in 2010, from Ps. 29,752 million for 2009. This increase was primarily attributable to an estimated 8.7% increase in the average price of our products and an estimated 9.4% increase in sales volumes, particularly for sales of fluorspar, compounds and PVC pipes.

Cost of sales

Our cost of sales increased 20.5%, to Ps. 22,856 million in 2010, from Ps. 18,965 million for 2009. This increase was primarily attributable to increases in the price of production inputs, in particular for the price of energy, in addition to increased costs attributable to acquired companies that were integrated during 2010.

Gross profit

Our gross profit increased 14.4%, to Ps. 12,339 million in 2010, from Ps. 10,787 million for 2009. This increase was primarily attributable to acquisitions that contributed to our operating results across all three divisions.

Operating expenses

Our operating expenses increased 4.8%, to Ps. 6,694 million in 2010, from Ps. 6,386 million for 2009. This increase was primarily attributable to increased selling expenses, increased sales and advertising expenses, as well as increased leasing costs, third party service costs and transportation costs. Our operating expenses represented 19% of net sales in 2010 compared to 21.5% of net sales in 2009.

Net financial expense and exchange rate variation

Our net financial expenses and exchange rate variation was a loss of Ps. 835 million in 2010 compared to a loss of Ps. 699 million in 2009. The increase in the loss was primarily due to interest expense of Ps. 1,255 million, which was 45.6% higher than in 2009, due to a debt issuance in Mexico for Ps. 2,500 million and to a US\$350 million international bond issuance at the end of 2009. The interest expense was offset in part by net exchange rate gains of Ps. 347 million due to the appreciation of certain local currencies, primarily the Brazilian *real*, the Mexican peso and the Colombian peso.

Income tax

Income taxes decreased 4.8%, to Ps. 751 million in 2010, from Ps. 789 million for 2009. This decrease was primarily attributable to the use of tax loss carryforwards as part of our tax planning strategy.

Consolidated net income

Our consolidated net income increased 31.8%, to Ps. 3,913 million in 2010, from Ps. 2,969 million for 2009 due to the reasons described above.

Results of operations by division

Chlorine-Vinyl Division

	Year ended December 31,	
	2010	2009
	(Thousands of Mexican pesos)(1)	
Net sales.....	15,533,023	14,695,932
Cost of sales.....	12,476,071	10,967,038
Gross profit.....	3,056,952	3,728,894
Operating expenses (2)	1,148,956	1,883,889
EBITDA	2,748,591	2,568,034

- (1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.
- (2) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales. Our Chlorine-Vinyl Division's net sales increased 5.7%, to Ps. 15,533 million in 2010, from Ps. 14,696 million for 2009. This increase was primarily attributable to an estimated 4% increase in sales volume, with notable increases in PVC resin and compounds, in addition to an estimated 3.3% increase in product prices, primarily for PVC.

Cost of sales. Our Chlorine-Vinyl Division's cost of sales increased 13.8%, to Ps. 12,476 million in 2010, from Ps. 10,967 million for 2009. This increase was primarily attributable to raw material price increases in soda and phosphates, an 8% increase in energy consumption, the inclusion of two months of results of Policyd, a plant stoppage in Cartagena, Colombia due to flooding and the early termination of a gas hedging contract which resulted in increased energy costs.

Gross profit. Our Chlorine-Vinyl Division's gross profit decreased 18.0%, to Ps. 3,057 million in 2010, from Ps. 3,728 million for 2009. This decrease was primarily attributable to the increases mentioned above in cost of sales.

Operating expenses. Our Chlorine-Vinyl Division's operating expenses decreased 39.0%, to Ps. 1,149 million in 2010, from Ps. 1,884 million for 2009.

EBITDA. Our Chlorine-Vinyl Division's EBITDA increased 7.0%, to Ps. 2,749 million in 2010, from Ps. 2,568 million for 2009, due to the factors discussed above.

Integral Solutions Division

	Year ended December 31,	
	2010	2009
	(Thousands of Mexican pesos)(1)	
Net sales.....	16,294,383	14,947,274
Cost of sales.....	10,554,434	9,688,198
Gross profit.....	5,739,949	5,259,076
Operating expenses (2)	3,868,383	3,829,639
EBITDA	2,826,568	2,162,395

- (1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.
- (2) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales. Our Integral Solutions Division's net sales increased 9.0%, to Ps. 16,294 million in 2010, from Ps. 14,947 million for 2009. This increase was primarily attributable to an estimated 12.5% increase in sales volume, which more than offset lower sales prices.

Cost of sales. Our Integral Solutions Division's cost of sales increased 8.9%, to Ps. 10,554 million in 2010, from Ps. 9,688 million for 2009. This increase was primarily attributable to cost of sales associated with Plásticos Rex as a result of its acquisition and increased costs in raw materials.

Gross profit. Our Integral Solutions Division's gross profit increased 9.1%, to Ps. 5,740 million in 2010, from Ps. 5,259 million for 2009.

Operating expenses. Our Integral Solutions Division's operating expenses increased Ps. 38 million, to Ps. 3,868 million in 2010, from Ps. 3,830 million for 2009.

EBITDA. Our Integral Solutions Division's EBITDA increased 30.8%, to Ps. 2,827 million in 2010, from Ps. 2,162 million for 2009, due to the factors discussed above.

Fluorine Division

	Year ended December 31,	
	2010	2009
	(Thousands of Mexican pesos)(1)	
Net sales.....	6,926,653	2,531,336
Cost of sales.....	3,701,874	1,325,911
Gross profit.....	3,224,779	1,205,425
Operating expenses (2)	1,095,135	248,572
EBITDA	2,693,839	1,118,223

- (1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.
- (2) Operating expenses includes selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales. Our Fluorine Division's net sales increased 173.7%, to Ps. 6,927 million in 2010, from Ps. 2,531 million for 2009. This increase was primarily attributable to an estimated 135% increase in average selling prices and an estimated 23.3% increase in sales volumes.

Cost of sales. Our Fluorine Division's cost of sales increased 179.2%, to Ps. 3,702 million in 2010, from Ps. 1,326 million for 2009. This increase was primarily attributable to increased sales volume and related costs mainly due to the incorporation of the gas coolant business beginning in April 2010.

Gross profit. Our Fluorine Division's gross profit increased 167.6%, to Ps. 3,225 million in 2010, from Ps. 1,205 million for 2009.

Operating expenses. Our Fluorine Division's operating expenses increased 339.8%, to Ps. 1,095 million in 2010, from Ps. 249 million for 2009, due primarily to the significant increase in sales volume.

EBITDA. Our Fluorine Division's EBITDA increased 141.0%, to Ps. 2,694 million in 2010, from Ps. 1,118 million for 2009, primarily due to the factors discussed above.

Liquidity and capital resources

We have capital requirements primarily for the following purposes:

- working capital;
- interest payments on our outstanding debt;
- capital expenditures for our operations, emphasized on automation, innovation and modernization, and maintenance expenses associated therewith;
- acquisitions of companies we believe will add value to our growth strategy; and
- dividend payments.

Historically, our primary sources of liquidity have been:

- our operating cash flows;
- the proceeds of our short-, medium- and long-term financings;
- capital increases; and
- sales of subsidiaries.

In 2011 and for the first six months of 2012, our operating cash flows were used primarily for acquisitions, capital expenditures, working capital and our debt service requirements. As of June 30, 2012, we had cash, cash equivalents and other investments of Ps. 6,828 million, and working capital of Ps. 14,186 million.

Tender offer for our 8.750% senior notes due 2019

On September 14, 2012, we announced the results of our cash tender offer to acquire any and all of our US\$350 million 8.750% senior notes due 2019, or the 2019 notes, which we refer to herein as the "tender offer", and the related consent solicitation to amend the indenture under which the 2019 notes were issued. The tender offer and consent solicitation expired on September 13, 2012, and as of the expiration date, US\$267.1 million in aggregate principal amount of the 2019 notes (or 76.32% of the 2019 notes outstanding) were tendered and with respect to which we received consents. We settled the tender offer on September 19, 2012 paying total consideration of US\$1,245.00 per US\$1,000 principal amount of 2019 notes plus accrued and unpaid interest up to, but not including, the settlement date.

Shareholders' call notice

On August 31, 2012, we issued a call notice for a shareholders' meeting to approve a proposed offering of our common shares. The shareholders' meeting is currently scheduled for September 18, 2012. Any equity offering is subject to shareholder approval and market conditions.

Future capital requirements

We expect that we will need approximately Ps. 15,021 million to meet our payment obligations with respect to our short-term debt and other commitments during 2012.

In addition to the Ps. 15,021 million described above with respect to our short-term debt and other commitments during 2012, we expect that we will require approximately Ps. 23,745 million in additional capital to meet our payment obligations with respect to our long-term debt, capital expenditures, other commitments and working capital requirements through 2015. We expect to meet these capital requirements through a combination of (i) the proceeds of the global offering, (ii) our operating cash flows and (iii) financings. See “—Indebtedness and financing strategy.”

Cash flows

Cash flows provided by (used in) operating activities

In 2011, 2010 and 2009, cash flows provided by our operating activities amounted to Ps. 5,661.7 million, Ps. 7,087.1 million and Ps. 4,139.1 million, respectively.

In the six months ended June 30, 2012, cash flows provided by our operating activities were derived primarily from income from:

- Ps. 4,754.1 million from income before taxes on income,
- Ps.(2,572.3) million from net changes in working capital, and
- Ps. 3,216.0 million from other items.

In 2011, cash flows provided by our operating activities derived primarily due to:

- Ps. 4,474.5 million from income before taxes on income,
- Ps.(2,869.8) million from net changes in working capital, and
- Ps. 4,057.0 million from other items.

In 2010, cash flows provided by our operating activities derived primarily due to:

- Ps. 4,810.2 million from income from continuing operations,
- Ps. (151.6) million from net changes in working capital, and
- Ps. 2,428.5 million from other items.

In 2009, cash flows provided by our operating activities derived primarily due to:

- Ps. 3,714.4 million from income from continuing operations,
- Ps. (1,840.2) million from net changes in working capital, and
- Ps. 2,264.9 million from other items.

Cash flows provided by (used in) financing activities

In 2011, 2010 and 2009, cash flows provided by (used in) financing activities amounted to Ps. (856.1) million, Ps. 1,281.0 million and Ps. 5,424.0 million, respectively.

In the six months ended June 30, 2012, our cash flows provided by financing activities amounted to Ps 4,940.4 million.

In the six months ended June 30, 2012, the cash flows provided by financing activities were primarily due to Ps. 5,997.5 from net loan proceeds and sales of shares of Ps. 102.9 million, offset by the repayment of interest on our outstanding debt in the amount of Ps. 801.2 million and dividend payments in the amount of Ps. 358.8 million.

In 2011, our principal uses of cash flows in financing activities consisted of:

- Ps. 1,452.3 million in interest paid;
- Ps. 503.0 million in dividends paid; and
- Ps. 85.6 million from purchases of shares; offset by
- Ps. 1,184.8 million from net loan proceeds.

In 2010, the cash flows provided by financing activities were as follows:

- Ps. 2,787.2 million from net loan proceeds; and
- Ps. 122.9 million from sales of shares; offset by
- Ps. 1,234.3 million in interest paid; and
- Ps. 394.8 million in dividends paid.

In 2009, our principal sources of cash flows provided by financing activities consisted of:

- Ps. 4,164.9 million from net loan proceeds;
- Ps. 1.4 million from sales of shares; and
- Ps. 2,257.9 million of a capital increase; offset by
- Ps. 613.6 million in interest paid;
- Ps. 303.3 million in dividends paid; and
- Ps. 83.5 million from acquisition of non-controlling interest.

Cash flows provided by (used in) investing activities

In 2011, 2010 and 2009, cash flows used in our investing activities were Ps. 5,928.2 million, Ps. 9,172.1 million and Ps. 2,867.9 million, respectively.

For the six months ended June 30, 2012, our cash flows used in investing activities were Ps. 10,626.9 consisting of:

- the acquisition of machinery and equipment in the amount of Ps. 2,158.4 million;
- the acquisition of subsidiary, net of cash acquired in the amount of PS. 8,933.1 million; and
- other assets in the amount of Ps. 180.3; offset by
- the sale of machinery and equipment in the amount of Ps. 279.9; and
- the sale of available for sale securities in the amount of Ps. 184.8.

In 2011, our cash flows used in investing activities consisted of:

- the acquisition of machinery and equipment in the amount of Ps. 2,707.5 million;

- the acquisition of subsidiary, net of cash acquired in the amount of PS. 3,401.0 million; and
- other assets in the amount of Ps. (180.3) million.

In 2010, our cash flows used in investing activities consisted of:

- the acquisition of machinery and equipment in the amount of Ps. 2,202.0 million;
- the acquisition of subsidiary, net of cash acquired in the amount of Ps. 6,358.9 million;
- sales of machinery and equipment in the amount of Ps. 419.3; and
- other assets in the amount of Ps. 1,030.5 million.

In 2009, our cash flows used in investing activities consisted of:

- the acquisition of machinery and equipment in the amount of Ps. 2,423.9 million; and
- the acquisition of subsidiary, net of cash acquired in the amount of PS. 140.5 million.

Description of capital stock

The following table shows our capital structure as of the date of this offering memorandum, after giving effect to the resolutions adopted by our shareholders on May 18, 2012.

	Class I	Class II	Total
Fixed capital	308,178,735	—	308,178,735
Variable capital	—	1,791,821,265	1,791,821,265
Shares outstanding	308,178,735	1,791,821,265	2,100,000,000

As of the date of this offering memorandum, and as adjusted for the equity offering completed on October 15, 2012 as described below, our net book value per share was Ps. 19.19, which represents the book value of our shareholders' equity divided by the number of shares outstanding.

Recent changes in our capital stock

On June 26, 2008, our shareholders approved (1) a three-to-one split in respect of all outstanding shares, which became effective on August 26, 2008, (2) the cancellation of 183,600,000 Class II treasury shares, which represent the 61,200,000 Class II shares issued July 2, 2007, after giving effect to the aforementioned three-to-one stock split, and (3) the issuance of up to 200,000,000 Class II treasury shares, for their subsequent sale in connection with a global offering.

On September 8 2008, our shareholders approved (1) that the paid-in capital stock (without considering the funds obtained from a global offering) was Ps. 2,172,022,646.00 represented by 1,646,400,000 shares, of which Ps. 406,566,566.00 was represented by 308,178,735 Class I shares (fixed capital) and Ps. 1,765,456,080.00 was represented by 1,338,221,265 Class II shares (variable capital); and (2) that the maximum amount of the capital increase represented by the 200,000,000 Class II shares issued by the shareholders' meeting held on June 26, 2008 was Ps. 263,860,000.0.

On August 3, 2009, our shareholders approved an increase in our variable capital of up to Ps. 202,644,480.00, representing 153,600,000 Class II common shares. Current shareholders were given preference rights to purchase at a price of Ps. 14.70 per shares and were able to acquire one share per 10.68 shares currently held.

On May 18, 2012, our shareholders approved an increase in our variable capital stock as well as the issuance of up to 40,000,000 Class II common shares, which were offered to the shareholders at a meeting held on April 30, 2012. At this shareholders' meeting, shareholders were given a choice to receive dividends in cash or in additional shares at a ratio of one share per 45 shares currently held by the shareholder.

On September 18, 2012, our shareholders approved an increase in our variable capital stock as well as the issuance of up to 260,000,000 Class II common shares, which were sold in a global offering that was settled on October 15, 2012.

Outstanding capital stock

Because we are a variable capital stock corporation, our capital stock must have a minimum fixed portion, represented by Class I shares, and a variable portion, represented by Class II shares, which give identical rights to their holders as Class I shares, all of which are fully paid and nonassessable. In this offering memorandum, we refer to our Class I and Class II shares, collectively, as outstanding shares. Our shares may be acquired by foreign or Mexican investors and our bylaws do not contain any transfer restrictions or prohibit the acquisition of our outstanding shares by any person.

Changes to capital stock

The minimum fixed portion of our capital stock may be increased or decreased by a resolution adopted at a general extraordinary shareholders' meeting and upon amendment of our bylaws. The variable portion of our capital stock may be increased or decreased by a resolution adopted at a general ordinary shareholders' meeting without amending our bylaws. Increases or decreases in the fixed or variable portion of the capital stock must be recorded in our registry of capital variations and require an amendment to our bylaws. New shares cannot be issued unless the then-issued and outstanding shares have been paid in full.

Registration and transfer of Class II shares

Our Class II shares are evidenced by share certificates in registered form. Our shareholders may hold their Class II shares in the form of physical certificates or in book-entry form with institutions that have accounts with S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V., or "Indeval". Indeval will be the holder of record for Class II shares held in book-entry form. Accounts may be maintained at Indeval by brokers, banks and other financial institutions and entities authorized for this purpose. We maintain a stock registry and only those persons listed in such stock registry and holding certificates issued in their name as registered holders, or persons holding Class II shares directly or indirectly through institutions that maintain accounts with Indeval (evidenced, together by the records of Indeval and any such institution), will be recognized as our shareholders.

Pursuant to Mexican law, any transfer of our Class II shares must be registered in our stock registry, if effected physically, or through book entries that may be traced back from our stock registry to the records of Indeval and individual depositors, if effected through book entry shares.

Indebtedness and financing strategy

As of June 30, 2012, we had outstanding consolidated debt of Ps. 33,213 million, consisting of short-term debt of Ps. 1,608 million (including the current portion of our long-term debt) and long-term debt of Ps. 31,605 million, with unrelated parties.

As of June 30, 2012, our peso-denominated consolidated debt totaled Ps. 11,850 million, and our non-peso denominated consolidated debt amounted to Ps. 21,363 million.

Historically, we have financed our growth strategy with (1) long- and short-term loans that are usually repaid with the operating cash flows provided by our subsidiaries and (2) capital increases.

The acquisitions made in 2009 and 2010 were financed by:

- a capital increase of Ps. 2,258 million;
- a debt issuance in the domestic market in the amount of Ps. 2,500 million;
- a debt issuance in the international market in the amount of US\$350 million; and

- a credit line with HSBC, obtained in October 2011 in the amount of Ps. 2,500 million, which accrue interest on a quarterly basis at a rate of THIE plus 1.50 percentage points, with quarterly amortization and maturity in October 2015.

The acquisitions made in 2011 and 2012 were financed by:

- our own funds;
- a Bancomext credit in Mexican pesos in the amount equivalent to €47 million;
- debt issuance in the domestic market in an amount equivalent to € 295 million; and
- a revolving credit facility with JP Morgan in the amount of € 92 million.

Historically, our policy has been to reduce our leverage ratio following the incurrence of indebtedness to finance acquisitions. The table below sets forth our leverage ratios for the specified periods. During 2011 and 2010, our leverage ratios decreased as a result of the repayment of debt using cash flows generated by the operations of new acquisitions and cash acquired in equity issuances. During the first six months of 2012, our leverage ratios increased principally due indebtedness assumed in the acquisition of Wavin.

Leverage Ratios	At June 30,	At December 31,		
	2012	2011	2010	2009
Total liabilities/total assets (%)	68.7	60.0	61.0	63.0
Total liabilities/stockholders' equity	2.19	1.51	1.56	1.68
Interest-bearing liabilities(consolidated debt)/stockholders' equity	1.25	0.86	0.90	0.98

Historically, our financing strategy has been to allocate our positive cash flows to the repayment of our debt so as to maintain a ratio of net debt to operating income plus depreciation not higher than 2.0 to 1.0. We believe that this strategy reduces our vulnerability during periods of recession or smaller economic growth. As of June 30, 2012, this ratio was 2.0 to 1.0.

The following table shows the amount and scheduled maturities of our interest-bearing liabilities as of June 30, 2012:

Maturing in	Amount
	(Thousands of Mexican pesos)
2012	1,608,340
2013	826,184
2014	9,729,699
2015	7,380,533
2016	4,965,418
Thereafter	8,702,729
Total.....	33,212,903

Our net debt increased from Ps. 12,953 million as of December 31, 2011, to Ps. 26,385 million as of June 30, 2012, mainly as a result of the acquisition of Wavin and our assuming the obligations for Wavin's indebtedness. The following table contains a summary of our net debt. For additional information, see our financial statements that are included in this offering memorandum:

	As of June 30,		As of December 31,		
	2012	2011	2011	2010	2009
	(Millions of Mexican pesos)				
Interest-bearing liabilities	33,213	18,250	20,628	17,839	16,261
Current portion	1,608	6,281	3,792	2,176	2,364
Long-term debt	31,605	11,969	16,836	15,663	13,897
Cash and cash equivalents	6,828	5,369	7,676	7,146	10,365
Net debt	26,385	12,881	12,952	10,693	5,896

We expect to finance our capital expenditure programs primarily through cash flows provided by our operating activities, supplemented by a capital increase in connection with this offering, and through the incurrence of additional debt subject to the terms of our existing credit facilities.

Short-term debt

We have committed credit facilities available for up to US\$460 million, of which approximately US\$233 million are available for disbursement in the form of letters of credit to meet our payment obligations with our raw material suppliers and our unsecured loans for working capital needs.

Long-term debt

Covenants in our Debt Instruments

Some of our debt instruments include financial covenants and other restrictions on our activities. These covenants and restrictions include, among others:

- limitations on the creation of new liens;
- the maintenance of a consolidated interest coverage ratio of no less than 3.0 to 1.0;
- the maintenance of stockholders' equity of no less than 80% of the amount reported at the end of the prior fiscal year;
- the maintenance of a net debt to EBITDA ratio not greater than 3.0 to 1.0; and
- subject to certain exceptions set forth in the relevant instruments, the previous consent of the lenders for investments by the Company and certain subsidiaries thereof in their respective subsidiaries in an aggregate amount in excess of US\$50 million.

As of the date of this offering memorandum, we are in compliance with the covenants and restrictions contained in our credit facilities.

Local debt offerings

We have established a long-term revolving debt program of Mexican debt securities called *certificados bursátiles* in an amount of up to Ps. 10,000.0 million. In connection with this program, we are subject to certain restrictions, including compliance with certain disclosure obligations and other obligations stipulated by these programs as well as the maintenance of certain financial ratios. As of the date of this offering memorandum, we are in compliance with the covenants and restrictions established by this debt program.

Off-balance sheet arrangements

As of June 30, 2012, we had no off-balance sheet arrangements.

Contractual obligations and capital expenditures

Contractual obligations

The following table shows our most significant contractual obligations and commitments as of June 30, 2012:

Contractual obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
(Thousands of Mexican Pesos)					
Long-term debt obligations.....	33,212,903	1,608,340	10,555,883	12,345,951	8,702,729
Operating lease obligations.....	1,138,703	200,543	282,277	152,249	503,634
Total.....	<u>34,351,606</u>	<u>1,808,883</u>	<u>10,838,160</u>	<u>12,498,200</u>	<u>9,206,363</u>

Capital expenditures

Our strategy is to grow through the acquisition of companies capable of creating synergies and through ongoing capital expenditures in modern technology so as to maintain high levels of efficiency and low production costs while improving our leadership position in our various markets. The table below sets forth our capital expenditures for the periods indicated.

	Six months ended June 30,	Year ended December 31,		
	2012	2011	2010	2009
(Thousands of Mexican pesos)				
Permanent investments	8,933,137	3,400,985	6,358,893	584,476
Plant and equipment	2,158,377	2,993,334	2,202,014	2,423,987
Proceeds from sale of machinery and equipment	(279,857)	(285,842)	(419,270)	(140,574)
Investments in intangibles	—	—	494,268	—
Total.....	<u>10,811,657</u>	<u>6,108,477</u>	<u>8,635,905</u>	<u>2,867,889</u>

Our capital expenditures program from 2009 to June 30, 2012, included the following:

- *Kawasaki.* On May 31, 2011, we purchased a gas coolant plant located in Kawasaki, Japan from Showa Denko, K.K. for US\$26 million. This plant began operations in November 2011 and has annual production capacity of 5,000 tons. We financed this acquisition through yen-denominated credit facilities.
- *Sulfur Plant.* We invested US\$42 million to purchase a sulfur plant in the state of Veracruz, Mexico, with annual production capacity of 210,000 tons, which should contribute to reduced production costs in our Fluorite Division, particularly in the production of hydrofluoric acid.
- *Hydrofluoric Acid Plant.* We invested Ps. 40 million in a second hydrofluoric acid plant, with annual production capacity of 30,000 tons.
- *New PVC Pipe Line.* We invested US\$20 million to develop a new PVC pipe production line in Peru.
- *Plant Automation.* We invested US\$80 million to modernize and automate certain of our production facilities.
- *Fluorite Division Expansion.* We invested US\$60 million to expand our Fluorite Division production to include aluminum fluoride, which is used in the production of aluminum, with an annual installed capacity of 60,000 tons. This project was financed through cash generated by our operations.

Our acquisitions during the past three years and the six months ended June 30, 2012 included:

- *Plastubos*. Acquisition of the remaining 30% of DVG Industria e Comercio de Plásticos Limitada (Plastubos).
- *Tubos Flexibles*. Mexican company acquired on March 31, 2009. This company has an operating history of 50 years and operates four plants in Mexico producing PVC, pipes, CPVC, polyethylene and polypropylene.
- *Ineos Flúor*. In March 2010, we acquired the Ineos Group's fluorspar operations in the United States, Canada, the United Kingdom, Taiwan and Japan, making us a world leader in the production of fluoride chemicals, particularly in gas coolant.
- *Plastisur*. In January 2010, we completed the acquisition of Plastisur, S.A., a company in which we had previously been a minority shareholder. Plastisur is a leading Peruvian manufacturer and distributor of PVC pipes and connectors. This acquisition gave us a leading position in Peru in pipes and connectors.
- *Plásticos Rex and Policyd*. In October 2010, we acquired Policyd, S.A. and Plásticos Rex from Cydsa, S.A.B. de C.V. Policyd and Plásticos Rex are PVC and PVC pipe manufacturers, respectively, and these acquisitions reinforce our vertical integration strategy.
- *AlphaGary*. In January 2011, we acquired AlphaGary from Rockwood Specialties Group, Inc. AlphaGary focuses on the production of compounds for different industry sectors, including for the medical industry, the electrical cables industry and segments of the construction industry. AlphaGary operates facilities in the United States and the United Kingdom.
- *Fluorita de México*. In the first quarter of 2012, we completed the acquisition of Fluorita de México, which produces some of the purest fluorspar in the world. We expect this acquisition to ensure our fluorspar raw materials supply for our United Kingdom operations. The Fluorita de México mine has proven reserves in excess of 13 million tons and has annual extraction of 120,000 tons.
- *Wavin*. During the second quarter of 2012, we completed the acquisition of Wavin, the leading supplier of plastic pipe systems and solutions in Europe, headquartered in Zwolle, in The Netherlands with a presence in 25 European countries. The total acquisition cost was approximately €526 million.

See “—Growth through acquisitions” for more detailed information.

For the remainder of 2012, we expect to make capital expenditures, not including financing capital requirements, in an aggregate amount of approximately US\$710.0 million.

Research and development

Our ability to compete in the Mexican and international markets depends upon our ability to integrate our new acquisitions, production processes and products to our existing operations so as to reduce our costs and increase the profitability of these acquisitions. In order to achieve these goals, we have established a comprehensive research and development program and, during 2011, 2010 and 2009, we invested Ps. 318 million, Ps. 168 million and Ps. 112 million, respectively, in this program.

Quantitative and qualitative information concerning market risk

In the ordinary course of our business activities, we are exposed to various markets risks that are beyond our control, including fluctuations in exchange rates, interest rates and the price of our primary raw materials, and which may have an adverse effect on the value of our financial assets and liabilities, future cash flows and profit. As a result of these market risks, we could suffer a loss due to adverse changes in interest rates, exchange rates and the price of commodities in the international markets.

Our policy with respect to these market risks is to assess the potential of experiencing losses and the consolidated impact thereof, and to mitigate our market risks through a risk management policy. On January 1,

2008, we instituted a risk management policy that seeks to mitigate our exposure to the fluctuations in exchange rates so as to hedge the risk of an increase in our foreign-denominated financial obligations.

Foreign exchange risk and interest rate risk

We are exposed to foreign exchange risk primarily in connection with the fluctuation in the value of the Mexican peso against the U.S. dollar. Approximately 41% of our outstanding debt as of June 30, 2012 is denominated in U.S. dollars, and we make capital expenditures in U.S. dollars. Our revenues are denominated in various Latin American currencies, and some of our contracts with clients provide for product prices that are determined by reference to the exchange rate between the relevant local currency and the U.S. dollar. For the six months ended June 30, 2012, a variation of 1% in the exchange rate of Mexican pesos to U.S. dollars would have resulted in a variation in interest expense on outstanding indebtedness denominated in U.S. dollars of Ps. 137.5 million for that period.

Our U.S. dollar-denominated debt bears interest at variable rates calculated by reference to LIBOR and our Mexican peso-denominated debt bears interest at variable rates calculated by reference to the TIIE rate. Any increase in these interest rates or in the value of the U.S. dollar with respect to the Mexican peso and/or the local currencies of the countries in which we operate could have a material adverse effect on our financial conditions and results of operations. For the six months ended June 30, 2012, an increase or reduction in interest rates of 1% on outstanding loans and financing and debentures would have resulted in a variation in interest expense of Ps. 180.7 million for that period.

We have inventories that are currently valued at Ps. 10,094 million based on their net realizable value, which in the case of the majority of such inventories is determined by reference to the price thereof in the international commodities markets.

Risks related to the price for basic products

We sell our primary products, including PVC, chlorine, caustic soda, hydrofluoric acid and fluorspar, pursuant to long-term contracts with our clients using pricing formulas that are based on international market prices. This enables us to maintain stable margins through the various stages of the relevant production cycles in order to compensate for any short-term disparity between the price of our principal raw materials and the price of our finished products.

Derivative instruments

We use certain hedging instruments in order to mitigate price volatility of certain raw materials, rates risks and currency rates with financial operations, all of them related with our business and previously approved by our audit committee and the corporate practices committee as well as our board of directors.

The instruments we use include currency rate and interest rate swaps and currency rate forwards. These derivatives have not been designated as hedges for accounting purposes.

On December 31, 2011, we held the following derivative instruments.

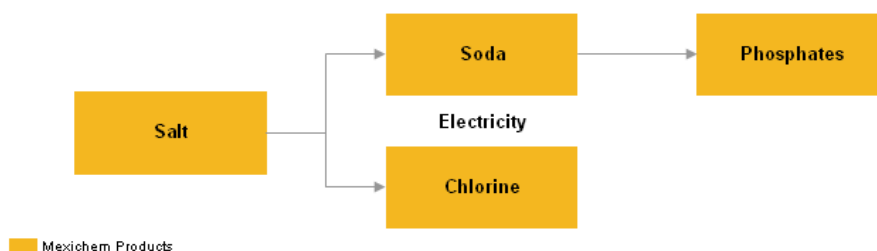
Derivative	Effective Date	Maturity Date	Notional Amount	Strike and/or fixed price	Prime for options	Reasonable Value (2011)
USDMXN FX Forward	Sep 30, 2011	Sep 28, 2012	US\$130,000,000	\$12.59	\$13.94	\$(122,176)
Interest Rate Swap	May 28, 2008	Aug 28, 2012	US\$25,000,000	Libor +0.875	4.03%	(692)
Interest Rate and Exchange Rate Swap	Jun 21, 2010	Dec 20, 2014	US\$62,000,000	Libor +2.60	Euro Libor + 2.37%	(15,293)

INDUSTRY

Our business is focused on manufacturing products which are used in the construction, housing, infrastructure, portable water, automotive, sewage, irrigation, refrigerants and air conditioning industries. Our operating divisions are oriented toward two different sectors of the chemical industry and we classify them according to the type of product. As an overview, our business is focused on industries that use chlorine, caustic soda, chlorine derivatives and resins. Moreover, we participate in the manufacturing of transformed products, such as pipes for the conveyance of fluids, mainly water and other PVC compounds. In addition, we participate in the extraction of fluorspar and the production of hydrofluoric acid, which are used in the production of fluorinated or fluorochemical products. Below is a brief description of the industries in which we participate and products we develop.

Chlorine and caustic soda

Chlor-alkali is a term that refers to the chemistry of chlorine and caustic soda. Chlorine and caustic soda are co-products resulting from breaking salt into components through an electrolytic process. This process produces a specific ratio of chlorine and caustic soda, referred to as an electrochemical unit, or ECU. One ECU consists of one unit of chlorine and 1.1 units of caustic soda. The core raw materials used in this process are electricity and salt, with electricity being the primary cost.



Although chlorine is used in an array of chemical processes, its primary use is in the production of vinyl and PVC resin. Caustic soda is used in the production of pulp and paper, organic chemicals, soaps and detergents, textiles, oils, and aluminum.

The chlor-alkali industry is cyclical, as economic growth directly influences demand, and periods of low profitability and growth are often followed by periods where attractive margins justify capacity expansion. In general, demand for chlorine is driven by the construction sector and demand for caustic soda is driven by the manufacturing sector.

Our primary markets for chlorine and caustic soda are the United States and Mexico. The majority of chlor-alkali producers are regional, the notable exception being the Dow Chemical Company which is a global multinational player having a strong presence in North America and Europe.

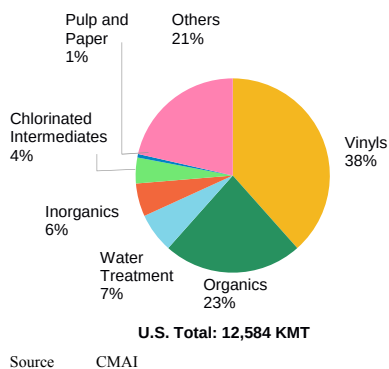
According to CMAI, IHS Chemical, Chlor-Akali Analysis 2012, chlorine consumption has increased in recent years and there is demand for chlorine in approximately 75% of the world's economies. Future worldwide growth in chlorine is expected to be in the range of 4% per year.

Typically, demand for chlorine drives production rates for chlor-alkali, as chlorine plants are often integrated with facilities that produce chlorine derivatives such as vinyl and PVC resin. Demand for chlorine is heavily dependent on demand for vinyl (particularly PVC resin). Since most chlor-alkali production facilities are not integrated users of caustic soda, the demand for caustic soda can vary dramatically.

In the United States and Mexico, the production of vinyl, particularly PVC resin, represents the largest single use of chlorine. In 2011, as shown in the table below, vinyl production, which includes production of PVC resin, represented 38% and 40% of chlorine consumption in the United States and Mexico, respectively. PVC is popular as it can be molded for use in the construction industry, including rigid pipes, pipe fittings, wire/cable coatings, and other applications.

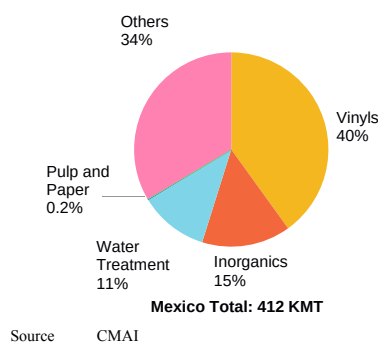
2011 Chlorine Consumption

U.S.



2011 Chlorine Consumption

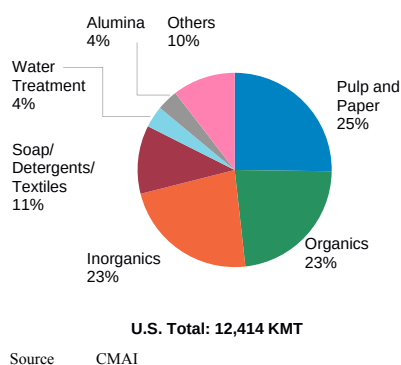
Mexico



Caustic soda in the United States is used in a number of industrial applications in the production of organic chemical products (mainly propylene oxide, epichlorohydrin, and phosgene-isocyanates) and inorganic chemical products (mainly titanium dioxide) and in the production of pulp and paper. As indicated below, these uses represented 23%, 23% and 25% of consumption in 2011 in the United States. In Mexico, caustic soda has a number of industrial uses, including organic and inorganic chemical products and in the production of soaps and detergents. These uses represented 28%, 19% and 23% of consumption in 2011 in Mexico, as indicated below.

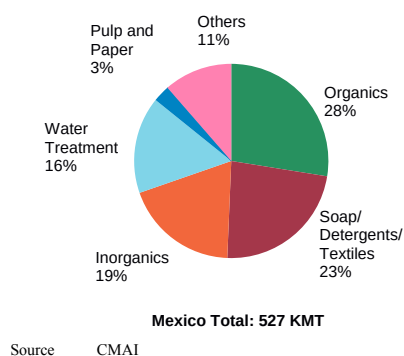
2011 Caustic Soda Consumption

U.S.



2011 Caustic Soda Consumption

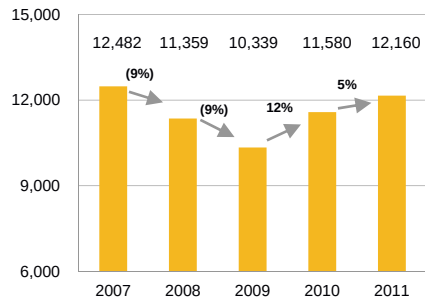
Mexico



From 2008 to 2011, the demand for caustic soda in the United States has remained flat, while demand for chlorine has increased by 7%. As a result of the slow up in the construction and manufacturing sectors during 2011, demand for chlorine in the United States increased by 5% during that year, and demand for caustic soda increased 2% during the same period, as indicated below.

Historical Chlorine Demand - U.S.

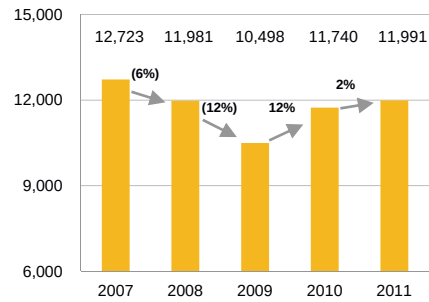
(thousands of metric tons)



Source CMAI

Historical Caustic Soda Demand - U.S.

(thousands of metric tons)



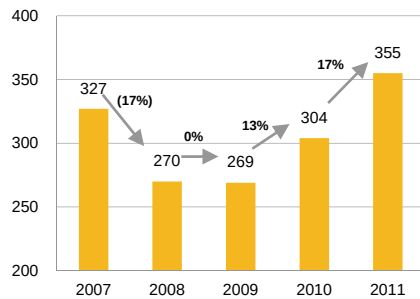
Source CMAI

From 2008 to 2011, the demand for chlorine in Mexico has grown by 32% while demand for caustic soda has grown by 7%. As a result of the Mexican government support to the housing and infrastructure sectors during 2011, demand for chlorine in Mexico increased by 17% during that year and demand for caustic soda increased 6% during the same period, as indicated in the table below.

Historical Chlorine Demand

Mexico

(thousands of metric tons)

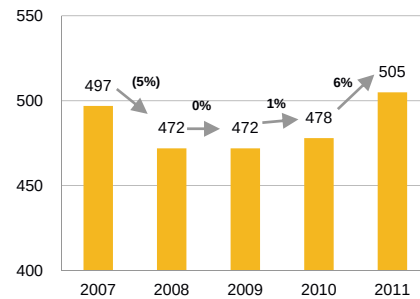


Source CMAI

Historical Caustic Soda Demand

Mexico

(thousands of metric tons)

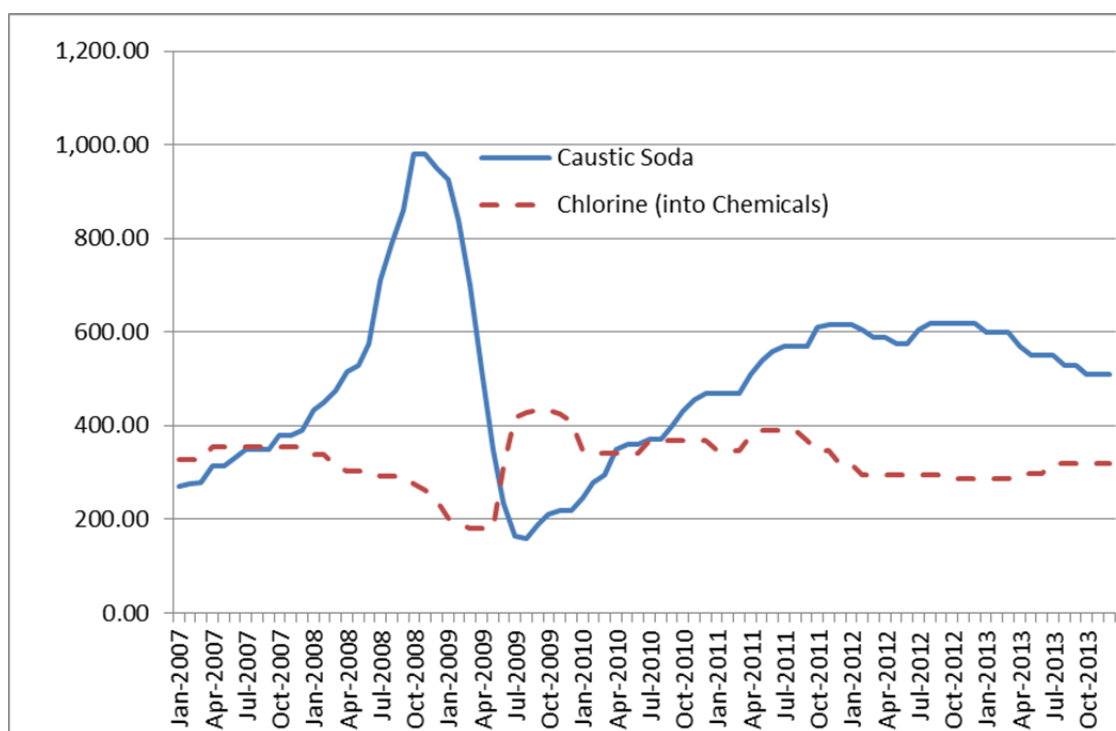


Source CMAI

Chlorine and Caustic Soda Pricing

In North America, chlorine buyers tend to be concentrated, while caustic soda consumers are generally more fragmented. Some of the larger chlorine buyers have multi-year contracts, with contractual ceilings and/or discounts to mitigate some of the spot market price volatility.

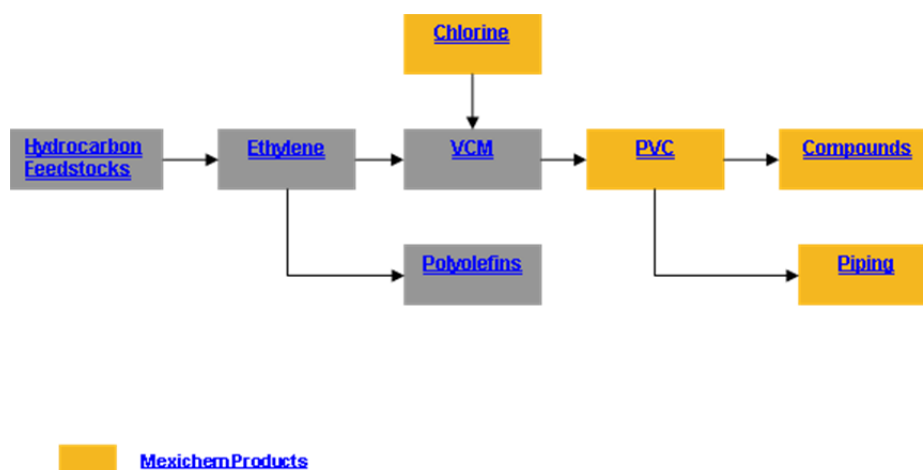
In the last two years, demand for PVC has declined significantly as a result of the slowdown of the housing sector in the United States. As a result, producers of chlor-alkali reduced their output in order to stabilize prices. However, the price reduction, coupled with unplanned outages at large facilities, resulted in a significant increase in caustic soda prices, which helped chlor-alkali producers recover some of the recent increases in power and transportation costs.



Source: CMAI 2012; for caustic soda, average contract-market membrane grade price, US\$/dry short ton; for chlorine, average contract-market price

PVC Resin

Polyvinyl chloride (PVC) is a powder that is ground to form plastic resin. PVC is manufactured via the polymerization of vinyl chloride monomer (VCM), which is formed from causing ethylene and chlorine to react together. PVC resin has multiple applications such as pipes and fittings for water conduction (particularly for use in housing and sewage), profiles, films and sheets, bottles, wire and cable coatings and floorings, among others.



PVC is one of the most widely used plastics in the world today. According to CMAI, worldwide PVC demand is expected to reach approximately 39 million metric tons in 2012. From 2008 to 2011, worldwide PVC demand has grown at an average of 2% per year.

In the PVC production chain, feedstock integration is an important issue, which may lead to the disappearance of non-integrated PVC producers. In addition, the downstream integration into fabricated products may affect this industry. It is believed that non-integrated PVC producers will face significant challenges competing with integrated consumers, which typically have significantly lower production costs.

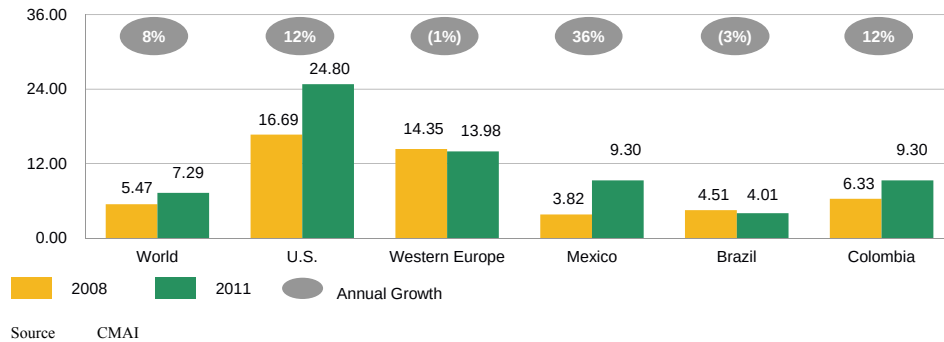
The PVC industry is affected in a meaningful way by changes in energy prices, in particular crude oil and natural gas, which are used in the production of ethylene, one of the key components of VCM.

According to CMAI, the PVC industry from 2008 through 2011 experienced strong demand growth of 2% per year, as indicated in the table below. PVC demand is expected to be driven by developing countries as infrastructure investments and housing are needed in order to keep pace with population growth. Uncompetitive infrastructure as a result of years of underinvestment and housing deficits are important themes in the developing world. Our key markets for PVC products are Mexico and the majority of South American countries, in particular Brazil and Colombia.

Compared to the more mature markets of the United States and Western Europe, there is a significant lag in the per capita consumption of PVC in Latin America. The apparent under consumption of PVC in these markets, as indicated in the table below, demonstrates the potential growth for PVC consumption.

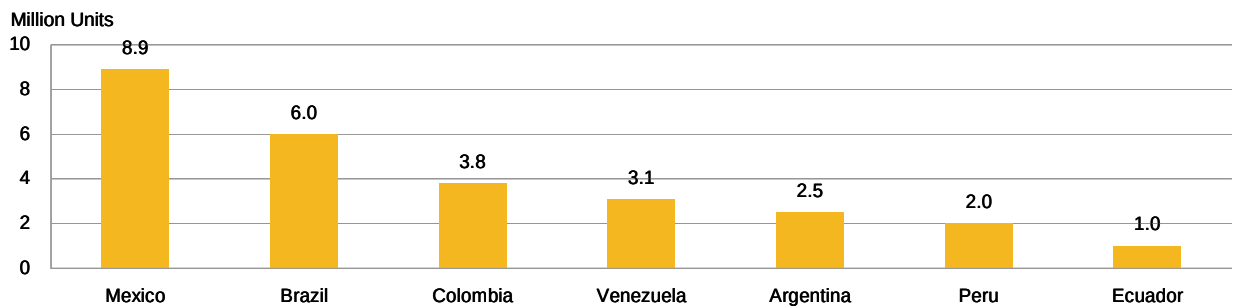
PVC Consumption per Capita

Kg/Person



Unlike mature markets such as the United States and Western European chlor-alkali and PVC industries, our key end-markets enjoy attractive infrastructure and construction growth prospects related to high housing deficits, particularly in Argentina, Brazil, Colombia, Mexico and Venezuela, according to the Statistic & Census Bureau figures from each country. The chart below indicates the housing deficit, in millions, by country.

Housing Deficit



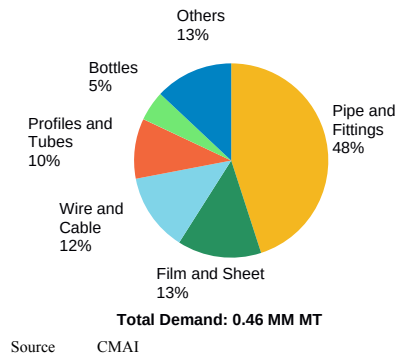
Source: Statistic & Census Bureau figures from each country – 2011, Various government reports

PVC resin growth is generally a function of GDP in each end market, however, consumption metrics can vary in emerging economies. In many South American countries, such as Brazil and Colombia, it is common to find PVC resin growth rates equal to two times GDP growth.

The largest single use of PVC in Mexico, Brazil, Colombia, and South America as a whole is in the production of pipes and fittings, as indicated in the table below. In 2011, this end-use accounted for 48%, 43%, 42% and 37% of PVC applications in Mexico, Brazil, Colombia and South America as a whole.

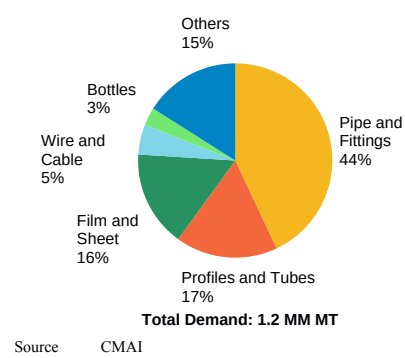
2011 PVC Consumption

Mexico



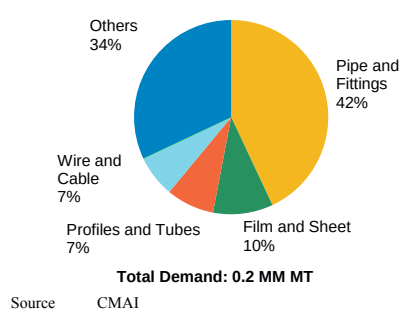
2011 PVC Consumption

Brazil



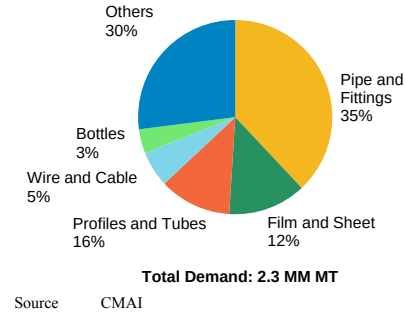
2011 PVC Consumption

Colombia



2011 PVC Consumption

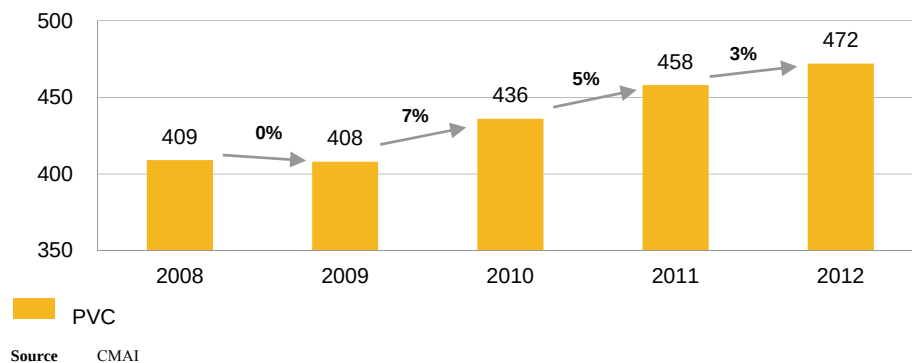
South America



In Mexico, the average demand for PVC, from 2008 to 2012, has grown at 3% per year, as indicated in the table below.

Historical PVC Demand—Mexico

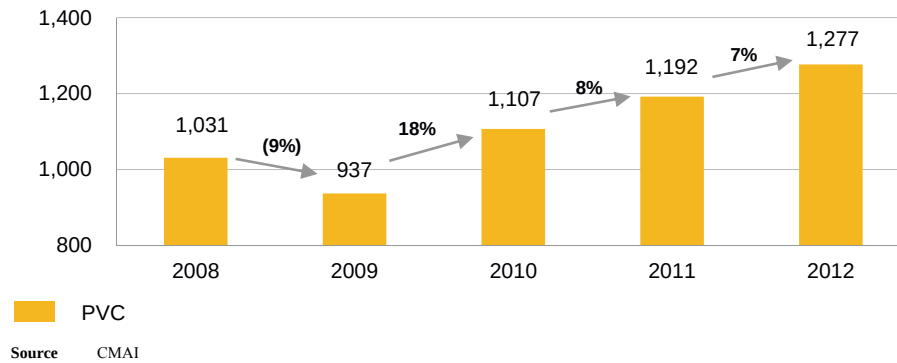
PVC (thousands of metric tons)



In Brazil, PVC demand from 2008 to 2012 has grown at an average annual rate of 5%, as indicated by the table below. Infrastructure and housing have been the drivers of this growth. During 2011, demand grew by 8%, also driven by demand from these sectors.

Historical PVC Demand—Brazil

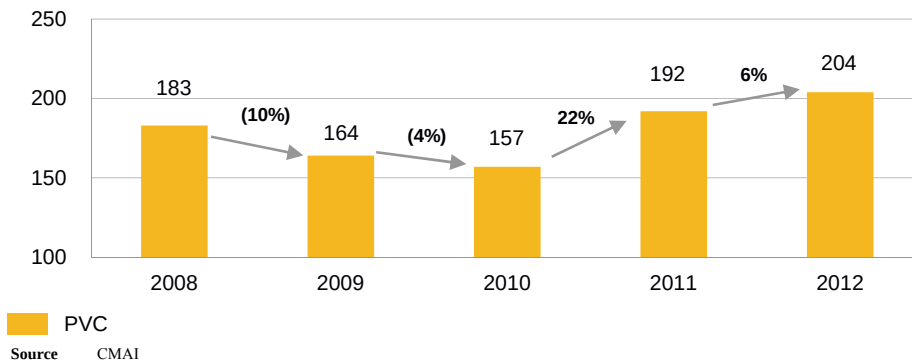
PVC (thousands of metric tons)



In Colombia, PVC demand from 2008 to 2012 grew at an average annual rate of 2%, as indicated by the table below. Infrastructure and housing have been the drivers. During 2011, demand grew by 22%, also driven by demand from these sectors, despite a challenging economic environment worldwide.

Historical PVC Demand—Colombia

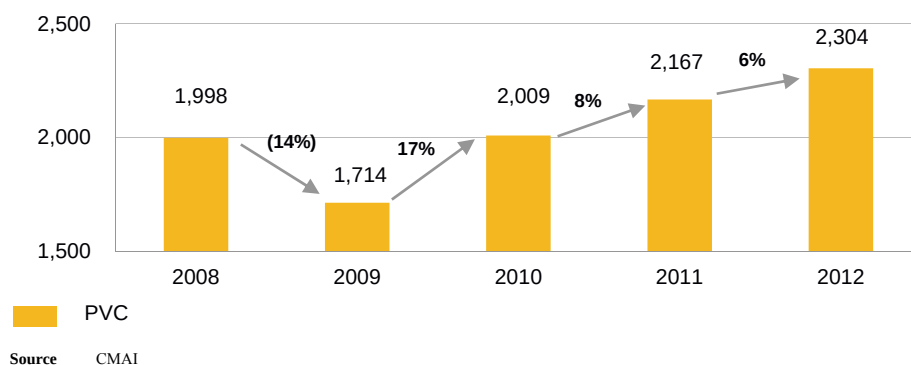
PVC (thousands of metric tons)



As a whole, South America is a very strong market in terms of demand for PVC. Demand between 2008 and 2012 grew at an average annual rate of 3%, as indicated in the table below. Infrastructure and housing have been the drivers of this growth. During 2011, demand grew by 8%, also driven by demand from these sectors, despite a challenging economic environment worldwide.

Historical PVC Demand—South America

PVC (thousands of metric tons)

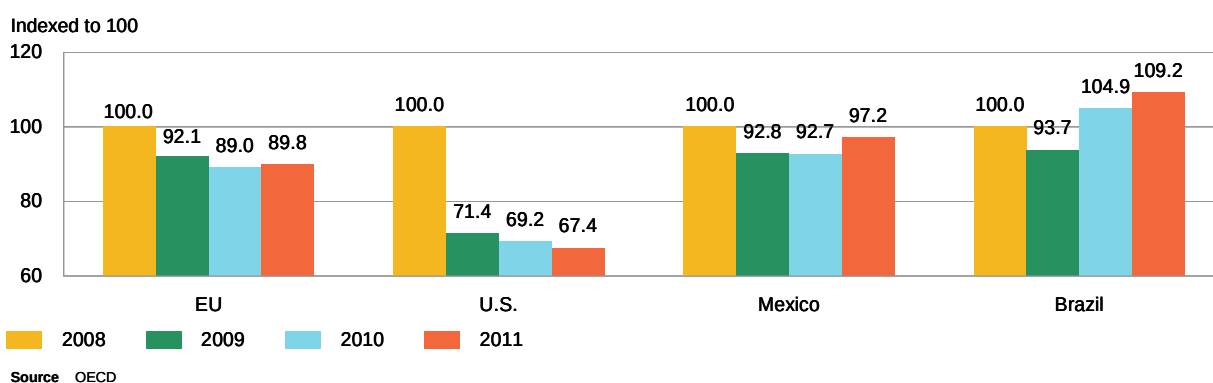


As previously mentioned, the housing industry has recently experienced significant growth. For example, during the last few years, Mexico's housing industry has grown at an average rate of approximately 2.7% per year, according to North America IHS CMAI Analysis. Other countries such as Brazil, Colombia, Venezuela and Peru, where government policies are promoting the reduction of the housing deficit, have experienced similar trends, thereby providing us with opportunities to increase PVC penetration in the region.

The plastic pipe industry supplies plastic pipes, fittings and related products for a variety of applications in commercial construction and infrastructure. The primary input is PVC resin, which is molded to create pipes of various sizes to meet customer specifications.

PVC pipe demand is highly correlated with construction and infrastructure industry growth, which are two industries that are expected to expand substantially in Latin America in future years, particularly in Mexico as described below. In the developed economies, especially in Europe, construction activity has stabilized since the decline from peak levels in 2008 and therefore the demand for building materials is expected to re-emerge from recent lows. In addition, growth is expected in the form of plastic pipe replacements for existing copper, concrete, clay, or iron installations.

Total Construction ⁽¹⁾

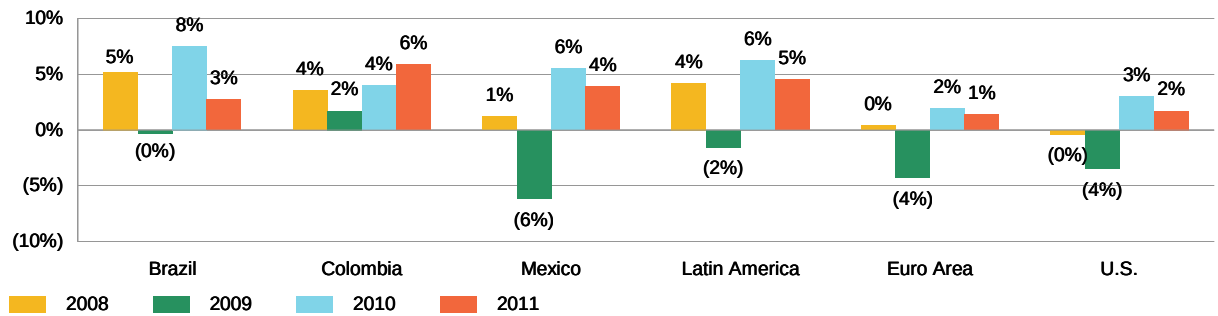


1. OECD Total Construction data indexed to 2008

In addition, the overall demand for PVC is also dependent on GDP growth in key markets. On average, as indicated by the table below, from 2008 to 2011, the Mexican economy grew 1%, the Brazilian economy grew 4%, the Colombian economy grew 4%, and Latin America as a whole grew 3%. During 2011, the Mexican economy grew 4%, the Brazilian economy grew 3%, the Colombian economy grew 6%, and Latin America as whole grew 5%. Mexico and Colombia were significantly affected by the global economic crises, as these countries have strong commercial ties with the United States, whose economy grew by a modest 2% in 2011. Brazil, which has a diverse

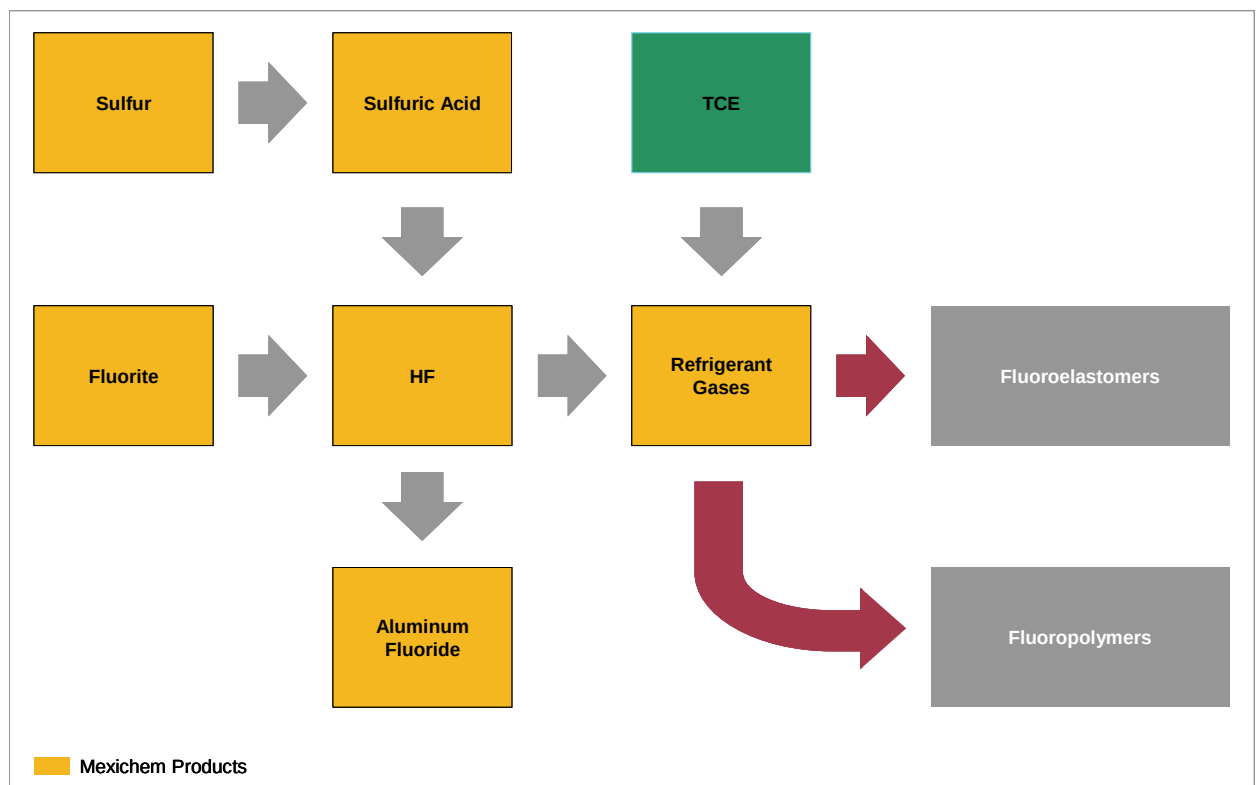
base of countries to which it exports and a balanced commodity-based economy, fared better during the economic crisis, managing to grow 8% in 2010 and 3% in 2011.

Annual % GDP Growth



Fluorochemicals

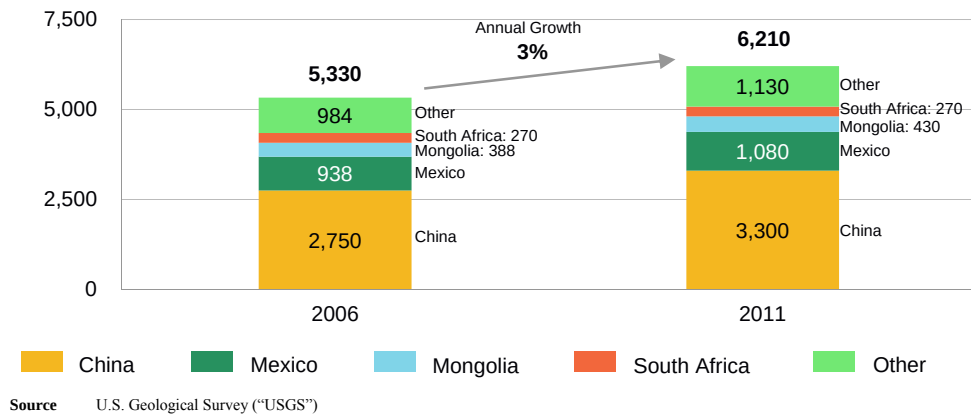
Fluorochemicals are compounds containing the chemical element fluorine, which obtained through the mining and processing of fluorite. Fluorochemicals are used in gas coolant, fluoropolymers and fluoroelastomers.



In 2011, world production of fluorspar was 6.2 million metric tons according to U.S. Geological Survey (USGS). World fluorspar production has grown at an average annual rate of 3% from 2006 through 2011.

World Fluorspar Mine Production

(thousands of metric tons)



In 2011, the leading fluorspar producing nation was China, which accounted for 53% of world production in 2011. The majority of fluorspar is consumed in the production of hydrofluoric acid, followed by use for aluminum smelting and steel manufacturing. Fluorspar consumption between 2008 and 2011 has declined in the United States, Europe and Japan, but has grown in China and Mexico, the largest sources of the world's supply of fluorspar. The majority of the world's fluorspar production has become concentrated in China, followed by Mexico, Mongolia and South Africa, which together contributed an additional 81% of world production in 2011.

The majority of China's fluorspar production is generated by approximately nineteen enterprises. Historically, the majority of China's fluorspar production was exported primarily to Japan, followed by the United States and Western Europe. In the past ten years China has increasingly added further value to acid-spar through the production of downstream products such as hydrofluoric acid, fluorocarbons and fluoropolymers rather than exporting the mineral.

The world's largest fluorspar producing company is Mexichem, which has about 91% of Mexico's active fluorspar production capacity, approximately equal to 17% of the world's current supply of fluorspar. Mexico's acid-spar is used in the production of hydrofluoric acid, or HF, in Mexico and in additional domestic markets, with most of the balance exported to the United States. Mexico also supplies met-spar to the export and domestic markets and fluorspar with lower concentrations of calcium fluoride to the cement industry in Mexico and export markets.

As mentioned above, HF is the most important chemical derived from fluorspar. Most of the world's HF production capacity is in China, followed by North America and Western Europe.

World Hydrofluoric Acid Production (thousands of metric tons)

	2006	2011	Annual Growth %
China	451	543	4%
North America	358	376	1%
Europe-27	255	241	(1%)
Other Asia	95	103	2%
Rest of the world	58	83	7%
Total	1,217	1,345	2%

Source: Roskill 2011 Fluorspar presentation – Johannesburg, South Africa

The largest HF producing company is Honeywell, which has the majority of its capacity in the United States. Mexichem Fluor is the world's second-largest producer of hydrofluoric acid with production in Mexico as well in UK. Solvay is the world's third-largest producer of hydrofluoric acid, with production in Germany as well as in Italy and Mexico. Most of Mexichem Fluor's production is exported to the United States where it is consumed in fluorocarbon production and other applications.

Global Fluorochemicals Competitive Landscape⁽¹⁾

	Fluorspar		Hydrofluoric Acid		Fluorocarbons		Fluoropolymers		Fluoroelastomers	
	Rank	Capacity	Rank	Capacity	Rank	Capacity	Rank	Capacity	Rank	Capacity
Mexichem	#1	1,000	#2	135	#9	108				
Solvay			#4	104	#7	121	#3	25	#4	5
DuPont			#5	88	#2	252	#1	61	#1	8
Honeywell			#1	192	#4	145	#23	2		
Daikin			N/A	16	N/A	84	#2	28		
Arkema			N/A	10	#3	224	#6	16	#5	4
Dongyue			#6	80	#1	277	#5	23		

1. Total capacity (KMT)

In the late 1990s and early 2000s the use of fluorocarbons in refrigeration began to decline in European and Japanese markets, in response to greenhouse gas reduction goals as proposed under the Kyoto Protocol. Between 2002 and 2006, the world production of the Hydrofluoric acid was increased by 9% per year due to the investment in additional Hydrofluoric acid plants promoted by Chinese Government as well the production of the new generation of refrigerants, but the rate of the growth has since slowed to 2% per year worldwide between 2006 and 2011. In 2011, world hydrofluoric acid consumption was increased due economic reactivation. Greater production of more fluorine intensive chlorofluorocarbons (CFC) alternatives demanding more HF is responsible for the increase in HF consumption in the United States, while Kyoto Protocol motivated reductions in fluorocarbon consumption and production are causing declines in HF consumption in Western Europe and Japan.

BUSINESS

Mexichem

We are one of the largest chemical companies in Latin America based on average annual production capacity and net sales and the leader in plastic pipes and solutions in Europe. We produce a diverse portfolio of chemical products in our 98 plants, which are strategically located in 39 countries across Latin America, the United States, Canada, Japan, Taiwan, China, the United Kingdom, and 24 other European countries and we sell products in approximately 50 countries. We are the largest producer of pipes in Europe and Latin America, the largest producers of polyvinyl chloride, or PVC, resin in Latin America and one of the largest producers of chlorine and caustic soda in Latin America, according to CMAI. We have the largest production capacity for hydrofluoric acid in the world in addition to the world's largest fluorspar mine, according to SRI Consulting, making us the only fully-integrated hydrofluoric acid producer in the Americas.

Our principal products include PVC resin and pipe, fluid transportation solutions, chlorine, caustic soda, fluorspar and hydrofluoric acid, aluminum fluoride, phosphates and coolants, which are widely used in the construction, housing, infrastructure, agriculture, potable water, sewage, irrigation, coolants and air conditioning industries. In Latin America in 2011, we had an approximate 43% market share in the sale of PVC resin and an approximate 31% market share in the sale of PVC pipes, based on market studies from CMAI, WVA and ANIQ. In addition, we have a leading market share in several European countries, such as Belgium, Czech Republic, Denmark, Germany, Hungary, the Netherlands and Poland. In 2011, our net sales, excluding intracompany sales, were Ps. 47.3 billion (US\$3.8 billion), which represents an annual increase of 34.4%. In 2010, our net sales, excluding intracompany sales, were Ps. 35.2 billion (US\$2.8 billion) and in 2009, our net sales, excluding intracompany sales, were Ps. 29.8 billion (US\$2.2 billion). In 2011, our consolidated EBITDA was Ps. 10.3 billion (US\$826 million), which represents an annual increase of 26.4%. In 2010 our consolidated EBITDA was Ps. 8.1 billion (US\$643 million) and in 2009, our consolidated EBITDA was Ps. 6.1 billion (US\$457 million). Wavin's net sales in 2011 were €1.3 billion and its EBITDA was €98 million, approximately equivalent to US\$1.7 billion and US\$127 million, respectively.

In recent years, we have secured a strong competitive position and market share throughout Latin America, North America and in European and Asian markets both as a result of organic growth as well as acquisitions focused on expanding and vertically integrating our production processes. Our growth strategy is designed to be accretive to the main raw materials we produce. We have proven experience in integrating and operating acquired companies. We have made six acquisitions since December 31, 2009, most recently the acquisition of AlphaGary, a manufacturer of compounds, in 2011, the acquisition of Fluorita de México, including mineral concessions from the Las Sabinas mining unit, in the first quarter of 2012 and the acquisition of Wavin, a manufacturer of PVC pipes and resin headquartered in the Netherlands, during the second quarter of 2012.

Our business consists of three operating divisions:

- *Chlorine-Vinyl Division.* This division consists of three manufacturing processes: (i) the chlor-alkali process, which produces chlorine, caustic soda, sodium hypochlorite and phosphate; (ii) the vinyl process, which produces PVC resins; and (iii) the compounds process, which produces PVC compounds. Our Chlorine-Vinyl Division had net sales of Ps. 23.0 billion (US\$1.9 billion) in 2011 and Ps. 12.4 billion (US\$934 million) for the six months ended June 30, 2012, which accounted for approximately 48.6% and 41.2% of our consolidated net sales in those periods, respectively. We own rights to the largest salt dome in Mexico according to the *Cámara Minera de México*, or the Mexican Mining Chamber, with over 40 years of proven reserves, and we operate modern chlorine, caustic soda and PVC resin and compound production facilities.
- *Integral Solutions Division.* This division produces pipes and pipe systems for the conveyance of fluids, mainly water, surface heating and cooling systems and water treatment systems, as well as PVC compounds manufactured primarily to meet the demands of the construction and agriculture industries. Beginning in May 2012, Wavin was consolidated into our Integral Solutions Division. Our Integral Solutions Division had net sales of Ps. 18.8 billion (US\$1.5 billion) in 2011 and Ps. 14.1 billion (US\$1.1 billion) for the six months ended June 30, 2012, which accounted for approximately 39.7% and 46.8% of our consolidated net sales in those periods, respectively.

- Fluorine Division.** This division consists of three manufacturing processes: (i) the fluorspar process, which is the raw material used in the production of all fluorinated products, which in turn are used in the cement, ceramics, steel and glass industries. This division includes the mining concession to the world's largest fluorspar mine with installed annual production capacity of approximately one million tons and approximately 17% of global production in 2011, and proven reserves of 50 million tons for the next 49 years according to the 2011 SRI report; (ii) the hydrofluoric acid process, which encompasses the production of hydrofluoric acid, which is a principle source of fluorine and a chemical precursor to numerous pharmaceuticals and plastics, and aluminum fluoride, which is used for the production of aluminum by electrolysis; and (iii) the gas coolant process, which is used in the pharmaceutical, automotive, air conditioning and refrigerant industries. Our Fluorine Division had net sales of Ps. 10.9 billion (US\$873 million) in 2011 and Ps. 6.5 billion (US\$485 million) for the six months ended June 30, 2012, which accounted for approximately 22.9% and 21.4%, respectively, of our consolidated net sales in those periods.

The following table sets forth our principal products sold in 2011, together with our market position and market share for each of these products by country.

Country/Region	Product	Position	% Market Share
Integral Solutions			
Brazil	Pipe	2	31
Mexico	Pipe	1	39
Latin America	Pipe	1	31
Argentina	Pipe	2	13
Baltics	Pipe	2	10
Belgium	Pipe	1	20
Colombia	Pipe	1	52
Costa Rica	Pipe	1	46
Czech Republic	Pipe	1	21
Denmark	Pipe	1	11
Ecuador	Pipe	1	57
El Salvador	Pipe	1	59
France	Pipe	2	13
Germany	Pipe	1	41
Guatemala	Pipe	1	37
Honduras	Pipe	1	34
Hungary	Pipe	1	30
Italy	Pipe	3	6
Netherlands	Pipe	1	29
Nicaragua	Pipe	1	39
Norway	Pipe	2	27
Panama	Pipe	1	33
Peru	Pipe	1	24
Poland	Pipe	1	22
Romania	Pipe	3	13
Sweden	Pipe	3	16
Turkey	Pipe	2	9
United Kingdom	Pipe	2	22
Venezuela	Pipe	1	29
Fluorine Division			
United States	Fluorspar (acidic)	1	64
United States	Fluorspar (metallurgic)	1	100
United States	Fluorocarbons	1	32
United States	Hydrofluoric Acid	1	61
Mexico	Fluorspar	1	100
United Kingdom	Fluorspar	1	30

Country/Region	Product	Position	% Market Share
Canada	Fluorspar (metallurgic)	1	79
Canada	Fluorspar (acidic)	1	38
Japan	Fluorspar (metallurgic)	1	79
Japan	Fluorocarbons	2	30
Chlorine-Vinyl Division			
United States.....	Compounds	8	7
Mexico	Chlorine	1	83
Mexico	Compounds	1	36
Mexico	PVC Resin	1	78
Mexico	Caustic Soda	1	54
Latin America	PVC	1	43
Colombia	Compounds	1	52
Colombia	PVC Resin	1	80

(1) Based on installed annual production capacity.

Source: CMAI, CMAI Chlor-Alkali market report, SRI and our internal analyses.

Competitive Strengths

We focus on creating value for our shareholders, customers and suppliers by continuously developing and improving our products and services, adding value from our basic raw materials through vertical integration to achieve superior results. Our principal competitive strengths include the following:

Vertically-integrated operations with direct access to raw materials that provide economies of scale and reduce operating expenses.

We are fully integrated throughout our major chemical product chains, from the core natural resource to the end consumer. We hold rights to the largest salt dome in Mexico with over 40 years of proven reserves, according to the Mexican Mining Chamber, and we operate modern chlorine, caustic soda and PVC resin production facilities. In addition, we have entered into agreements with Occidental Chemical Corporation Group, or Oxy, and Petróleos Mexicanos, or Pemex, for the supply of vinyl chloride monomer, or VCM, which provides us with a reliable and continuous supply at attractive prices, which will be supplemented by the co-investment between us and Pemex for the production of VCM. We are the only fully integrated hydrofluoric acid producer in the Americas. We hold the rights to the world's largest fluorspar mine, according to SRI, with over 50 million tons or 49 years of proven fluorspar reserves. With the acquisition of Ineos Fluor in March 2010, we became the largest hydrofluoric acid producer in the world, according to SRI, with capacity of over 190,000 tons per year.

Leading position in Latin-American and European PVC and plastic pipe markets, with strong growth prospects and indisputable global leadership within the Fluorine Division.

We are the largest producer of pipes in Europe and Latin America, the largest producer of PVC resin in Latin America and one of the largest producers of chlorine and caustic soda in Latin America, according to CMAI. We believe the infrastructure and construction industries in the markets for these products should experience sustained growth over the coming years. Mexico accounted for 35.4% of our consolidated net sales in 2011. Over the past three years, we have expanded our presence throughout the western hemisphere and as a result we now have production facilities in 10 countries in Latin America in addition to facilities in the United States, Canada, Japan, Taiwan, China, the United Kingdom and, as of May 2012, several European countries. Unlike the United States' and Western Europe's chlor-alkali and PVC industries, the principal markets for our products enjoy attractive infrastructure and construction growth prospects and are characterized by significant housing deficits, particularly in Argentina, Brazil, Colombia, Mexico and Venezuela, based on data from the World Economic Forum and its World Competition Report 2011-2012. We expect there will be continued demand for PVC and caustic soda in coming years throughout Latin America with growth rates more than doubling those in the United States or Western European markets, according to CMAI.

We believe we are also uniquely positioned as a key producer of fluorochemicals. We have a particularly strong market presence in Mexico and Canada, as the only provider of fluorspar. We hold the rights to the world's largest

fluorspar mine, with modern hydrofluoric acid production facilities and have well-established relationships with key market players. In addition, our proximity to the attractive U.S. end-market for fluorochemicals gives us a competitive advantage compared to our competitors. We typically enter into long-term, U.S. dollar denominated contracts with reputable international customers for the sale of the fluorspar and hydrofluoric acid we produce. We believe that our unique global position will permit us to explore opportunities in providing more value-added fluorinated products.

Strong track record of integrating and operating acquired companies throughout Latin America and Europe.

We have grown rapidly in recent years, having completed 19 acquisitions (for an aggregate of 75 acquired companies) since 2003. See “—Recent events.” The acquisitions completed in 2009 contributed Ps. 1,135.8 million and Ps. 19.3 million to net sales and EBITDA, respectively, which represented approximately 3.8% and 0.3% of total net sales and EBITDA for 2009; the acquisitions completed in 2010 contributed Ps. 3,783.1 million and Ps. 1,484.4 million to net sales and EBITDA, respectively, which represented approximately 10.7% and 18.3% of total net sales and EBITDA for 2010; and the acquisition completed in 2011 contributed Ps. 3,321.1 million and Ps. 428.0 million to net sales and EBITDA, respectively, which represented approximately 7.0% and 4.2% of total net sales and EBITDA for 2011. In addition, we completed the acquisition of Fluorita de México in the first quarter of 2012, which has proven reserves of 13 million tons of the highest purity fluorine, and in the second quarter of 2012, the acquisition of Wavin, a manufacturer of PVC pipes and resin headquartered in the Netherlands with 2011 net sales of €1.3 billion.

Our successfully completed acquisitions have contributed significantly to our net sales and EBITDA and placed us in a leading position in the industries in which we operate. In 2011, our net sales increased 34.5% and our EBITDA increased 26.4% compared to 2010. We have invested over US\$3.5 billion in acquisitions since 2003 and these acquisitions have generated approximately US\$1.0 billion of EBITDA over this period.

Strong relationships and long-term agreements with principal suppliers.

We operate under long-term supply agreements with Oxy and Pemex, for the procurement of VCM, which we use to make PVC. We believe these long-term supply agreements provide us with a reliable supply of VCM on attractive terms. Based on growth potential and market size, we have identified our most desirable markets and have entered into and expect to enter into strategic agreements with leaders in those markets providing us a distinct advantage over our competitors who do not have similar strategic arrangements.

Experienced management team with significant industry experience.

Our senior management team has significant experience in the Latin American chemicals industry, with an average of over 17 years of experience in the industry. We believe our senior management team has a proven track record of successfully operating in the industry and in particular in streamlining our operations and integrating new acquisitions to grow and strengthen our business.

Significant economies of scale with strategically located facilities that result in low-cost operations.

We benefit from significant scale in the global fluorine market because we (1) hold rights to the largest fluorspar mine in the world, according to the latest survey conducted by SRI in 2011 and with the acquisition of Fluorita de Mexico, we added reserves of 13 million tons of the highest purity fluorine, (2) have the world's highest hydrofluoric acid production capacity following the acquisition of Ineos Fluor in the first quarter of 2010, according to the latest survey conducted by SRI in 2011, (3) have established strong relationships with key market participants, (4) have become the world leader in fluorine chemical segment, especially in the production of gas coolants, and (5) maintain proximity to the U.S. fluorocarbons market. The Fluorine Division operates through long-term contracts denominated in U.S. dollars with international customers. We believe that our global scale should allow us to explore opportunities within the fluorochemical products industry with more added value, either through joint ventures with established producers, or through direct acquisitions. The Chlorine-Vinyl Division begins its process by extracting salt from its own mines to make PVC resin, which is the main raw material used in making pipes for our Integral Solutions Division.

Our raw materials base and production facilities are uniquely situated in geographically advantageous locations, allowing us to reduce our operating costs. We also own and operate a port terminal, which in addition to further reducing costs, provides us reliable access to export markets. Our salt dome and our chlorine, caustic soda and PVC

production facilities are located in proximity to the oil and gas rich Gulf of Mexico, while our fluorspar mine and hydrofluoric acid production facilities are located near the United States border and the Mexican gulf coast, providing us ready access to the United States, the most important fluorochemical market in the world. In addition, a significant portion of our downstream Integral Solutions production facilities are located within a reasonable distance of our PVC resin plants allowing us to capture incremental vertical integration economies of scale. Since 2009, we have invested approximately Ps. 386.8 million (US\$28.9 million) to construct and upgrade our facilities and equipment. Our EBITDA Margin for the year ended December 31, 2011 was 21.7% and we believe compares favorably to industry margins.

Record of innovation through research and development and proprietary production processes.

We are constantly conducting research and development. Our patented production processes provide a competitive advantage over global competitors. Our research centers in Mexico, the United States and the United Kingdom focus on developing new products and aligning processes to achieve safety and optimal production. Our development of a method for refining fluorine has allowed us to maximize the use of our fluorine mines in hydrofluoric acid production by treating raw fluorine with sulfuric acid. This innovation has reduced the annual cost of production of hydrofluoric acid by an estimated US\$50 million per year. We also have developed our own PVC technology for the production of resins. The benefits derived from our research and development efforts have resulted in quantifiable cost decreases in the production of PVC resin. Additionally, as a result of the acquisition of Wavin, we have gained access to new technologies and products developed by Wavin, with which we already had technology transfer agreements.

Strategy

Our business strategy emphasizes expanding our presence in new and existing markets through organic growth and acquisitions of companies that offer synergies, opportunities for vertical integration and that add value to our process of procuring raw materials. In pursuit of these objectives, we have implemented the following strategies:

Continue to increase focus on value-added products.

We will continue to focus on developing value-added products. We have developed a state-of-the-art process to purify fluorine from our mine at a significantly decreased cost in order to manufacture hydrofluoric acid, which is generally sold at ten times the average price of fluorine. Value-added products (principally pipes systems and compounds) accounted for approximately 53.3% of our consolidated net sales in 2011 and 55.5% in 2010. We will continue to leverage our competitive advantage in developing new and advanced production processes through Mexichem Research and Development Center, or Mexichem CID to develop new products geared towards addressing the needs of our customers and make them available through our extensive distribution networks in the markets we serve.

We will continue to develop and implement proprietary technologies and processes, which generate significant benefits for us and the industry as a whole. For example, we currently have proprietary technology for the production of PVC resin, PVC pipes, compounds, plasticizers and fluorspar purification. This technology allows us to produce a unique pipe that meets the requirements of most infrastructure projects, giving us an important competitive advantage. The improvements we have made to our fluorspar purification process have significantly changed the global hydrofluoric acid industry and positioned us as a leader in the space.

Focus on customer relationships.

We seek to be a leader in the markets we serve through the manufacture of high quality products at competitive prices. We intend to continue leveraging our scale and production efficiencies and our innovation through research to provide low-cost solutions for our customers. We will further develop long-term relationships with our customers through long-term contracts to encourage customer loyalty. We seek to expand our partnerships with new and existing customers by helping them develop new products. For example, we design custom-made products such as insulation for wire and cables with special applications, three gallon bottles and other materials used in construction, including window frames, laminated floor bases, sidings and shades, designed to meet the specific needs of our key markets. In addition, our customer service department provides our customers with technical assistance. By providing our clients with new products and customer service, we seek to generate new business and cultivate customer loyalty, which helps to generate sales during periods of lower demand.

Continue to focus on highly efficient operations, increased margins and reduction of volatility through acquisition opportunities that enhance our vertical integration strategy

We continue to pursue strategic acquisitions to improve our profitability by adding in-house production capabilities to our value chain wherever we believe it is advantageous to do so. We approach acquisitions with the goal of increasing each of our sales and EBITDA by 20% per year, while targeting a return on equity of 20%. The integration of our acquired entities has resulted in EBITDA margins of 22.8% for the six months ended June 30, 2012, compared to 21.7% as of December 31, 2011. We are continually evaluating acquisition opportunities that leverage our existing capabilities. We also intend to capitalize on our leadership position in the market segments in which we operate to continue to expand our operations and customer base by continuing to develop innovative, high-quality products that address our customers' needs.

Maintain a solid and agile financial structure.

We seek to maintain a solid and flexible financial base that will allow us to support our growth objectives. We seek to maintain a net debt to EBITDA ratio no greater than two to one. We have also secured credit lines in excess of one billion dollars. We continue to implement other financial strategies that will allow us to maintain the financial flexibility we require to continue to execute our growth strategies.

Implement our business culture.

We are the result of 19 acquisitions since 2003 of 75 companies from different parts of the world, bringing diverse cultures, ways of thinking and different personalities and perspectives into our business. As such, we believe a unified business culture is important for obtaining our goals, for which we have established and disseminated among our companies our unique mission, vision and values as part of our unified culture such that our employees are not only aware of our mission, vision and values, but they may apply them in their daily routines.

Commitment to social and environmental responsibility.

We will continue to focus not only on our economic development, but on our commitment to social and environmental sustainability. As part of this, we have established our Global Reporting Initiative, or GRI, as a way to evaluate and establish goals and work programs to pursue this joint commitment. In 2011, we obtained an "A" rating in our GRI, the highest rating the company can achieve under this initiative. The audit by Deloitte of our GRI initiative confirmed this result and further conferred a "+" distinction for our efforts. We believe we are among the few companies in the world in this sector that not only fulfill their social and environmental responsibility, but do so with the greatest level of commitment.

Recent Acquisitions

The following table sets forth our acquisitions carried out since 2009 together with the installed capacity and sales volume (in nominal pesos) for each company for 2011 and the six months ended June 30, 2012.

Date of acquisition	Company	Product	Operating Division	Annual installed production capacity (tons)(1)	Net sales in 2011 (Millions of Mexican pesos)	Net sales in the six months ended
						June 30, 2012 (Millions of Mexican pesos)
January 26, 2012	Fluorita de México	Fluorspar	Fluorine	120,000	354	256
May 23, 2012 (2)	Wavin	Pipe	Integral Solutions	620,000	22,979	10,789
January 7, 2011	AlphaGary	Compounds	Chlorine-Vinyl	120,000	3,373	2,070
May 31, 2011	Kawasaki Plant	Gas Coolants	Fluorine	497	0	44
March 31, 2009	Tubos Flexibles	Pipe	Integral Solutions	37,000	607	338
January 2010	Plastisur SA	Pipe	Integral Solutions	9,720	155,613	86,355
March 2010	Mexichem Fluor UK	Gas Coolants	Fluorine	38,150	2,909	1,328
March 2010	Mexichem Fluor USA	Gas Coolants	Fluorine	3,900	3,266	1,750
March 2010	Mexichem Fluor Japan	Gas Coolants	Fluorine	26,100	2,182	1,066
March 2010	Mexichem Fluor Canada	Gas Coolants	Fluorine	Commercialization	105	81
October 2010	Policyd, SA de CV	Resins	Integral Solutions	182,380	2,367	1,236
October 2010	Plásticos Rex	Pipe	Integral Solutions	55,000	903	503

(1) Includes all products, accordingly.

(2) We acquired Wavin pursuant to an all-cash tender offer whereby our total shareholding came to 87% on May 7, 2012 pursuant to an initial tender offer, after which we acquired an additional 11% on May 23, 2012 from a subsequent offer during post-acceptance period, for total

holding of 98%. As of June 30, 2012 we held 99.28% of Wavin. Peso amounts presented above with respect to Wavin were converted from euros at a rate of Ps. 17.20315 per €1.00.

For amounts invested in these acquisitions since 2009, see “Business—Subsidiaries.” Other recent acquisitions and joint ventures by division include:

Chlorine-Vinyl Division

AlphaGary Acquisition

With an emphasis on obtaining important synergies through leveraging our distribution channels, geographic diversification, vertical integration, product development and compound manufacturing, on January 7, 2011, we acquired AlphaGary from Rockwood Specialties Group, Inc. AlphaGary focuses on the production of compounds for different industry sectors, including the medical, the electrical cables and construction industry segments. AlphaGary operates facilities in the United States and the United Kingdom. This acquisition, which is downstream of our PVC resin manufacturing capabilities, strengthens our presence in the compounds market and we expect it will enhance our research and development efforts in the compounds process of our Chlorine-Vinyl Division. The acquisition cost was approximately US\$322 million.

Pemex/Mexichem Joint Venture

On November 4, 2011, we announced that the Mexican Federal Competition Commission authorized a joint venture between Pemex and Mexichem for US\$556 million (the aggregate contribution of both entities) which will form a new company to produce VCM in Mexico with a goal of exponentially increasing VCM production from 24 tons in its first year of operation, to 146,000 tons in the second year and 217,000 tons in the third year. We expect to commence this joint venture in 2012. We will have a 60% share in this joint venture and expect to invest approximately US\$100 million in 2012 and US\$100 million in 2013, which we intend to fund with cash flows from operations.

Oxy/Mexichem Joint Venture

On August 16, 2012, we entered into a memorandum of understanding with Oxy to evaluate the creation of a joint venture to build a “cracker” based on ethane, which would produce approximately 500,000 tons of ethylene per year. Oxy will use nearly all of the ethylene produced at this plant, to be located in Ingleside, Texas, to produce approximately one million metric tons of VCM, which we would purchase under a long-term supply agreement. Pursuant to the memorandum of understanding, Oxy and we would each hold a 50% interest in the joint-venture. We will not make any investments in 2012 while certain basic engineering studies are being performed, but we expect to invest in 2013, with a projected investment of approximately US\$150 million in 2013, which we intend to fund with cash flows from operations.

With the agreement described above and the joint venture with Pemex, we intend to secure our supply of VCM for our PVC plants. We expect that the feasibility study and basic engineering for the construction of the ethylene “cracker” will be ready for final review during the second quarter of 2013. If we decide to proceed, we expect the ethylene plant to begin operating in 2016, which will provide for additional vertical integration in our Chlorine-Vinyl Division through direct access to the production of one of the main raw materials for this division, and improve our competitive position in the manufacture of PVC products. This agreement is still subject to final approval.

Integral Solutions Division

Wavin

In May 2012, we completed the acquisition of Wavin, the leading supplier of plastic pipe systems and solutions in Europe. Wavin produces and distributes plastic pipe systems and solutions for tap water, surface heating and cooling, soil and waste, rain and storm water, distribution of drinking water and for gas and telecom applications. Wavin is headquartered in Zwolle, in The Netherlands, and is present in 25 European countries, employs approximately 6,000 people and reported total revenues of €1.3 billion for 2011. Outside of Europe, Wavin has a global network of agents, licensees and distributors. In an all-cash tender offer and subsequent post-acceptance

period, we acquired 98% of Wavin's total issued and outstanding share capital at a total acquisition cost of €526 million, financed through cash from operations and existing credit facilities.

Fluorine Division

New Plant in Kawasaki, Japan

On May 31, 2011 Mexichem Fluor Japan, Limited purchased a gas coolant plant located in Kawasaki, Japan from Showa Denko, K.K. The plant began operations in November 2011 and has a capacity of 5,000 tons per year. This acquisition represents a significant step in our strategy to accelerate our growth and market position in the gas coolant market and is complemented by our capacity expansion in the United Kingdom. The acquisition cost was US\$26 million, which was financed through a bank loan.

Acquisition of Fluorita de México

On January 26, 2012, we acquired Fluorita de México from Corporación Amati, S.A. de C.V., which contributes to our fluorspar production capacity, turning out fluorspar with the highest purity level in the world, which we expect will ensure our fluorspar raw materials supply for our United Kingdom operations. The Fluorita de México mine, located in Múzquiz, Coahuila in Northern Mexico, has proven reserves in excess of 13 million tons and has over 40 years of estimated production and an annual extraction capacity of 120,000 tons. The approximate value of the acquisition was US\$75 million.

Chlorine-Vinyl Division

In our Chlorine-Vinyl Division, we produce chlorine, caustic soda, chlorine derivatives and PVC resins. In order to produce these products, we extract salt from our salt dome, combine the salt with water and apply an electronic current to this mixture in order to obtain chlorine and caustic soda. Chlorine derivatives combined with ethylene produce VCM. We supply chlorine to Oxy and Pemex, among others, pursuant to long-term supply contracts, for use in the production of VCM, which is in turn supplied to us for use in the production of PVC resin. PVC resin can be combined with other additives to manufacture value-added products such as compounds, pipes and sidings.

Our Chlorine-Vinyl Division consists of 16 sites operating in Mexico, Colombia, the United States and the United Kingdom engaged in the production of vinyl resins, compounds and various chlorine and caustic soda derivatives. All of our sites are in compliance ISO-9001 quality management standards, nine of them are certified under ISO-14001 environmental management standards, and two have OHSAS 18001 accreditation in security. Our plants are part of the international initiative within the chemical industry known as Responsible Care, complying with stringent standards for safety, health and protection of the environment throughout the manufacturing life cycle.



Our Chlorine-Vinyl Division consists of the following subsidiaries:

- Mexichem Derivados, S.A. de C.V. and Mexichem Derivados Colombia, S.A. de C.V., which produce chlorine, caustic soda and specialized chlorinated products as sodium hypochlorite, ferric chloride and other specialty chemicals;
- Mexichem Resinas Vinilicas, S.A. de C.V. and Mexichem Resinas Colombia, S.A. de C.V., Latin American leaders in the production of PVC resins;
- Quimir, S.A. de C.V., a producer of industrial and food phosphates,
- Mexichem Compuestos, S.A. de C.V., and

- AlphaGary Corporation, a compound manufacturer.

We have recently made the following acquisition:

- *AlphaGary*. In January 2011, we acquired AlphaGary from Rockwood Specialties Group, Inc. AlphaGary focuses on the production of compounds for different industry sectors, including for the medical industry, the electrical cables industry and segments of the construction industry. AlphaGary operates facilities in the United States and the United Kingdom.
- *Fluorita de México*. In the first quarter of 2012, we completed the acquisition of Fluorita de México, which produces some of the purest fluorspar in the world. We expect this acquisition to ensure our fluorspar raw materials supply for our United Kingdom operations. The Fluorita de México mine has proven reserves in excess of 13 million tons and has annual extraction of 120,000 tons.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Growth through acquisitions” for more detailed information.

In 2011, our Chlorine-Vinyl Division had net sales of Ps. 23.0 billion (US\$ 1.8 billion) and EBITDA of Ps. 3,949 million (US\$296 million), a 47.3% and 43.7% increase, respectively, from 2010. In 2011, our Chlorine-Vinyl Division contributed 48.6% of our net sales and 38.4% of our EBITDA. In 2010, our Chlorine-Vinyl Division contributed 44.1% of our net sales and 33.8% of our EBITDA.

For the six months ended June 30, 2012, our Chlorine-Vinyl Division had net sales of Ps. 12.4 billion (US\$1.0 billion) and an EBITDA of Ps. 2.3 billion (US\$171.5 million), a 7% and 18% increase, respectively, from 2011, contributing 41.2% of our net sales and 32.5% of our EBITDA.

Sales

The following table shows the production and sales volumes of our Chlorine-Vinyl Division during 2011, 2010, 2009 and the six months ended June 30, 2012 and 2011.

Chlorine-Vinyl Division(1)	Six months ended June 30,		Year ended December 31,		
	2012	2011	2011	2010	2009
Volume (in thousands of tons).....	1,039	1,064	2,045	1,787	1,716
Net sales (2).....	12,433	11,543	23,016	15,533	14,696
EBITDA	2,354	2,001	3,949	2,749	2,568
EBITDA margin (%) (3).....	18.9	17.3	17.2	17.7	17.5

(1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.

(2) In millions of Mexican pesos

(3) EBITDA margin represents the EBITDA for our Chlorine-Vinyl Division divided by the net sales for that division.

Chlor-Alkali Manufacturing Process

Products

We have five chlor-alkali facilities in Mexico and Colombia that produce chlorine, caustic soda, sodium hypochlorite, hydrochloric acid and potassium chlorate:

- **Chlorine** is used primarily in the production of long-life products including (1) vinyl products such as VCM, the raw material for the production of PVC, (2) titanium dioxide, a material principally used in the production of white paints; (3) whitened cellulose, which is used in the pulp and paper industry and in agrochemical products; and (4) water treatment and applications for potable water and the chemical industry generally.
- **Caustic soda** is used in a number of primary applications such as (1) the production of oils, soaps and detergents; (2) the reconstitution of ion-exchange resins used to treat water; (3) washing glass bottles; (4)

whitening of cellulose used in the pulp and paper industry; (5) the production of refined sugar, dyed cotton textiles, agrochemical products, grenetin and gelatin production, and cleaning products, among others; and (6) the refining of alumina for the production of aluminum.

- **Sodium hypochlorite** is used primarily (1) in the production of liquid bleaches; (2) as a disinfectant in the production of industrial catalyzers; (3) in water treatment and applications to make the water potable; and (4) to whiten and remove ink from paper, among other applications.
- **Hydrochloric acid** is used in (1) the production of high fructose used as a sweetener in the soda, candy and brewing industries; (2) the stripping of metal and wire production; (3) the production of medicines in the pharmaceutical industry; (4) the production of pigments and colorants; (5) the production of iron chloride used in the printing industry; (6) the production of plastic and rubber; and (7) in a number of applications in the oil and ceramic industries, among others.
- **Potassium chlorate** is used primarily in the production of matches and fireworks.
- **Industrial and food phosphate** is used principally for the manufacture of detergents, fertilizers, animal feed, ceramics, textiles, toothpastes, beverages, meats, dairy products, baked goods and for water treatment.

The following table shows the sales volume and net sales by product in the chlor-alkali manufacturing process during the periods indicated:

Product	Year ended December 31,					
	2011		2010		2009	
	Sales Volume(1)	Net Sales(3)	Sales Volume(1)	Net Sales(3)	Sales Volume(1)	Net Sales(3)
Chlorine	207	735	202	662	187	602
Caustic soda.....	233	1,418	209	1,017	195	1,486
Derivatives (2).....	336	1,786	439	1,846	444	2,213

(1) In thousands of tons.

(2) Derivatives include hypochlorite, hydrochloric acid and others.

(3) In millions of Mexican pesos.

Plants and mines

We own and operate the following plants as part of our chlor-alkali manufacturing process:

- **Coatzacoalcos (Veracruz).** Our Coatzacoalcos plant is the second-largest chlorine and caustic soda plant in Latin America, with installed capacity for the production of 715,000 tons per year of chlorine, caustic soda and chlorine derivatives, and 209 employees. Its strategic location allows for significant export activity and places it in close proximity to its largest customer, Pemex.
- **El Salto (Jalisco).** This plant serves Mexico's western and northeastern markets with an installed annual capacity of 285,000 tons of chlorine, caustic soda, sodium hypochlorite and hydrochloric acid, and has 97 employees.
- **Mexichem Colombia.** This plant, located in Bogotá, Colombia, produces sodium hypochlorite, iron chloride and other specialty products. It has an installed annual production capacity of 25,220 tons, including 1,920 tons of caustic soda, 1,700 tons of chlorine, 17,400 tons of sodium hypochlorite and 4,200 tons of iron chloride. It employs 55 individuals.
- **Mexichem Salinera del Sur.** This facility, located in Jáltipan, Veracruz, includes the largest salt dome in Mexico, with an annual production capacity of 628,000 tons of salt. This salt dome has proven reserves for an estimated period of approximately 40 years and supplies salt for our chlor-alkali manufacturing process.
- **Quimir.** Two plants located in Lechería and Tultitlan, State of Mexico, produce industrial and alimentary phosphates. The plants have an installed annual capacity of 164,000 tons and employ 183 individuals.

The following table shows the chlor-alkali manufacturing process' annual production capacity as of December 31, 2011, and annual production in 2011, 2010 and 2009, by principal product and plant:

Plant/Product	Installed Capacity	Year ended December 31,		
		2011	2010	2009
(sales volume in thousands of tons)				
Mexico				
Chlorine	296	207	202	187
Caustic soda.....	330	233	209	195
Derivatives(1).....	378	200	293	298
Mexichem Colombia				
Derivatives(1).....	20	36	28	33
Quimir				
Phosphates	167	99	118	113

(1) Hypochlorite, hydrochloric acid and other.

Raw materials

The principal raw materials used in the chlor-alkali manufacturing process are electricity, salt and natural gas which accounted for 65%, 11% and 9%, respectively, of our cost of sales in 2011. In Mexico, we procure these raw materials from the Federal Electric Commission (*Comisión Federal de Electricidad*) and the CFE, Pemex and the National Water Commission (*Comisión Nacional de Agua*), or the CNA. In Colombia, we procure water from Aguas de Cartagena, natural gas from Ecopetrol and Chevron and electricity from Electricaribe, S.A. We purchase all our salt requirements from our subsidiaries Mexichem Salinera del Sur (which was merged with Mexichem Derivados 2011), which ensures a reliable and continuous supply for our plant operations.

Sales and distribution

We maintain long-term supply contracts for our chlor-alkali products with some of our principal clients. We have established sales programs to foster our customers' loyalty through volume-based discounts. These contracts are usually for a three- to five-year term and include a formula that calculates the sales price by reference to North American prices as quoted by CMAI and ICIS. Approximately 15% of sales of our chlorine and 60% of sales of caustic soda are made pursuant to these arrangements, and the balance is sold in the spot market at prices calculated by reference to the then-prevailing market price. In 2008, we entered into an agreement with Oxy, pursuant to which we sell our excess production of chlorine to Oxy who in turn sells us PVC resin, thereby reducing our sales of chlorine in the spot market and our exposure to volatility in the price of chlorine and ensuring the ongoing operation of our plants. See "— Vinyl Manufacturing Process — Competition."

Principal clients

Our clients in the chlor-alkali manufacturing process are engaged in: (1) the petrochemical, secondary petrochemical, agrochemical and pharmaceutical industries; (2) PVC and other plastics production; (3) manufacturing of soaps, detergents, bleaching agents for laundry and bathrooms, disinfectants for industrial and household use, cellulose and paper, matches, polyurethane and other polymers, hygiene and cleaning products for hospitals and for household use; and industries such as the water treatment, bottling and metal-mechanic industries.

Our principal client for chlorine in Mexico has been Pemex, though 2011 sales to Pemex represented less than 1% of our consolidated net sales. We produce a broad range of products and have a significant number of clients in a diversified client base.

Distribution Agreements

Our Chlorine-Vinyl Division sales are made directly to our clients, certain of whom are distributors who make direct purchases. As a result, there are no distribution agreements for these products.

Cyclicality

The chemical industry is impacted by changes in the international economy. Pemex, our principal client in our Chlorine-Vinyl Division, has been operating irregularly as it has been executing an installed capacity expansion, meant to improve its production capacity up to 100%. We are entering into a joint venture with Pemex for the production of VCM, which was authorized by the National Competition Commission (*Comisión Federal de Competencia*) in November 2011 and is expected to stabilize demand for our Chlorine-Vinyl Division products.

Competition

We maintain our leadership position in the domestic market and have managed to maintain comparable levels of competitiveness with U.S. producers, our main international competitors, through major investment and marketing of products with higher added value.

Long-running underperformance and maintenance-related shutdowns at Pemex's Pajaritos VCM plant (prior to entering into the agreement with Oxy) led to a decrease and suspension of VCM production, which reduced the demand for our chlorine, forcing us to engage in additional marketing efforts to sell our products in the North American market. However, as a result of our supply contract with Oxy, we will sell to Oxy any chlorine production that we are unable to sell in the Mexican market, allowing us to maintain current operating rates. Moreover, our joint venture with Pemex for the production of VCM will give greater certainty to the demand for the products of the chlor-alkali process and raw material supply for the Vinyl Process "see —Recent Acquisitions—Chlorine-Vinyl Division—Pemex/Mexichem Joint Venture."

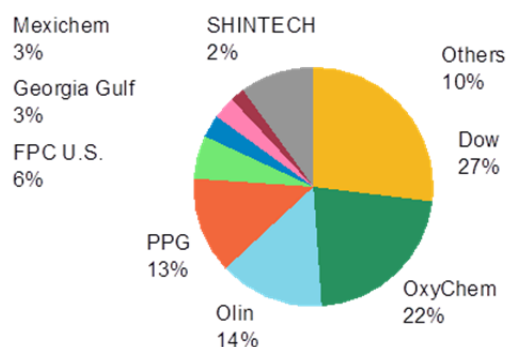
Market share

The following table shows our market share in Mexico for our principal chlor-alkali products in 2011 in terms of net sales and based on our internal data:

Product	Market Share
Chlorine	71%
Caustic Soda	43%
Phosphates	57%

The following charts show our share of the Mexican market for chlorine, caustic soda and phosphates during 2011:

North America Caustic-Soda Production



Our total capacity in the caustic soda market in North America is 13.6 million metric tons.

Caustic-Soda Market Share



Market Share by Volume



Source: Mexichem's market research, based on ANIQ's import-export market reports.

Our share of the international market for these products is not material since we only export our excess production.

Our main competitors in Mexico are Industria Química del Istmo, S.A. de C.V. and various U.S. producers in the northern Gulf of Mexico, including Oxy Vinyls, Inc., BASF Corp., E. I. du Pont de Nemours and Company and Pilone, Inc. In our phosphate business, our principal competitors worldwide are several companies located in China, Russia and Tunisia.

Vinyl Manufacturing Process

Products

The main products in the vinyl manufacturing process are PVC resins and PVC compounds used for the production of flexible and hard frames and flooring, all for the construction industry. We also produce PVC used for the production of upholstery, flexible and hard linings, bottles, containers and shoes, among others.

In the vinyl manufacturing process, we make:

- **PVC Resin** which is used in the manufacture of a variety of products, the majority of which are used in the construction industry, such as wire coating, window frames, and water pipes for potable and sewage water. PVC is also used in the manufacture of toys, balls, packaging, hoses, chairs and decorative items. Other products made with PVC resin are used in the medical area and include products for blood dialysis and catheters.
- **PVC Compounds** are used in the manufacture of wires, flexible frames, shoe insoles, for use in cars, production of window frames, sliding doors for closets, window blinds, hard pipelines, computer circuits, pipelines and bottles for vinegar and olive oil.

The following table shows the sales volume and net sales of PVC resin during the periods indicated:

Product	Year ended December 31,					
	2011		2010		2009	
	Sales Volume(1)	Net Sales(2)	Sales Volume(1)	Net Sales(2)	Sales Volume(1)	Net Sales(2)
PVC resin.....	1,042	11,814	790	8,814	766	7,792
Compounds.....	227	7,263	150	3,194	124	2,603

(1) In thousands of tons.

(2) In millions of Mexican pesos

Plants

We own and operate the following plants as part of our vinyl manufacturing process:

- **Altamira (Tamaulipas).** The Altamira facility is the largest facility of its kind in Latin America, with total annual capacity of 799,000 tons, including a PVC resin line with annual capacity for 292,000 tons for the production of suspensions, an additional 165,000 tons of resins, 171,000 tons for compounds, including 35,000 tons for phthalic acid and 76,000 tons for plasticizers. In addition, the plant has annual capacity for 60,000 tons for compounds. Altamira has a total of 607 employees.
- **Tlaxcala (Tlaxcala).** The Tlaxcala plant contains production lines with a combined annual capacity of 56,000 tons of PVC resins, including 34,500 tons for suspensions and 12,700 tons for emulsions. In addition, the plant has annual capacity for 13,500 tons for compounds. The size of its reactors and the design of its facilities enable it to produce specialty PVC resins. Tlaxcala has 111 employees.
- **La Presa.** This plant has an annual production capacity of 45,000 tons of PVC resins, with 151 employees.
- **Mexichem Resinas Colombia (Cartagena).** The Cartagena plant has annual capacity of 407,200 tons of PVC resins, including 320,000 tons for the production of suspensions, 53,700 tons for the production of emulsions, 33,500 tons for the production of specialties and 36,000 tons for the production of compounds. This plant has 168 employees.
- **Mexichem America Inc.** We have two plants in the United States, one in Leominster, MA and one in Pineville, NC. The Leominster plant has annual production capacity of 42,702 tons and nine production lines for PVC compounds, while the Pineville plant has an installed annual capacity of 39,400 tons in a total of seven production lines, which gives the plants significant flexibility for producing a wide range of compounds. The Leominster plant has 147 employees and the Pineville plant has 120 employees.
- **Melton Mowbray (United Kingdom).** This plant has annual capacity of 60,775 tons in a total of six production lines, which allows us to reach various markets in which PVC compounds are used. This plant has 121 employees.

The following table shows our vinyl manufacturing process' production capacity and production output as of December 31, 2011, and annual production in 2011, 2010 and 2009, by principal product and plant:

Plant/Product	Installed Capacity	Year ended December 31,		
		2011	2010	2009
	(thousands of tons)	(sales volume in thousands of tons)		
PVC resin.....	956	1,042	790	766
PVC compounds.....	252	227	150	124

Raw materials

The primary raw material used by the vinyl manufacturing process is VCM, which in 2011 accounted for 88.2% of the cost of sales for this process. We obtain the supply of this raw material by means of long-term agreements with CFE, Pemex, the municipal water company, Comapa, and in certain cases based on concessions for the exploration of our own water wells. We purchase our VCM requirements from Pemex, Dow Chemical and Oxy, which provide us with a reliable and continuous supply for the operation of our plants. The supply agreement we entered into with Oxy will provide us with a guaranteed, reliable source of our primary raw material for the production of PVC, at competitive prices, making it our primary supplier of VCM. This agreement also allows us to maintain our profit margins, decreasing the need to purchase VCM in the spot market.

The supply agreement with Oxy will also allow us to increase supply to Pemex in the joint venture we are forming with Pemex for VCM production, since as part of the agreement, Oxy has agreed to provide technical assistance to Pemex, which will allow Pemex to reach and maintain its production capacity. In addition, the joint

venture will ensure a better supply of the raw material for our vinyl production process, further integrating our Chlorine-Vinyl Division.

Sales and distribution

We have established sales programs to foster customer loyalty through long-term, volume-based discounts. These programs include a formula that calculates sales prices by reference to U.S. prices as quoted by CMAI and ICIS, as well as the price for VCM, thereby allowing us to maintain a constant spread between the price for VCM and PVC throughout different cycles. On the other hand, these agreements provide our clients with competitive prices and market conditions that can be compared to those available in the European Union. Approximately 70% of our sales of PVC resin are made pursuant to these arrangements, and the balance is sold in the spot market at prices calculated by reference to the then-prevailing market price. The demand for PVC is largely influenced by economic growth and, as a result, GDP is a strong indicator of our plant utilization rates. In developed markets, we have observed an almost direct relationship between production and GDP while in developing countries, the demand for PVC, when measured against GDP, can be multiplied by two, as developing markets represent greater growth potential.

Principal clients

The products produced in the vinyl manufacturing process are used to make pipes and connectors, rigid and flexible siding, upholstery, rigid and flexible films, bottles and containers, footwear, synthetic floors, blinds, laminated polystyrene, toys and medical products.

With the acquisition of Amanco in February 2007, our principal client in Brazil, we reduced our dependence upon significant clients while fulfilling our strategy of attaining vertical integration.

Cyclicality

We are the largest producer of PVC in Latin America. The PVC market is subject to significant fluctuations in demand as well as in price, both of which are influenced by changes in the world economy. The balance between world supply and demand of our product will continue to stabilize as new capacities are installed in Asia and North America. In 2009, Mexico registered a 6.5% decrease in GDP while the U.S. GDP decreased 2.4%. In 2010, Mexican GDP increased 5.5% and U.S. GDP increased 2.8%. In 2011, Mexican GDP increased 3.9% while U.S. GDP increased 1.7%.

Competition

Our strategy in the vinyl manufacturing process is to achieve vertical integration by investing in projects intended to ensure the competitiveness of our products in the Mexican and international markets. The products we produce compete in global markets, which are subject to fluctuations in supply and demand that may affect our profit margins even at efficient operating levels for our plants. In 2001, our vertical integration strategy allowed us to consume a large percentage of intermediate products for final processes, reducing the impact of a decrease in commodity prices.

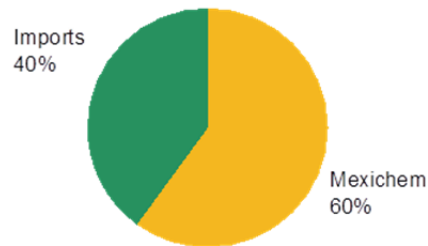
Our supply agreement with Oxy, the co-investment with Pemex and the acquisition of Policyd, an important producer of resins in Mexico, have all contributed to a decrease in competition in the production and sale of PVC.

Market share

In 2011, our market share in PVC resins was 60% in the Mexican market, as indicated in the graph below:

PVC

Mexico Market Share

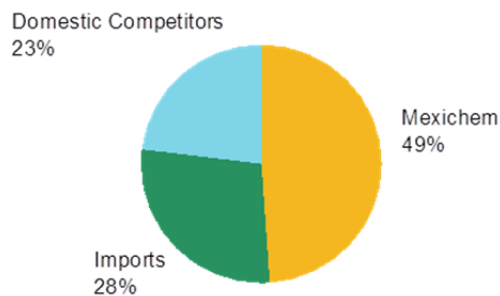


The total market capacity is 425,495 metric tons.

Set forth below is information about our market share in the compounds market, phthalic acid and plastics, which have a total capacity of 106,889 metric tons, 57,504 metric tons, and 75,556 metric tons, respectively.

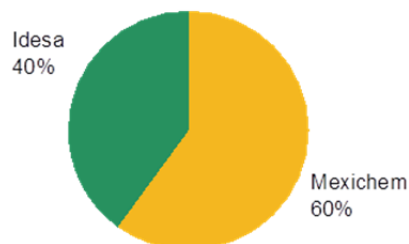
Compounds

Domestic Market



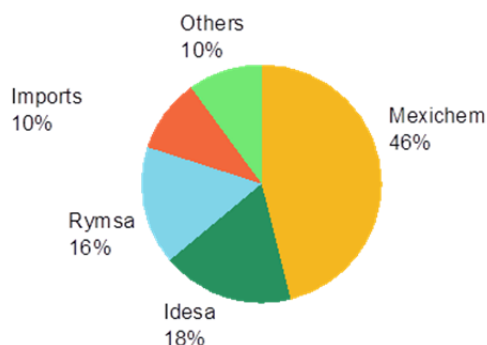
Phthalic Acid

Mexico Market Share



Plasticizers

Mexico Market Share



Source: Mexichem estimates based on public information.

Our main competitors in the Mexican PVC market are Shintec, Formosa, Oxy Vinyls, Inc. and Georgia Gulf. Our market share in the Colombian market is 80.2% and our main competitors in Latin America are Solvay Fluorides, Inc., Braskem S.A., Petroquímica de Venezuela, S.A. As shown in the following table, in 2011, we were the 11th largest producer of PVC in the world.

World Polyvinyl Chloride Producers by Company – 2011 Average Annual Capacities

Rank	Company	Capacity (in thousands of metric tons)	Share (% of total)
	Shintech	2,360	4.64
	Inner Mongolian Huanghe Chemical Group	1,950	3.83
	Xinjiang Shihezi Zhongfa Chemical.....	1,810	3.56
	Oxy Vinyls LP	1,398	2.75
	INEOS Chlor Vinyls.....	1,373	2.70
	FPC EU.....	1,258	2.47
	Solvin.....	1,225	2.41
	Tianjin Dagou	1,128	2.22
	Shin-Etsu Chemical	1,000	1.97
	Georgia Gulf.....	977	1.92
	Mexichem	960	1.89
	Hanwha Chemical.....	955	1.88
	FPC	946	1.86
	LG Chem	895	1.76
	Vinnolit.....	800	1.57
	Westlake	760	1.49
	Reliance Industries.....	650	1.28
	Arkema	610	1.20
	Thai Plastic	600	1.18
	Shanxi Ruiheng Chemical	570	1.12
	Taiyo Vinyl.....	560	1.10
	Kaneka Corp	550	1.08
	Solvay Indupa	540	1.06
	Braskem	519	1.02
	Yibin Tianyuan Co.	500	0.98
	Henan Hengtong Lianchuang	450	0.88
	Total.....	25,344	49.82

Source: CMAI

Integral Solutions Division

Our Integral Solutions Division integrates our products and increases our contact with the public in general. Our main products are PVC pipes, which we produce and sell in all of Latin America, improving the development of these countries and the well-being of millions of people in Latin America by providing them with water. While we also produce plastic pipes from other polymers, the most common is PVC and, given that we are the largest integrated producer of PVC in Latin America, we believe we have a significant competitive advantage in this industry.

We are leaders in Latin America in the manufacture and distribution of pipelines, connectors and plastic accessories for transporting fluids, primarily water, as well as gas and for the protection of electrical conduits. We are focused on the residential and commercial construction and infrastructure markets. We provide technical solutions with geotextiles in cloth, drains, geomembranes and geomesh. We manufacture and distribute these products for the construction industry as well as other industries.

We also offer solutions in agricultural and civil engineering in projects related to the management and use of water in agricultural land, allowing us to provide more diverse services to our clients.

Amanco, the largest producer of integrated pipelines in Latin America has production plants in 10 Latin American countries, including Mexico, and is present in 20 countries through more than 55 thousand points of sale. The Latin American construction industry, which is a significant purchaser of pipelines, has registered continuous growth, despite the downturn in the economy.

During the second quarter of 2012, we completed the acquisition of Wavin, the leading supplier of plastic pipe systems and solutions in Europe, headquartered in Zwolle, The Netherlands with a presence in 25 European countries. The total acquisition cost was approximately €526 million.

In 2011, the Integral Solutions Division had net sales of Ps. 18.8 million (US\$1.3 million), 15.2% more than in 2010 and EBITDA of Ps. 2,993 million (US\$224 million). The Integral Solutions Division contributed 39.7% and 29.1% to our consolidated net sales and EBITDA, respectively.

For the six months ended June 30, 2012, our Integral Solutions Division had net sales of Ps. 14.1 billion (US\$1.1 billion) and an EBITDA of Ps. 2.3 billion (US\$171.5 million), a 60% and 57% increase, respectively, from 2011, contributing 46.8% of our net sales and 33.3% of our EBITDA.

Sales

The following table shows the production and sales volumes of our Integral Solutions Division in 2011 and its production and sales during the first six months of 2012 and 2011:

Integral Solutions Division(1)	Six months ended June 30,		Year ended December 31,		
	2012	2011	2011	2010	2009
Volume (in thousands of tons).....	339	245	494	441	392
Net sales (in millions of pesos).....	14,138	8,826	18,771	16,294	14,947

(1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.

Products

We produce and distribute plastic pipe systems, including pipes, fittings, and accessories for the transportation of water, sewage, drainage and irrigation and the protection of electrical conduits, with a focus on three market segments:

- **Construction (commercial and residential).** We produce a variety of weldable pipes made from PVC for use across all types of construction with a low environmental impact and available in diameters ranging from 12 mm (1/2") to 110 mm (4"), and a complete range of connectors for single-family homes, residential complexes, high-rise buildings, commercial buildings, hotels, pools, landscaping and certain industrial applications, all of which conform to ISO or the American Society for Testing Materials, or

ASTM, standards, depending on the applicable local regulatory requirements; hot water systems that offer solutions for a wide range of construction applications, in diameters ranging from 20 mm (1/2") to 110 mm (4"); PVC sanitation and ventilation systems; polypropylene solutions; a complete range of connectors and accessories for residential or commercial construction in several diameters and colors, including wall-mounted conduit systems and PVC conduits and connectors for electrical wiring, all in conformity with standards that help ensure their excellence in terms of performance.

- Our systems are available in two formats: rigid, with solid walls, and flexible, with corrugated walls. The main characteristics of the pipes we produce are their resilience to ultra-violet rays and corrosion, their rubberized mechanical joint fittings, which prevent deformations due to changes in temperature, and their lack of maintenance requirements. Our "PipeSystem" concept seeks to provide comprehensive solutions, which require the completion of certain sanitation system components so as to ensure the uniform quality and life of the entire system. To this end, we offer a broad range of siphons, siphoned floor-mounted sinks and other sanitation accessories for residential use.
- **Infrastructure.** We produce bi-oriented ductile PVC for the transportation of water, the only product of its kind available in Latin America, in which the bi-orientation of the PVC molecules produces a laminated, layered structure that significantly increases the pipes' mechanical resistance and strength. Our bi-axial pipes have thinner walls that allow for increased flexibility and ease of handling, as well as lower weight, which provide savings in the energy costs associated with their operation. Our double-wall sewage and rainwater pipes, which are produced through a double extrusion process, have a smooth interior wall and a corrugated exterior wall that are joined together through an elastomerized sealing process to ensure the hermetic seal of their joints and their quick installation. Novafort technology prevents the leak of the sewage in the conduits, thereby protecting the environment by ensuring that sewage will not leak and pollute the sub-surface water. Our Novafort pipes are made of inert materials, guaranteeing their resilience to the corrosive effect of the chemicals and other materials contained both in the sewage and in the soil in which they are laid. Our PVC pipes are used in the electricity and telephone industries, our high-density polyethylene pipes are used in the installation of fiber optic cable systems and our high-safety polyethylene PipeSystem is used in the supply of natural gas for household use. All these products are available in diameters ranging from 1/2 inch to 6 inches, and for pressures of 60 and 75 pounds per square inch.

The acquisition of Wavin in May 2012, incorporates new products and technologies into our Integral Solutions Division, particularly in the following areas:

- Water management, including rainwater drainage systems and filtration systems;
- Surface heating and cooling mechanisms, with roof-top heating systems and below-ground cooling systems; and
- Water treatment systems.

Plants

We own and operate the following plants as part of our Integral Solutions Division:

- **Amanco and Subsidiaries.** Amanco owns and operates 29 plants in 10 countries in North and South America, with installed annual combined production capacity of 580,000 tons for PVC extrusions, PVC and polyethylene injected products and polyethylene, using state-of-the-art transformation technologies. Amanco has 7,578 employees. Of these plants, 25 have an ISO-9001 certification, 23 have ISO-14001 certification and 22 have OHSAS 18001 certification. The total sales volume at these plants for 2011, 2010 and 2009 was 494 thousand tons, 442 thousand tons and 392 thousand tons, respectively.
- **Wavin.** Adds 40 manufacturing and assembly plants in Europe and China and has procedures in place to meet standards set forth by ISO 9000 and ISO 9001, which are revised and certified by independent certification companies. The Wavin plants also operate an improvement program titled Total Production Management, or TPM. We operate these plants pursuant to regionally established health and safety policies in accordance with our compliance with ISO 12001 and similar standards.

Raw materials

The principal raw material used by our Integral Solutions Division is PVC resin, which in 2011 accounted for approximately 80% of our cost of sales for this division. We obtain PVC resin primarily from our subsidiaries, Mexichem Resinas Vinílicas and Petco, but use local suppliers in those countries where delivery costs or tariff regimes make it too costly or prevent us from using the PVC resin we produce. Approximately 95% of our Integral Solutions Division's resin requirements are supplied by our Chlorine-Vinyl Division. Colombia is a self-sufficient producer of PVC and exports its surplus to other countries. Furthermore, Colombia and Brazil have a free-trade agreement, which, as a result of the acquisition of Mexichem Resins Colombia, has allowed us to benefit from tax free export into Brazil and placed us in a competitive position to distribute to the Andean and South American region from our Colombian plant while our Mexican plant supplies Mexico and Central America.

Sales and distribution

Our Integral Solutions Division has implemented a series of distribution programs specifically targeted towards each of its different market segments. This strategy is the product not only of our analysis of the profiles and needs of our customers, but also of the new trends in the distribution channels, where there is a growing influence from large retailers.

In response to these factors, our strategy aims to:

- strengthen our relationships with retail networks so as to foster their loyalty;
- introduce innovative consulting, training and other support services;
- provide customized services to construction companies;
- maintain a highly-specialized sales force;
- enter into service alliances (particularly in connection with turn-key projects) with select construction companies;
- achieve increased transparency in our business transactions;
- provide technical support to our clients so as to enable them to increase their productivity; and
- provide specialized credit and insurance services.

The demand for pipes is influenced by economic conditions and GDP growth serves as a strong indicator of the evolving trends in the construction industry. Over the last four years, the demand for PVC pipes in Latin America grew at twice the rate of the United States according to CMAI.

Principal clients

Our principal clients for the products produced by our Integral Solutions Division are in the construction industry, from large residential and commercial construction companies to self-builders, farmers and governments or private corporations engaged in the construction of public works. These clients are located in 29 countries in North and South America and 25 countries in Europe. Given the large number of clients we have in Mexico and the rest of Latin America, no one client accounted for more than 10% of our sales in this division. Wavin's top ten customers represented 33% of its revenue in 2011, while the remaining 67% of sales are distributed among a wide customer base. Wavin's policy is to limit dependence on individual customers.

Distribution Channels

We distribute our products by means of 55,000 direct and indirect sales points ranging from large construction companies to small retail stores. Wavin has a wide network of distributors covering all of Europe, providing efficient and effective customer care with a wide product portfolio solutions and an effective supply chain management.

Cyclical

Sales in this division are subject to economic variations in each of the countries where we operate and are particularly subject to economic fluctuations in the construction, infrastructure and agricultural industries.

Competition

The main competitive advantages of our Integral Solutions Division are its market position in each of the 13 Latin American and 25 European countries in which it maintains operations, its vast distribution network and its brand recognition. Our Integral Solutions Division faces significant competition in the countries in which it operates, which requires significant investment and modernization programs. As shown in the following table, we hold an approximately 31% share of the Latin American market for PVC pipes in 2011 and are a leading producer in each of the countries in which we operate.

Country	Market Position	Market Share (%)
Argentina	2	13
Brazil	2	31
Colombia	1	52
Costa Rica.....	1	46
Ecuador.....	1	57
El Salvador	1	59
Guatemala.....	1	37
Mexico.....	1	39
Nicaragua.....	1	39
Panama	1	33
Peru.....	1	24
Venezuela	1	29
Germany	1	41
Belgium	1	20
Denmark	1	11
France	2	13
Netherlands.....	1	29
Hungary	1	30
Italy.....	3	6
Norway	2	27
Baltics	2	10
Poland.....	1	22
United Kingdom.....	2	22
Czech Republic.....	1	21
Romania.....	3	13
Sweden	3	16
Turkey	2	9

Source: Mexichem market research.

According to our market research, the Latin American PVC pipe market is ranked as follows: Mexichem is the largest, Tigre S/A is the second largest and Aliaxis, S.A. is the third largest producer. The balance is distributed among various other producers. In addition, Wavin is the market leader in Europe and its main competitors include Aliaxis, Aalberts Flow Control and GF Piping.

Our main competitors in the Mexican compounds market are BASF Corp., PolyOne, Inc., Georgia Gulf and Eiqsa, S.A. de C.V.

Fluorine Division

In our Fluorine Division, we produce fluorspar and hydrofluoric acid. We own and operate the world's largest fluorspar mine in San Luis de Potosí and we also have mines in Río Verde and Las Sabinas Coahuila, which produce fluorspar for our internal use and for sale to producers of cement, glass, ceramic and steel, which we designate as metallurgical grade.

Concentrated fluorspar with no impurities is considered to be acid grade, which is used in the production of hydrofluoric acid and is obtained by applying sulfuric acid to fluorspar fluoride. This kind of fluorspar competes directly with China, which has approximately 15,000 mines and produces 57% of the world's production.

Hydrofluoric acid is used primarily in the production of gas coolants for air conditioning systems, refrigerators and freezers. It is also used as a propellant gas in medical equipment, in the production of gasoline, fluoride and aluminum, stainless steel, nuclear combustors, integrated systems, in the Teflon industry and in the production of fluorinated salts, such as lithium and sodium.

This division has nine operating sites located in Mexico, the United Kingdom, the United States and Japan, five of which are in conformity with the norms ISO-9001, three are in conformity with ISO 14001 and three with OHSAS 18001. The three chemical process plants are signatories to the voluntary commitment of the chemical industry "Responsible Care."

The world demand for fluorspar continues to increase, especially the high purity fluorspar used in the preparation of gas coolants, which has created a high demand that has resulted in increased price levels. By the end of January 2012, we announced the acquisition of Fluorita de México, which is located in the city of Múzquiz, along with the mineral concessions of the Las Sabinas mine, both in the state of Coahuila, in Mexico. With this acquisition, we have access to higher purity fluorspar, which guarantees many years of viable operations in the United Kingdom. This is part of a series of investments to produce a new generation of gas coolants that are more environmentally friendly. The mine has proven reserves of more than 13 million tons of high purity fluorspar, adding to our current capacity of 50 million tons in our operating mines, making us the largest producer of integrated coolants in the world.

Consumption in China of domestically produced Fluorspar has increased from 55% in 2004 to 75% in 2011, a tendency that is expected to continue. As a result, the supply of fluorspar is decreasing significantly. Meanwhile, demand for hydrofluoric acid has also increased and our supply agreements have allowed our plants to operate at 100% capacity.

We are currently the world's largest integrated producer of fluorspar and hydrofluoric acid. In addition, we are the world's third-largest producer of hydrofluoric acid and the largest supplier to the U.S. spot market.

Fluorspar

**Hydrofluoric
Acid**

Fluorocarbons

Fluoroelastomers

Fluoropolymers

The Fluorine Division has improved significantly in 2011, reaching sales of Ps. 10.9 billion (US\$878.1 million), which is 56.7% higher than 2010. EBITDA for this division was Ps. 3.9 billion, 47.6% more than 2010. These important increases are a result in a higher sales volume, better prices, increase in consumption and the inclusion of results from Ineos Flúor, along with the synergies resulting from this acquisition.

In the six months ended June 30, 2012, our Fluorine Division had net sales of Ps. 6.5 billion (US\$481.5 million) and an EBITDA of Ps. 2.6 billion (US\$193.5 million), a 7% and 4% increase, respectively, from 2011, contributing 21.4% of our net sales and 37.6% of our EBITDA.

Sales

The following table shows the production and sales volumes of our Fluorine Division during 2011, 2010, 2009 and the six months ended June 30, 2012 and 2011:

Fluorine Division(1)	As of June 30,		As of December 31,		
	2012	2011	2011	2010	2009
Volume (in thousands of tons).....	635	601	1,211	973	789
Net sales (in millions of pesos).....	6,456	5,938	10,853	6,927	2,531

Fluorspar Manufacturing Process

The fluorspar manufacturing process consists of the extraction of metallurgical grade fluorspar, for its use in the production of steel, ceramic, glass and cement, and acid grade fluorspar, for its use in the production of hydrofluoric acid, which is the primary feedstock for the manufacturing of virtually all organic and inorganic fluorspar-containing compounds, including fluorocarbons, fluoroelastomers and fluoropolymers as well as aluminum fluoride for the production of aluminum.

Products

We extract two principal types of fluorspar:

- Metallurgical grade fluorspar, which is used as a melting agent in the steel and cement industries and is produced in a variety of sizes depending on the requirements of each client's production process (e.g., fine, pea-size, small, nugget-size, standard and special). Its minimum calcium fluoride content varies from 80% to 90%.
- Acid grade fluorspar, a raw material used in the production of hydrofluoric acid and aluminum, whose acidity grade is measured in terms of its calcium fluoride content, which is 97% at a minimum.

The following table shows the sales volumes and net sales by grade of fluorspar during the periods indicated:

Product	Year ended December 31,					
	2011		2010		2009	
	Sales Volume(1)	Net Sales(2)	Sales Volume(1)	Net Sales(2)	Sales Volume(1)	Net Sales(2)
Metallurgical grade.....	525	988	369	625	339	608
Acid grade	494	1,372	402	721	360	579
Total Fluorspar	1,019	2,360	771	1,346	699	1,187

(1) In thousands of tons.

(2) In thousands of Mexican pesos

Plants and mines

San Luís Potosí Plant and Las Cuevas Mine. We own the rights to and operate the Las Cuevas mine, located in Villa de Zaragoza, San Luis Potosí, which is the world's largest fluorspar mine with a 20% share of global production of fluorspar and estimated proven reserves of 40 million tons, according to the 2011 SRI Report. At our present exploitation capacity of one million tons per year, these reserves represent 40 years of production. In addition, we have a processing plant at the same site that produces metallurgical and acid grade fluorspar. Our installed annual production capacity for metallurgical grade fluorspar is 1,363,000 tons, which include (1) metallurgical grade fluoride that is the same as the total capacity of the mine, 1,363,000 tons per year and (2) acid grade concentrate with a capacity of up to 625,000 tons per year. The San Luís Potosí plant has 401 employees.

Fluorite de Río Verde Plant and Mine. This complex has two plants, one in the municipality of Río Verde in the state of San Luis Potosí and the other in Alamos de Martínez in the state Guanajuato. The estimated proven reserves at this mine will allow the plants to be explored over the course of 49 years at the current capacity. We also have concessions to explore other minerals. The annual installed capacity at this mine is 210,000 tons per year and we currently have 84 employees.

Múzquiz Plant. This complex has a benefit plant which includes grinding, floating, thickening and filtering and has an annual installed capacity of 120,000 tons.

Las Sabinas Mine. This mine has proven reserves of 215,000 tons per year and potential reserves higher than 13 million tons per year of high purity fluoride.

The following table shows our fluorspar manufacturing process' production capacity as of December 31, 2011 and annual production output in 2011, 2010 and 2009, by principal product:

Plant/Product	Installed Capacity (thousands of tons)	Year ended December 31,		
		2011	2010	2009
		(sales volume in thousands of tons)		
Metallurgical grade.....	738	525	369	339
Acid grade	733	494	402	360
Total Fluorspar	1,471	1,019	771	699

Raw materials

The primary raw materials used in the fluorspar manufacturing process are electricity, water and diesel fuel. We purchase these materials through long-term supply contracts that are renegotiated periodically. Our principal suppliers are the CNA, CFE and Pemex Gas y Petroquímica Básica.

Sales and distribution

We maintain long-term fluorspar supply contracts with some of our principal clients. We have established sales programs to foster our customers' loyalty through volume-based discounts. These contracts are typically for a three- to five-year term and include a formula that calculates the sales price by reference to the prices quoted by SRI.

Principal clients

Our fluorspar is used by clients in the steel, glass, aluminum and cement industries, and in the chemical industry for the production of fluorocarbons for cooling applications, gas coolants, propellants, foaming agents and thermoplastic polymers, among others. We sell to a numerous and diversified client base and are not dependent on any individual client.

Distribution Agreements

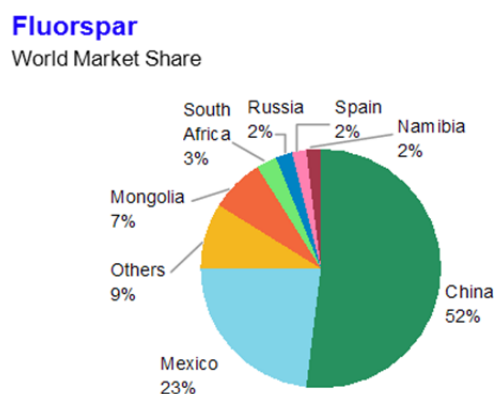
The distribution of our Fluorine Division products takes place on a worldwide level and uses a variety of channels. For the transportation of our products, we have long-term agreements with the railway and maritime companies, for which services we pay certain fixed and variable sums. The variable payment is measured by distance travelled and such price is linked to the price of fuel, which guarantees a reliable and continuous supply for the operation of our plants.

Competition

We have a significant competitive advantage in that we produce 1.3 million tons per year of fluorspar in a single facility with railway access to our port in Tampico, Mexico. By comparison, China, the world's current leader in the production of fluorspar, produced approximately 3 million tons through 78 producers, which makes it the current leader in global fluorspar production. Nonetheless, we have made significant investments and granted production incentives to our unionized employees, which have translated into significant production increases over the past few years. In addition, the law of extracted minerals prohibits metallurgical processes to be applied to metals that have more than 84% of calcium fluoride. Lastly, we have a number of long-term supply contracts in place with our principal clients.

Market Share

We have a 23% share of fluorspar reserves globally and export 74% of our production to a number of countries around the world. The following chart shows the distribution of fluorspar reserves globally in 2011:



Hydrofluoric Acid Manufacturing Process

Hydrofluoric acid is produced by applying sulfuric acid to fluorspar to provoke a chemical reaction. Thereafter, the hydrofluoric acid undergoes several distillation stages in order to obtain the 99.99% purity necessary to meet the high-quality standards demanded by our clients. We produce the sulfuric acid used in this process by exposing sulfur to air and water under high temperature conditions.

Products

Fluorspar that has been cleared of certain impurities is referred to as acid-grade fluorspar. When combined with sulfuric acid, it produces anhydrous hydrofluoric acid, an aqueous solution that is used primarily (1) as a raw material in the production of gas coolants for air conditioning units, refrigerators and freezers, nuclear fuels, such as uranium hexafluoride, and other fuels, including high-octane gasoline; (2) in stripping stainless steel; and (3) in the production of aluminum, integrated electronic circuit cards, Teflon coatings, propellants, foaming agents, cleaning products, fluorinated or lithium salt, which is used in the production of batteries, fluoridated salt, which is used in the production of toothpaste, and metals such as tantalum, which is used in glass-engraving applications.

The following table shows our sales volumes and net sales of hydrofluoric acid during the periods indicated:

Product	Year ended December 31,					
	2011		2010		2009	
	Sales Volume(1)	Net Sales(2)	Sales Volume(1)	Net Sales(2)	Sales Volume(1)	Net Sales(2)
Hydrofluoric acid.....	76	1,350	77	1,292	90	1,344

(1) In thousands of tons.

(2) In millions of Mexican pesos

Plants

We own and operate the world's largest hydrofluoric acid plant, located in Matamoros, Mexico, with annual installed capacity of 132,000 tons. The plant is strategically located to have ease of access to its primary raw materials in Mexico and exports 37% of its production, primarily to the United States. The Matamoros plant utilizes state-of-the-art technology and has 274 employees.

We have a sulfur plant in the Veracruz region with annual installed capacity of 210,000 tons.

The following table shows our installed capacity and production output of hydrofluoric acid as of December 31, 2011, 2010 and 2009:

Plant	Installed Capacity (thousands of tons)	Year ended December 31,		
		2011	2010	2009
		(sales volume in thousands of tons)		
Matamoros.....	132	76	77	90

Gas Coolant and Fluorocarbon Manufacturing Process

Fluorinated hydrocarbons are compounds with fluorine atoms or a combination of chlorine and fluorine in their structure, which have a very specific industrial purpose: they are used as anesthetics in medicine, propellant gas in aerosol and for degreasing of metals, but most importantly, they are used as coolants for air conditioning and refrigeration systems. Some fluorinated carbons are used as coolants by combining the thermodynamic properties with the secure and non-corrosive nature of the compound.

Plants

Mexichem Fluor USA. This plant is located in the state of Louisiana and has an annual production capacity of 39,000 tons and currently has 69 employees.

Mexichem Fluor UK. This plant is located in Runcorn, Cheshire, has an annual production capacity of 38,500 tons and 230 employees.

Mexichem Fluor Japan. This plant is located in Tokyo, has an annual production capacity of 26,100 tons and 49 employees.

The following table shows the annual production at these plants for the years ended December 31, 2011 and 2010.

Plant	Installed Capacity (thousands of tons)	Year ended December 31,	
		2011	2010
		(sales volume in thousands of tons)	
United States.....	39	25	25
United Kingdom.....	39	34	32
Japan.....	26	20	21

Raw materials

The principal raw materials used in the hydrofluoric acid manufacturing process are fluorspar and sulfur. We have traditionally obtained fluorspar from our mine and, to a much lesser extent, through purchases from third-party suppliers. We expect to discontinue our purchases of fluorspar from third parties as a result of our acquisition of the Fluorita de Río Verde fluorspar mine.

Historically, we have purchased sulfur from Pemex pursuant to long-term supply contracts that are renegotiated periodically. However, we own a sulfur mine in Jaltipán, Veracruz, which has proven reserves of approximately 10 million tons, and in which we invested US\$40.0 million in order to prepare this mine for exploitation.

Sales and distribution

We maintain long-term supply contracts with our principal customers of hydrofluoric acid. These contracts are usually for a three- to five-year term at a fixed sales price based on then-current market prices as quoted by SRI.

Principal clients

We have entered into a five-year supply agreement with one of our main hydrofluoric acid clients in North America. This agreement was entered into in May 2010 and guarantees that our Matamoros plant operates at full capacity for the next 5 years.

Competition

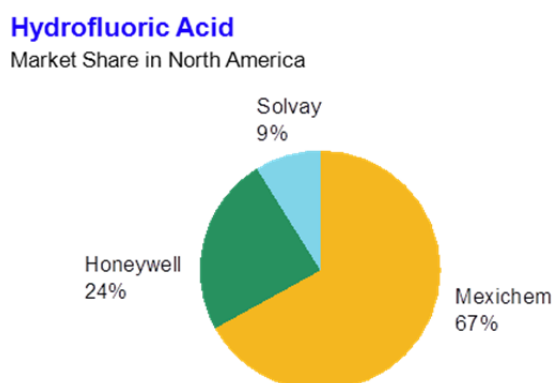
The principal competitive advantages of our hydrofluoric acid manufacturing process are its vertical integration with respect to the production of fluorspar and its strategic location. We extract fluorspar from our San Luis Potosi mine, which ensures our long-term viability by providing us with a guaranteed supply of the primary raw material for the production of hydrofluoric acid. This compares favorably with the major non-integrated producers who depend on the supply in the global markets. As indicated above, China is the world's largest producer of fluorspar. China uses this mineral in the production of end products in this industry, such as fluorocarbons, or fluoropolymers, decreasing its available supply for export. With our recent acquisition of Fluorita de Mexico in January 2012 and the mine at Las Sabinas, we will have access to some of the purest fluoric acid increasing our ability to supply the United Kingdom and Asia.

In addition to our vertical integration, our strategic and unique geographical location provides us with ease of access to the U.S. market, one of the world's largest consumers of hydrofluoric acid and fluorinated chemicals. Together with the strict regulatory framework applicable to the transportation of hydrofluoric acid and our recent acquisition of Ineos Fluor, this gives us a constant and unparalleled competitive advantage.

Market share

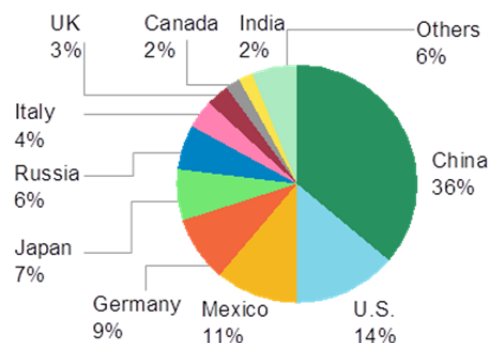
We estimate the size of the North American hydrofluoric acid market at approximately 314,000 tons per year, including only the requirements in the Mexican, U.S. and Canadian spot markets, which are our primary targets. We hold an estimated 67% share of the U.S. market, where we compete with Honeywell ASCa, Inc. (27%) and Solvay Indupa (5%). The five-year agreement we entered into in May 2007 will significantly increase our market share in the Mexican spot market.

Set forth below is information on our market share in hydrofluoric acid in North America and globally, for which there is a total capacity of 1,174,000 metric tons.



Hydrofluoric Acid

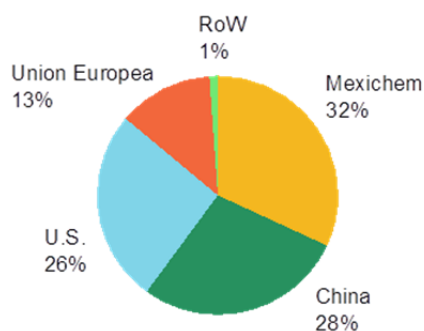
World Market Share



Set forth below is information on our market share in gas coolants HFC-134a and HFC 125, for which there is a global capacity of 175,000 metric tons and 60,000 metric tons.

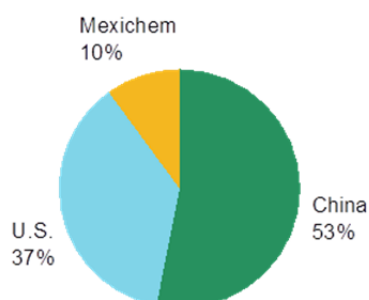
Gas Coolants

HFC-131a



Gas Coolants

HFC-125



History and evolution

Organization

Mexichem was incorporated on June 30, 1978 in Mexico City, Federal District, Mexico, under the laws of Mexico with duration of 99 years. We were originally named Grupo Industrial Camesa, S.A. de C.V., or Camesa. Mexichem, S.A. de C.V. was originally a holding company subsidiary of Camesa. On April 27, 2005, the shareholders of Camesa and Mexichem, S.A. de C.V. resolved to merge Mexichem, S.A. de C.V. into Camesa and, as a result of this merger, Camesa changed its name to Mexichem, S.A. de C.V.

On December 6, 2006, our shareholders approved a series of amendments to our corporate bylaws, so as to conform them to the provisions of the Mexican Securities Market Law. As part of this amendment, our corporate name was changed to Mexichem, S.A.B. de C.V.

Evolution

Growth Through acquisitions and investments

We are the product of the combination of a number of companies. Our origin dates to Cables Mexicanos, S.A., which was founded in 1953. We have been engaged in the plastic resin business since the creation of Polímeros de México and the construction of its PVC plant in San Martín Texmelucan, Puebla, in 1971.

In 1978, Camesa, which at the time had a controlling equity interest in Cables Mexicanos, S.A., was reorganized as a holding company and began trading on the Mexican Stock Exchange.

In 1986, Camesa acquired Compañía Minera Las Cuevas, a fluorspar producer. In 1988, Camesa consolidated its leadership position in the Mexican and Latin American chlorine markets with the acquisition of Clorotec. Continuing its expansion, in 2004, Camesa acquired Mexichem Colombia, a producer of sodium hypochlorite, iron chloride and other chemical specialties. Also in 2004, these businesses were integrated into Mexichem Derivados.

In 2002, members of the del Valle family became our controlling shareholders.

In December 2003, Camesa acquired Grupo Total, S.A.'s 43.4% interest in Subsidiaria Mexichem, thereby increasing its ownership interest in Subsidiaria Mexichem from 50.4% to 93.8%.

As part of its strategy to integrate its production units, in May 2004 Camesa acquired 100% of the shares of Química Flúor, a producer of hydrofluoric and sulfuric acids, and integrated Química Flúor's operations into Compañía Minera Las Cuevas (both of which were subsequently merged into Mexichem Flúor).

In December 2004, Camesa acquired 100% of the shares of Primex (renamed, Mexichem Resinas Vinílicas), a leading producer of PVC in Mexico and Latin America and a producer of plasticizers, phthalic anhydrides, resins and plastic compounds. Primex contributed the Altamira plant, the largest of its kind in Latin America, which uses proprietary technology to produce PVC resins, compounds and plasticizers and includes a maritime terminal that enables it to more easily export its production.

In February 2007, we acquired Amanco, a leading Latin American producer of PVC pipe systems, pipe connections and accessories for the conveyance of fluids, primarily water, which are sold in 29 countries in the region. As a result of this acquisition, we established the Fluid Conveyance Division, which in January 2008 was reassigned as a process to our newly-created Integral Solutions Division.

In March 2007, we acquired 100% of the shares of Petco, a Cartagena, Colombia-based company whose principal activity is the production of PVC resin and whose products are sold around the world. Also in March 2007, our shareholders approved the merger of Compañía Minera Las Cuevas into Mexichem Flúor. As a result, our Fluorine Division became a single-subsidiary operation.

On June 29, 2007, we acquired a 50% ownership interest in Geon Andina from PolyOne Corporation, a producer of PVC compounds, thereby forming a strategic alliance for the development of new markets and technology which we believe will significantly benefit the products manufactured by the two companies. Geon Andina, which is based in Cartagena, Colombia, has an installed capacity of 50,000 tons per year and exports its products throughout Latin America. On October 16, 2009, we acquired the remaining 50% ownership interest in Geon Andina from PolyOne Corporation.

On January 23, 2008, we acquired a 70% ownership interest in Plastubos and have since then exercised our option to purchase the remaining 30% ownership interest. Plastubos is a Brazilian producer of rigid PVC pipes that are used for the transportation of potable water and sewage, and which are sold to the housing, infrastructure, irrigation and power industries. In 2007, Plastubos had net sales of Ps. 665 million (US\$61 million). Its production plants are located in Ribeirão das Neves, Anápolis and Maceió, and serve the south east, central and north east regions of Brazil.

On April 1, 2008, we acquired Fluorita de Río Verde, including its production plants, as well as two acid-grade fluorite mining concessions. These plants currently produce approximately 40,000 tons per year of fluorspar concentrates, a substantial portion of which are used by our Matamoros plant. In addition to the vertical integration benefits derived from this acquisition, we intend to increase the production capacity of these plants from 40,000 tons per year to 80,000 tons per year.

On June 20, 2008, we acquired Bidim, a Brazilian leader in the production and distribution of non-woven products for the geotextile industry. Geotextiles are engineering products with various applications in the construction industry, including applications for erosion control and soil separation, filtration, drainage, waterproofing, and reinforcing. With this acquisition, we became the leader in non-woven geotextiles in the Mercosur region and, combined with our activities in Colombia and Peru, consolidated our leadership throughout Latin America in this market.

On November 28, 2008, we acquired Colpozos, S.A. located in Cali, Colombia and a market leader in irrigation.

On March 31, 2009, we acquired Tubos Flexibles, a Mexican company that had four plants located in Mexico that produce PVC pipes and connections. At the same time, we sold our subsidiaries Mexichem Estireno and Frigocel Mexicana S.A. de C.V. to Elementia S.A. de C.V., to focus on our lines of products with higher added-value.

In August 2009, we increased our capital stock by issuing 153.6 million new shares, which represented an increase of Ps. 2,258,000. After the capital increase, our control group held 65% of our capital stock and 35% of our share were free float.

In September 2009, we issued notes in the domestic market in the amount of Ps. 2.5 billion, with a term of five years and a rate of 28-day THIE plus 2.4 basis points, under the MEXCHEM 09 ticker symbol. The proceeds from this issuance were used to refinance previous debt and change our maturity profile, which had limited our short term debt to only 15% of our total debt. On July 20, 2011, we decided to exercise the right to prepay all of the notes paying the amount provided in the most appropriate prepayment premium option referred to in the conditions of the notes.

In October 2009 we acquired the remaining 50% of the shares of Geon Polymers, SA, acquiring control of the company.

In November 2009, we issued notes in the international market in the amount of US\$350 million within a 10-year term and an interest rate of 8.75% per year. The proceeds were used for general corporate purposes, including working capital and possible future acquisitions.

In January 2010, we acquired 73% of Plastisur, SA, a Peruvian company, which increased our shareholding to 98.0%. As a result of this acquisition, Mexichem became the leading Peruvian PVC pipe manufacturer.

In March 2010, we acquired 100% of the shares of Mexichem Fluor Japan Limited. and Mexichem Fluor Canada Inc. and 100% of the assets of the Fluor divisions of the Ineos Group, located in the United States and the United Kingdom, which were established businesses Mexichem Fluor Inc. and Mexichem UK Limited. With this acquisition, we became a world leader in the fluorine chemical segment, particularly in the production of gas coolants.

In May and June 2010, respectively, the Fluorine Division inaugurated two plants. The first was the sulfur plant located in the southern state of Veracruz, which has a production capacity of 210,000 tons per year. Sulfur is a raw material for the manufacture of hydrofluoric acid. The second plant is located in the city of Matamoros, Tamaulipas and produces hydrofluoric acid at annual capacity of 30,000 tons.

In October 2010, we acquired Policyd, Inc. de CV, a manufacturer of PVC resins and Plásticos Rex, SA de CV, a manufacturer of PVC pipes, from Cydsa, S.A.B. de C.V. The agreement for these acquisitions contemplated transferring the chlor-alkali plant of Santa Clara to Cydsa as part of the payment. Policyd and Plásticos Rex are both Mexican companies that had two and five plants, respectively. These acquisitions gave us the opportunity to meet competition through synergies and operating efficiencies throughout the PVC supply chain.

On January 7, 2011, we acquired the compounds division of Rockwood Specialties Group, Inc., which operated under the name of AlphaGary, with facilities located in the United States and United Kingdom. This acquisition strengthened our presence in the markets in which we operate and improved the potential for research and development and product innovation available to Mexichem.

On August 31, 2011 we entered into a revolving credit line of US\$1.0 billion with a three-year term with a rate of LIBOR plus 90 basis points, which allowed us to increase our financial flexibility and take advantage of opportunities that arise in our markets to consolidate our strategic growth plans while improving our debt repayment profile.

On September 2, 2011, we issued a second round of notes to the domestic market under the ticker symbol MEXCHEM 11, in the amount of Ps. 2.5 billion. The principal is due in one payment on September 2, 2016 by paying a gross interest rate equivalent to TIIE plus 0.60%. The funds were used to repay the bridge loan, which was used for the advance payment of the MEXCHEM 09 notes.

On March 15, 2012, the CNBV authorized us to increase the maximum amount of our long-term revolving debt program of Mexican debt securities called *certificados bursátiles* to up to Ps. 10,000,000,000.00 or its equivalent in UDI and for a period of up to five years from the date of such extension, pursuant to which we conducted a public offering for 20,000,000,000 additional MEXCHEM 11 notes on March 21, 2011 and an additional 25,000,000,000 notes issued on September 9, 2011. These newly issued notes had the same terms and conditions as the previously issued notes and totaled 45,000,000,000 notes with a face value of Ps. 100.00 each.

On March 21, 2012, we issued a third round of notes to the domestic market under the ticker symbol MEXCHEM 12, for a total of 30,000,000,000 notes, with a par value of Ps. 100.00 each. The notes will mature on March 9, 2022 and accrue interest at a rate of 8.12%, which will remain fixed for the duration of this issuance.

On January 26, 2012, Mexichem acquired Fluorita de México from Corporación Amati, S.A. de C.V. With this acquisition, we will have access to the highest purity fluorite worldwide, allowing us to secure the supply for our UK operation. The mine has estimated reserves in excess of 13 million tons, and an annual extraction of 120,000 tons. This transaction was valued at US\$75 million, which we paid for with our working capital.

In May 2012, we acquired 95.7% of Wavin, Europe's leading company in the production of plastic pipe systems and solutions. Wavin is headquartered in Zwolle (Netherlands) and is present in 25 European countries. The acquisition was valued at approximately €526 million, financed through the Company's cash on its balance sheet and existing credit facilities. At the date of this offering memorandum, we had acquired a 99.28% stake in Wavin.

To further strengthen our leadership in the chemical industry, we continually seek acquisition opportunities with potential for the creation of synergies to consolidate all the links in our Chlorine-Vinyl, Fluorine and Integral Solutions Divisions. See "Risk factors — We have recently made and may make significant acquisitions which, if not successfully integrated with our company, may adversely affect our operating results" and "Risk factors — Our inability to effectively manage our growth could adversely affect our business and our operating results."

Subsidiaries

The following table contains a list of our subsidiaries as of June 30, 2012, each of which is owned 100% by us:

Subsidiary	Operating Division/Principal Activity
Mexichem Derivados, S.A. de C.V.	Chlorine-Vinyl
Mexichem Compuestos, S.A. de C.V.	Chlorine-Vinyl
Mexichem Resinas Vinílicas, S.A. de C.V.	Chlorine-Vinyl
Mexichem America, Inc.	Chlorine-Vinyl
AlphaGary Corporation	Chlorine-Vinyl
AlphaGary Limited	Chlorine-Vinyl
Mexichem Resinas Colombia, S.A.S.	Chlorine-Vinyl
C.I. Mexichem Compuestos Colombia, S.A.S.	Chlorine-Vinyl

Subsidiary	Operating Division/Principal Activity
Mexichem Flúor, S.A. de C.V.	Fluorine
Mexichem Fluor Inc.	Fluorine
Mexichem UK Limited	Fluorine
Mexichem Fluor Japan Ltd.	Fluorine
Mexichem Fluor Taiwan Ltd.	Fluorine
Unión Minera del Sur, S.A. de C.V.	Fluorine
Mexichem Amanco Holding, S.A. de C.V.	Integral Solutions
Mexichem Soluciones Integrales, S.A. de C.V.	Integral Solutions
Mexichem Guatemala, S.A.	Integral Solutions
Mexichem Honduras, S.A.	Integral Solutions
Mexichem El Salvador, S.A.	Integral Solutions
Mexichem Nicaragua, S.A.	Integral Solutions
Mexichem Costa Rica, S.A.	Integral Solutions
Mexichem Panamá, S.A.	Integral Solutions
Mexichem Colombia, S.A.S.	Integral Solutions
Pavco de Venezuela, S.A.	Integral Solutions
Mexichem Ecuador, S.A.	Integral Solutions
Mexichem Perú, S.A.	Integral Solutions
Mexichem Argentina, S.A.	Integral Solutions
Mexichem Brasil Indústria de Transformação Plástica, Ltda.	Integral Solutions

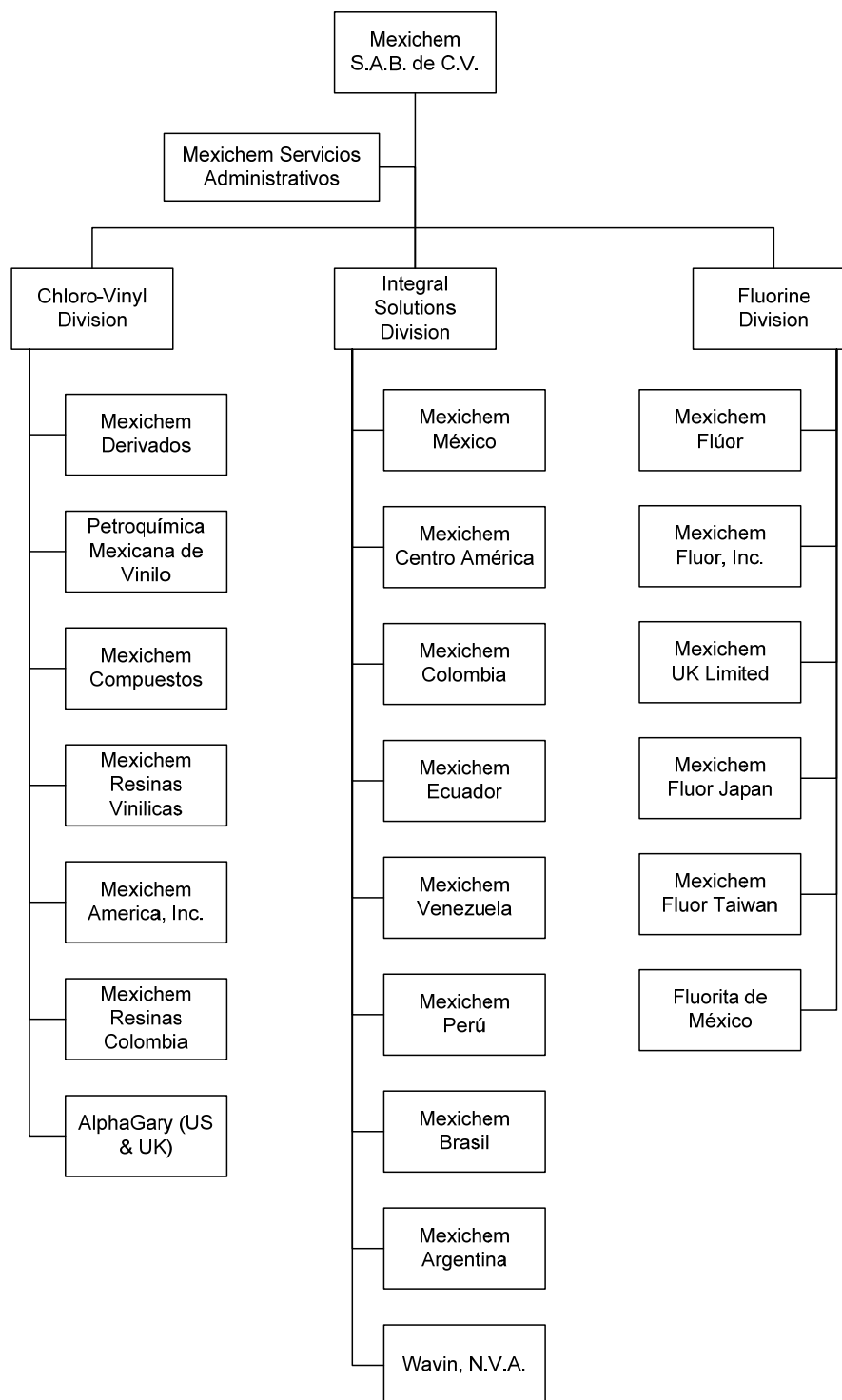
Between 2009 and the six months ended June 30, 2012 we acquired the following companies, each of which is owned 100% by us, except for Wavin and Mexichem Ecuador, which are owned 99.28% and 95% by us, respectively:

Company	Operating Division / Manufacturing Process	Location	Form of Financing	Investment
AlphaGary	Chlorine-Vinyl / Compounds	United States	Own Resources	US\$322 million
Kawasaki Plant.....	Fluorine / Gas Coolants	Japan	Financing in Yen	US\$26 million
Fluorita de México	Fluorine / Fluorspar	Mexico	Own Resources	US\$75 million
Wavin.	Integral Solutions / Pipes	Netherlands	CEBUR and other Financing	€526 million
Tubos Flexibles	Integral Solutions / PVC Pipes	Mexico	Own Resources	US\$28 million
Plastisur SA	Integral Solutions / PVC Pipes	Peru	Own Resources	US\$15million
Mexichem Fluor UK Limited	Fluorine / Gas Coolants	UK	International Bond	US\$106 million
Mexichem Fluor USA Inc.	Fluorine / Gas Coolants	USA	International Bond	US\$220 million
Mexichem Fluor Japan Limited	Fluorine / Gas Coolants	Japan	International Bond	US\$24 million
Mexichem Fluor Canada Inc.	Fluorine / Gas Coolants	Canada	International Bond	US\$0.7 million
Polycyd, Inc. de CV	Integral Solutions / PVC Resins	Mexico	HSBC Financing	US\$136 million
Plásticos Rex, SA de CV.....	Integral Solutions / PVC Pipes	Mexico	HSBC Financing	US\$68 million

As a result of these acquisitions and pending acquisitions, in January 2008, we reorganized our business operations by redesigning the Fluid Conveyance Division (which was formed in February 2007 following the acquisition of Amanco) as the fluid conveyance manufacturing process, and reassigning it, together with the compounds manufacturing process (which was previously in our Chlorine-Vinyl Division), to our newly-created Integral Solutions Division. As a result, our Integral Solutions Division currently encompasses the fluid conveyance manufacturing process (represented by Amanco's operations other than its agriculture-related businesses), the compounds manufacturing process (represented by Mexichem Compuestos and Mexichem Estireno), the agricultural solutions manufacturing process and the geosystems manufacturing process.

Organizational structure

The following chart depicts our organizational structure as of the date of this offering memorandum.



Legal proceedings

As of the date of this offering memorandum, there is no material judicial or administrative proceeding or arbitration pending or, to the best of our knowledge, threatened against us. We are, however, involved in various legal proceedings arising in the ordinary course of our business activities. According to our outside counsel, these

proceedings represent a risk to us that is higher than remote however lower than possible. An unfavorable outcome in these proceedings would not significantly affect our financial position. We have accrued our estimate of the probable costs for the resolution of these proceedings. Highlighted below are the main proceedings in which we are involved:

Brazil

We are party to an employment proceeding that began in July 2006, for which we estimate a maximum award amount of US\$22.3 million. This proceeding was filed by ELLUMA against Mexichem Brazil and seeks compensation for damages allegedly caused by Mexichem Brazil as a result of an Internet advertisement, which compared copper pipes and the polypropylene pipes. The US\$22.3 million amount refers to the fine applied to Mexichem as a consequence of an alleged breach of a court order, as well as non-removal of all material that contained graphics showing the comparison between the copper pipes and the polypropylene pipes.

We are party to a tax proceeding pursuant to which we are requesting a refund in an amount we believe we were entitled to receive between July 1990 and November 1994. We estimate a maximum amount of US\$6.4 million for this claim. In Brazil the federal tax system permits requests for tax refunds and compensation with others tax credits administrated by the same government. This procedure is submitted to a further review by the tax authorities. Approval by the appropriate authority will take place within five years. In this instance, the compensation tax was not approved by the tax authority, which is why we have instituted administrative proceedings against the tax authority.

We are party to a lawsuit against the tax authority to review a tax return. This proceeding is currently before a special appeals court. The amount involved is US\$9.3 million; the risk of financial loss is less than US\$23,000 in expenses. This claim involves the nonpayment of taxes by our subsidiary is being sued for a return of taxes for which we believe it was exempt.

A court has ordered an injunction against us for an administrative proceeding to which we are a party, and we are asking for a suspension of a portion of the amount owed as a result of the injunction. We estimate a maximum award amount of US\$5.2 million for this claim. This is a proceeding where Mexichem Brazil obtained a favorable injunction, with the partial suspension of tax collection. We provided a guarantee for the portion of the proceeding that was not suspended.

We are also party to two tax claims, one where the federal tax authority is demanding payment of an amount equivalent to US\$16.0 million and another claim where we are requesting suspension of collection of taxes in the amount equivalent to US\$6.85. A resolution is pending in both proceedings.

Mexico

Currently, Mexichem Resinas Vinilicas, S.A. de C.V. is party to a tax proceeding in which the relevant tax authorities have denied the company the application of a preferential duty in connection with a purchase agreement with Royal Polymers. The amount involved is approximately US\$5.5 million, for which we have made a provision in the amount of Ps. 121,734 for the amount of loss we consider probable. In May 2012, we appealed the initial ruling against our favor and are awaiting a decision.

The relevant tax authorities audited Mexichem Fluor, S.A. de C.V.'s profit sharing calculations corresponding to fiscal year 2008. We have been required to present our technical comments regarding the calculation documents to the relevant tax authorities. The amount at issue in this matter is US\$1.8 million.

Hungary

In December 2011, the Hungarian Competition Authority began an investigation of Hungarian producers of plastic pipe systems, including Wavin Hungary, based on suspicions of unfair market practices. The maximum penalty that Wavin Hungary could incur if the allegations are proven true is a fine of 10% of its sales turnover in Hungary, which is estimated at US\$3.5 million based on 2011 sales figures.

European Commission

In June 2012, the European Competition Authority began an investigation of several European producers of plastic pipe systems, including Wavin, based on suspicions of unfair market practices. The maximum penalty that Wavin could incur if the allegations are proven true is a fine of 10% of Wavin's world-wide sales turnover, which is estimated at US\$16.7 million based on 2011 sales figures.

Other

We are party to certain fiscal and labor proceedings, which are a result of the ordinary course of our business and are common in the industry in which we operate. As of December 31, 2011, the total claims at issue equal Ps. 570,101, for which we have a made provisions in the amount of Ps. 194,909.

Intellectual property

We own, license or have rights to over 41 patents, over 471 trademarks, and various patent and trademark applications and technology licenses in Mexico, Brazil, Colombia and various other countries, which we hold for use or currently use in our operations. A majority of our patents relate to developing new products and processes for manufacturing and will expire between 2012 and 2024. We renew our trademarks on a regular basis. While we view our patents and trademarks to be valuable, because of the broad scope of our products and services, we do not believe that the loss or expiration of any single patent or trademark would have a material adverse effect on our results of operations, financial position or the continuation of our business.

Set forth below is a list of the brands we own within each of our operating divisions.

Corporate Brand

- “Mexichem” is registered worldwide with various expiration dates.

Chlorine-Vinyl Division

- “Primex” and “Iztavil,” product brands for vinyl resins, registered in Mexico.
- “Provin,” “Polivisol,” “Vindex B,” “Altaf,” “Lugatom,” and “Iztablend,” product brands for resin compounds, registered in Mexico.
- “Petco,” product brand for vinyl resins, registered in Brazil, Colombia, Chile, Venezuela, Ecuador, Peru and Argentina.
- “AlphaGary,” “Alphaseal,” “Evoprene,” “Garaflex” and “Smokeguard,” product brands for resin compounds, registered in Canada, the United States, European Union, China, Singapore, and India.

Integral Solutions Division

- “Amanco,” corporate brand registered in Mexico expiring in 2012. The Amanco brand is also registered in Argentina, Brazil, Chile, Colombia, Ecuador, the United States, Guatemala, Honduras, Nicaragua, Panama, Peru and Venezuela.
- “Pavco,” product brand for construction products, registered in Colombia, Ecuador and Venezuela.
- “Plastigama,” product brand for construction products, registered in Ecuador.
- “Rex” and “Rexolit” product brand for construction products, registered in Mexico.
- Wavin has registered the brand “Wavin” in several countries around Europe, Asia, Africa and Oceania. Such brand is registered mainly as product brand for construction products.

Fluorine Chain

- “Klea,” product brand for gas coolants that contain fluorocarbons.
- “Zephex,” product brand for fluorocarbon propellants, which are used in medical inhalers.

Research and development

Our proprietary production processes provide us with a competitive advantage over our global competitors. Mexichem Research and Development Center, or Mexichem CID, our centralized research and development department, develops new products as well as streamlines our security and production processes. The experts that make up our research and development team ensure that we are the lowest cost producers in our segments, which have resulted in our receiving, on various occasions, the National Award for Saving Energy.

We have also created new businesses with the creation of new products and processes, such as, for example, the development of a new method of purifying fluoric acid, which allowed us to use the largest fluoric acid mine worldwide with the most value added for our clients.

Our research and development centers include two specialized laboratories for our Chlorine-Vinyl Division and one for our Fluorine Division, pilot plants for testing new products and processes and trained and experienced personnel. See “Management’s discussion and analysis of financial condition and results of operations –Research and development.”

Employees

The following table shows our total number of employees during the periods indicated:

	As of June 30, 2012		2011		2010		2009	
	Number of Employees	%	Number of Employees	%	Number of Employees	%	Number of Employees	%
Unionized and temporary.....	9,870	55	6,456	58	6,481	60	5,725	61
Non-unionized	8,022	45	4,717	42	4,358	40	3,647	39
Total.....	17,892	100	11,173	100	10,839	100	9,372	100

As of December 31, 2011, approximately 58% of our employees were covered by collective bargaining agreements with labor unions. We negotiate separate agreements with each union annually with respect to salary, with each contract being renegotiated in full every two years. None of our production facilities has experienced any work stoppage or labor strike in the last three years, and we believe that we and our labor unions maintain good working relationships characterized by mutual understanding and support in the implementation of critical changes in our organization.

We have established a series of compensation guidelines and valuation charts that are designed and updated according to each position’s description enabling us to maintain an attractive compensation system that allows us to attract and retain the talent necessary to implement our business strategy. In addition, we have instituted life and career development plans for our employees, which has enabled us to retain employees with significant development potential, a positive attitude towards change, flexibility and a business vision.

We have instituted a pension plan for our employees. Under this plan, qualifying employees can contribute between 1% and 5% (in multiples of 1%) of their compensation to a pension fund. We match their contributions at a rate determined by each employee’s tenure with us.

Years with Mexichem	Mexichem Contribution (% of employees’ contributions)
0.0 to 4.9	50%
5.0 or more.....	100%

The pension plan contributions are deposited with a financial institution and invested in fixed income securities, with individualized records. Account statements are mailed periodically or accessed through the Internet. We have established a technical committee to oversee the management of our pension plan.

Regulation

Our operations are subject to the laws and regulations of the countries in which we operate.

Mining Regulation

Our mining exploration and exploitation and its production operations are regulated by the Mexican Mining Law, which provides that such activities may only be carried out by Mexican individuals, agrarian communities and legal entities organized under the laws of Mexico, subject to the mining concessions granted by the Mexican Ministry of Economy. Mexican law provides that all mineral resources located in Mexican territory are the nation's property and the exploitation of mineral reserves by the private sector requires a concession from the federal government. The Mexican Mining Law, as amended in 1992, simplified the application procedure to obtain a concession, extended the maximum term of the mining concessions from 25 to 50 years and eliminated all direct taxes applicable to mining operations. The Mexican Mining Law was recently amended in order to permit the issuance of a single mining concession for the performance of both exploration and exploitation activities.

Our mining rights result from concessions granted by the Mexican Ministry of Economy under the Mexican Mining Law and Article 27 of the Mexican Constitution and its regulations. In accordance with the Mexican Mining Law, we are required to register our mining operations with the Public Mining Registry (*Registro Público de Minería*) and the Mining Cartography Registry (*Cartografía Minera*) and to periodically file certain reports concerning our mineral reserves. We are in compliance with such registrations and reports in all material respects.

The rights afforded by our mining concessions include: (1) the exploration and exploitation activities within the area identified in the concessions; (2) the proceeds from the sale of the mineral resources extracted therefrom during the term of the concession; (3) the disposition of the real property located within the area identified in the concession, unless subject to a separate valid mining concession; (4) the expropriation or temporary occupation of or the creation of easements on other real properties to the extent necessary to conduct the above exploration, exploitation and benefit operations, or to deposit or install machinery and equipment or other related items therein, as well as the creation of underground easements through the mining plots; (5) the use of any water resources uncovered during the exploration or exploitation process, including for domestic purposes by the mine's employees; (6) a preferential right to obtain a concession to use the mine's water for any purpose other than as described above; (7) the right to transfer the rights derived from the concession pursuant to (1) to (6) above, to any person legally authorized to hold such concession; (8) the reduction, subdivision and determination of the name of the geographical circumscription covered by the concession, or its consolidation with adjoining plots; (9) the right to renounce the concession and the rights arising thereunder; (10) the consolidation of two or more mines for purposes of evidencing the completion of the works and tasks prescribed by the Mexican Mining Law, or filing the requisite statistical and technical reports; (11) the right to apply for amendments to the concessions or request the issuance of duplicate concession certificates; and (12) the right to apply for an extension of the concessions for a like period.

Mexican law provides the federal government with the right to revoke our concessions or to expropriate our concessions and assets if the government deems it to be in the public interest. In the event of expropriation, we are entitled to receive compensation; however, the terms for determining such compensation or the timing to receive the compensation are unclear under applicable law. Furthermore, the terms of our concessions require us to comply with certain ongoing obligations. Failure to comply with these obligations could result in sanctions or revocation and termination of our concessions. See "Risk factors — Our concessions could be expropriated or revoked under Mexican law" and "Risk factors — Our inability to renew our existing concessions would adversely affect us."

Environmental Regulation

We are subject to various environmental protection and health and safety laws and regulations governing among other things the generation, storage, handling, use, remediation, disposal and transportation of hazardous materials, the emission and discharge of hazardous materials into the ground, air or water, and the health and safety of our employees. See "—Environmental matters."

Antitrust Regulation

Approval of the Mexican Antitrust Commission may be required for us to enter into significant acquisitions, dispositions or joint ventures and is required for the completion of our acquisitions of Plásticos Rex and Policyd. See “Summary – Recent events – Antitrust authorities.” Failure to obtain the approval of the Mexican Antitrust Commission may result in the imposition of fines on us, the divestiture of assets, our inability to complete the proposed acquisition. As the opportunities to expand our operations continue, it is possible that we will face greater scrutiny from antitrust regulators in the countries in which we operate. See “Risk Factors — Antitrust laws in Mexico and other countries in which we operate may limit our ability to expand our business.”

Environmental matters

We are subject to a broad range of environmental laws and regulations in each of the jurisdictions in which we operate. These laws and regulations impose increasingly stringent environmental protection standards regarding, among other things, air emissions, wastewater discharges, the use and handling of hazardous waste or materials, waste disposal practices and the remediation of environmental damage or contamination. These standards expose us to the risk of substantial environmental costs and liabilities, including liabilities associated with divested assets and past activities, even where conducted by prior owners or operators and, in some jurisdictions, without regard to fault or the lawfulness of the original activity.

To prevent, control and remediate environmental problems and maintain compliance with regulatory requirements, we maintain an environmental policy designed to monitor and control environmental matters. Our environmental policy requires each subsidiary to respect local laws and meet our own internal standards to minimize the use of non-renewable resources and the generation of hazardous and other wastes. We use processes that are designed to reduce the impact of our operations on the environment throughout all the production stages in all our operations worldwide. We believe that we are in substantial compliance with all material environmental laws applicable to us.

We regularly incur capital expenditures that have an environmental component or that are impacted by environmental regulations. However, we do not keep separate accounts for such mixed capital and environmental expenditures. Environmental expenditures that extend the life, increase the capacity, improve the safety or efficiency of assets or are incurred to mitigate or prevent future environmental contamination may be capitalized. Other environmental costs are expensed when incurred. For the years ended December 31, 2006, 2007 and 2008, our environmental capital expenditures and remediation expenses were not material. However, our environmental expenditures may increase in the future.

Our commitment towards the environment and social responsibility is a fundamental part of our business culture and values. Accordingly, we have implemented various community support initiatives in the vicinities of our production facilities and have formed alliances with prominent universities in those regions for the joint development of integration and training programs.

The following is a discussion of the environmental regulation and matters in our major markets.

Mexico

We believe that all of our production facilities comply in all material respects with applicable safety and environmental laws. We have obtained all permits and authorizations required for their operation. All of the facilities located in Mexico have received the *Certificado de Industria Limpia* (Clean Industry Certificate) from the *Procuraduría Federal de Protección al Ambiente* (Mexican Environmental Protection Agency), or PROFEPA. The Clean Industry Certificates are renewed every two years. We adhere to the comprehensive responsibility program promoted by ANIQ, which is based on the Responsible Care standard used in the United States and Canada. Mexichem Resinas Vinílicas has received several awards as a result of its advanced safety and environmental protection program. If we were to fail to comply with Mexican environmental laws, we may be subject to fines ranging from Ps. 5,000 up to Ps. 2.5 million, and the Mexican government may partially or totally suspend our activities and impose civil and criminal sanctions on our company or both.

We helped develop the “eco-efficiency” concept, which promotes efficient production methods that minimize harm to the environment. This type of project yields significant environmental and economic benefits, considering that until recently many industrial byproducts and residues had to be specially treated giving rise to increased costs

and a higher impact on the environment. In 2005, we were awarded first place in Mexico's National Thermal Energy Savings Awards, given to companies with exemplary thermal energy conservation practices, thanks to the energy efficiency program instituted by Cloro de Tehuantepec.

In 2006, our Coatzacoalcos chlorine and soda plant, which is operated by Mexichem Derivados, was awarded second place in the Private Sector Industrial Facility Upgrades category during the National Thermal Energy Savings Awards, and our Matamoros hydrofluoric acid plant, which is operated by Mexichem Flúor, was awarded second place in the Best Electricity Efficiency Practices category.

In 2007, we received two Thermal Energy Savings Awards in connection with Cloro de Tehuantepec's and Mexichem Resinas Vinílicas' energy-saving programs.

We are a socially responsible company, which translates into a conscious effort towards the full satisfaction of the expectations placed upon us both internally and as with respect to the economic, social, human and environmental fields. We respect ethical values, people, our communities and the environment. As a result, in 2007 we were declared a Socially Responsible Company by the Mexican Center for Philanthropy, and are allowed to display this designation as part of our corporate image and in our marketing materials, transportation fleet and products during a one-year period, so as to convey to the general public our philosophy and level of commitment in this area.

Brazil

We are subject to Brazilian federal, state and local laws and regulations governing the discharge of effluents and emissions into the environment and the handling and disposal of industrial waste and otherwise relating to the protection of the environment. Under federal and state environmental laws and regulations, we are required to obtain operating permits for our manufacturing facilities, which must be periodically renewed. If any of our environmental licenses and permits lapse or are not renewed or if we fail to obtain any required environmental licenses and permits, we may be subject to fines ranging from R\$500 to R\$50.0 million, and the Brazilian government may partially or totally suspend our activities and impose civil and criminal sanctions on our company or both. All our environmental licenses and permits are in full force and effect.

We believe our operations are in compliance in all material respects with applicable environmental laws and regulations currently in effect in Brazil. We are addressing all environmental issues of which we are aware, and we believe that none of these issues will have a material adverse effect on our business, financial condition or operations.

Colombia

Our production facilities comply with applicable environmental and safety laws and regulations, and have all of the necessary licenses and permits required for their operation. In addition, we are in compliance with the requirements of local environmental authorities related to the environmental impact our operations may cause as a result of effluents, emissions and industrial waste. In addition, we have voluntarily adopted supplementary standards, such as the Complete Responsibility and the Clean Production Agreement. If any of our environmental licenses and permits lapse or are not renewed or if we fail to obtain any required environmental licenses and permits, we may be subject to fines and the Colombian government may partially or totally suspend our activities.

Europe

With our acquisition of Wavin, we are subject to a number of environmental regulations in several jurisdictions in Europe, including with respect to carbon dioxide emissions, energy usage, recycling and waste disposal and various sustainability initiatives. Wavin has implemented various internal processes to monitor and reduce its carbon dioxide emissions, by 20% between 2008 and 2015, and has already obtained a 10% reduction in emissions between 2008 and 2011. Wavin has joined a number of manufacturing organizations committed to reducing energy consumption and improving efficiency and has implemented several facilities initiatives to reduce energy consumption. Wavin has also implemented plastic pipe waste collection schemes in cooperation with a number of customers and local governments. Wavin has also entered into various partnerships with suppliers of recycled materials to share knowledge and expand best practices with respect to its recycling programs and has been steadily increasing its use of recycled materials in its production processes.

Quality and safety controls

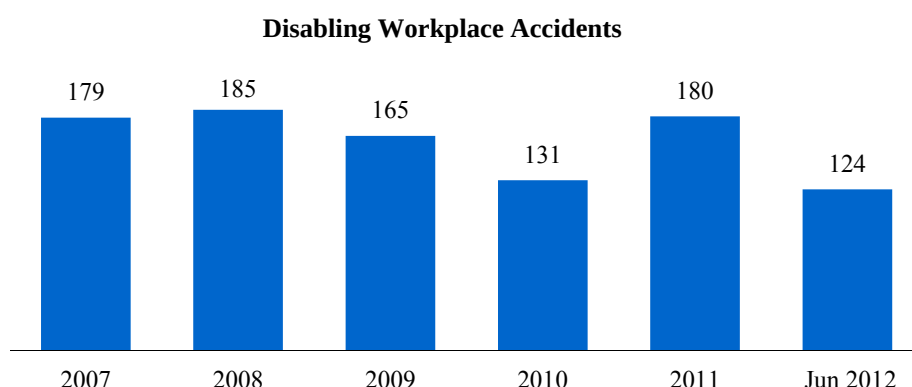
We are certified as ISO 9001 and ISO 14001 compliant, and some of our production facilities, including the plants operated by Petco and Amanco, are certified as OSHA 18000 compliant. Each of our production facilities has a quality control department responsible for ensuring the compliance with our raw material and finished product specifications, and for overseeing the production process. All our testing methods are based on international norms such as ASTM (American Society for Testing and Materials) standards, which are among the most prominent standards developers in the world. Consistent with our independent operating processes criteria, our quality control personnel report to Mexichem CID.

All our facilities have been assigned emergency brigades organized into the fire brigade, the hazardous materials brigade, and the first-aid brigade. All members of these brigades are highly qualified, have received specialized training and have been provided the necessary equipment. In addition, our production facilities have installed safety devices such as smoke detectors, sound alarms and fire sprinklers, among others.

We use the “Stop” preventive security methodology developed by E.I. du Pont de Nemours and Company, which prescribes a comprehensive inspection process and a framework for analyzing the resulting information.

In 2006, the Chlorine Institute awarded Mexichem Derivados’ Coatzacoalcos chlorine and soda facility the Chairman’s Safety Award for over one million hours without an away-from-work accident.

The following chart illustrates our performance with respect to safety, measured in terms of the number of disabling workplace accidents occurred during the periods indicated:



Wavin applies quality assurance standards like ISO 9000 and 9001. Wavin also operates a Total Productive Management (TPM) program with the objective of structurally minimizing production losses, including quality defects. This is monitored continuously via internal reviews.

Property, plant and equipment

Our properties consist primarily of production facilities in 40 countries across Latin America, the United States, Europe and Asia. Our principal executive offices are located in Mexico City, Mexico.

The following table sets forth our properties at December 31, 2011 by location of facilities, products produced and size of plant.

Company/Principal Assets	Size	Installed Capacity	Utilized Capacity (%)
Mexichem Derivados			
Property on industrial complex platform			
Coatzacoalcos.....	40.61 ha	30.00 ha	73.87
Brine warehouse.....	4,293 m ³	4,293 m ³	94.66
Two impurity precipitating reactors	325 m ³ /hr, ea	325 m ³ /hr	94.66
Three brine polishing filters	200 m ³ /hr	200 m ³ /hr	94.66
Two pre-treated brine storage tanks	10,565 m ³	10,565 m ³	94.66
Dissolved salt tank	1,800 m ³	1,800 m ³	94.66

Company/Principal Assets	Size	Installed Capacity	Utilized Capacity (%)
Carbonated salt tank	800 m ³	800 m ³	94.66
Carbonated salt dissolution tower	70 m ³ /hr	70 m ³ /hr	94.66
Four Acuamex brine filters.....	138 m ³	138 m ³	94.66
Four Perrin mud filters	1,416 in ²	1,416 in ²	94.66
Brine saturation tank	310 m ³	310 m ³	94.66
Seven Carrier refrigerators	3,200 ton/hr	3,200 ton/hr	94.66
Two Delaval 4-step centrifugated compressors.....	620 ton/hr, ea	620 ton/hr, ea	94.66
Eight tanks for liquid chlorine.....	300 ton, ea	300 ton ea	94.66
33 Glanor electrolyzers with DeNora-PPG technology	720 ton/day	720 ton/day	94.66
Four General Electric 110/kb rectifying transformers	24,000 kba, 20,800 580v	24,000 kba, 20,800 580v	94.66
Chlorine drying system	64,000 lb/hr	64,000 lb/hr	94.66
Triple-effect evaporation system with Swenson technology	860 ton/day	860 ton/day	94.66
Three liquor celled tanks	5,000 m ³ , ea	5,000 m ³	94.66
Three soda tanks.....	5,000 ton, ea	8,000 ton	94.66
Rail yard.....	14 km	14 km	94.66
Two boilers	80 ton/hr	80 ton/hr	94.66
Powel unit	1.28565 TON/hr	1.28565 TON/hr	94.66
Electrical substation Delle Alsthom SF6.....	115 kv	115 kv	94.66
	72,000 lb/hr ea	72,000 lb/hr ea	
Four Bird centrifuges	56,000 lb/hr ea	56,000 lb/hr ea	94.66
Three Baker centrifuges	52,000 lb/hr ea	52,000 lb/hr ea	94.66
Titanium neutralization tower	40,143 M3/hr	40,143 M3/hr	94.66
Land	14.56 ha	14.56 ha	94.66
Salt cellar.....	4,000 ton	4,000 ton	94.66
Two brine warehouses.....	484,773 lts ea	484,773 lts ea	94.66
Clarifying tank	435,747 lts	435,747 lts	94.66
Two brine filters.....	190 gpm ea	190 gpm ea	94.66
Two secondary brine filters.....	190 gpm ea	190 gpm ea	94.66
Property on industrial complex platform Coatzaocalcos.....	40.61 ha	30.00 ha	73.87
54 MDC29 cells	100 ton/day	100 ton/day	94.66
Chlorine drying system	100 ton/day	100 ton/day	94.66
Hydrogen conditioning system.....	2.8 ton/day	2.8 ton/day	94.66
CL 200/530 chlorine compressor	81 ton/day	81 ton/day	94.66
Five Gabbionet Milan Model 100 CR-N chlorine compressors.....	27 ton/day ea	27 ton/day ea	94.66
Five liquid chlorine warehouses.....	80 ton ea	80 ton ea	94.66
Powel unit	500 ton/day	500 ton/day	94.66
Two Hypochlorite storage tanks.....	45,000 lts ea	45,000 lts ea	94.66
Two Hypochlorite storage tanks.....	50m3 ea	50m3 ea	94.66
HCL synthesis unit	75 ton/day	75 ton/day	94.66
Two HCL storage tanks.....	45,000 lts ea	45,000 lts ea	94.66
Two HCL storage tanks.....	50m3 ea	50m3 ea	94.66
Swenson technology triple effect evaporation system	120 ton/day	120 ton/day	94.66
Two cell liquor storage tanks	927,379 lts ea	927,379 lts ea	94.66
Five sodium storage tanks	128,300 lts ea	128,300 lts ea	94.66
Two Andrix centrifuges	40 Gpm Na ea	40 Gpm Na ea	94.66
Two APV salt centrifuges	154 ton/day ea	154 ton/day ea	94.66
Two Cleaver Brooks boilers.....	13,500 kg/hr ea	13,500 kg/hr ea	94.66
Nebraska Boiler.....	11,000 kg/hr	11,000 kg/hr	94.66
Three IEM rectifier transformers 23/kv.....	23/kv	23/kv	94.66
Chlor-alkali cylindrical storage tanks.....		453,500 l	100.00
Caustic soda storage tank		1,800 ton	72.00
Hydrochloric acid production division		500 ton/day	90.00
Hypochlorite production division.....		600 ton/day	92.00
Electrolytic cells.....	46 units	104 ton/day	84.00

Company/Principal Assets	Size	Installed Capacity	Utilized Capacity (%)
Mexichem Resinas Vinílicas			
Altamira pant (land)	45.4 ha	26 ha	57.27
Polymerization reactors.....	36,000 gal	46.8 ton/load	86.54
Stripping pillars.....	46.1 m ³	82,000 lbs./hr	50.00
Dryers.....		23 ton/hr	95.00
Spheres.....	4,000 m ³	4,000 m ³	80.00
Storage silos.....	390 m ³	390 m ³	80.00
Mexichem Fluór			
San Luis Potosí plant (land)	14 ha	80,000 ton/mo	90.00
Villa de Zaragoza, San Luis Potosi Mine	5,310 ha	1,200,000 ton/yr	100.00
Electrohydraulic jumbos.....	3	25 m perf.	100.00
Dump trucks.....	4	40 ton	100.00
Crushing station	36x42 in; 42x48 in	194 ton ³ /hr; 93 ton ³ /hr	100.00
Benefit plant.....	63 floatation cells	60 sq ft avg., each	100.00
Sulfur trioxide production division	1,100 ton	1,100 ton/day	60.00
Hydrofluoric acid reactor	100 ft & 10 ft d	110,000 ton/yr	72.00
HF II Plant.....	22,000 ton/yr		66.00
AIF3Plant.....	60,000 ton/yr		63.00
Mexichem Fluor, Inc.			
Manufacturing Plant of HFC134a	21,000 ton/yr	21,000 ton/yr	94.50
Fluorocarbon destruction facility	2,600 ton/yr	2,600 ton	52.10
Mexichem UK Ltd.			
Cooling Water	2250 m ³ /hr	2250 m ³ /hr	24.67
HF	27000 tes	30000 tes	56.67
R125.....	5700 tes	5700 tes	97.56
VTU	3.2 Te/day HFC 23	3.2 Te/day HFC 23	33
Mexichem Fluor Japan			
Manufacturing Plant of HFC134a	21,000 ton/yr	21,000 ton/yr	94.50
Fluorocarbon Destruction Facility.....	2,600 ton/yr	2,600 ton	52.10
Mexichem Fluor Taiwan			
Blending Facility.....	4,000 ton/yr	4,000 ton/yr	33.60
Repacking Facility	1,500 ton/yr	1,500 ton/yr	59.70
AlphaGary			
Leominster plant	135,000 ft2	90 million lbs	80.00
Pineville plant	125,000 ft2	75 million lbs	85.00
Melton Mowbray plant.....	110,000 ft2	65 million lbs	85.00
Materials cellar.....	80,000 ft2		
Unimisur			
Unimisur plant (land)	470 ha		
Salt duct	46 km		
Raw brine tank	1,500 m ³	1,500 m ³	
Diesel storage tank	900 m ³	900 m ³	
Mexichem Resinas Colombia			
MYCOM ammonium refrigeration system			85.00
Distributed control system.....			85.00
York ammonium refrigeration system.....			85.00
Resin dryer			85.00
VCM storage spheres			85.00
Dust collectors.....			85.00
Latex dryer			85.00
Reactors.....			85.00
Distributed control systems			85.00
Centrifuges.....			85.00
Integral Solutions			
Extraction machines.....			89.00
Mixers			87.00
Injectors.....			88.00
Land			

(1) One hectare equals 10,000 square meters.

We believe that all of our production facilities are in good operating condition. At June 30, 2012, the consolidated net book value of our property, plant and equipment was Ps. 28,957 million.

Insurance

We maintain insurance against the risks and in the amounts that are customary in the chemical industry in the markets where we operate. Our principal insurance policies include the following:

- “Umbrella” business insurance policy against:
 - > Fire, weather-related risks, earthquake and volcanic eruption in respect of our buildings, personal property (machinery, furniture and equipment), inventory and gross profit;
 - > Technical risks, including breakages in our machinery, electronic equipment and underground transportation equipment; and
 - > Other risks such as robbery, theft of money or securities, and window breakages.

The relevant insured values have been determined based on the replacement cost, in the case of fixed assets, or the most-recent-purchase price, in the case of inventories and gross sales, as reflected by our operating budget for 2011. The amounts insured vary from subsidiary to subsidiary, but generally range between US\$50.0 million and US\$280.0 million.

- Carriers’ insurance in respect of all shipments in which our subsidiaries may have an insurable interest (e.g., purchases, sales and inter-facility transportation), for maximum insured amounts ranging between US\$1.2 million and US\$6.0 million.
- Third-party property damage and bodily injury insurance, in amounts ranging from US\$10.0 million to US\$50.0 million.
- Directors’ and officers’ liability insurance in the amount of US\$10.0 million.

MANAGEMENT

Our directors

Our board of directors consists of 16 members and 9 alternates. Under Mexican law, any holder of 10.0% or more of our shares has the right to appoint one director, and such votes will be excluded for purposes of electing the remaining directors. According to our bylaws, our directors hold their offices for the term of one year until they are reelected at our annual shareholders' meeting. The business address of our board of directors is Río San Javier No.10, Fraccionamiento Viveros del Río, Tlalnepantla, Estado de México, México, C.P. 54060.

The following table sets forth the names of these directors, their date of birth and their years of service as directors:

Name	Date of Birth	Position	First Elected
Antonio del Valle Ruíz	August 13, 1938	Honorary Chairman	2000
Juan Pablo del Valle Perochena.....	October 4, 1972	Chairman	2002
Antonio del Valle Perochena.....	July 21, 1968	Director	2002
Francisco Javier del Valle Perochena.....	February 2, 1970	Director	2002
Adolfo del Valle Ruíz.....	March 17, 1948	Director	1993
Ignacio del Valle Ruíz	August 17, 1949	Director	2000
Ricardo Gutiérrez Muñoz	August 21, 1943	Director	2000
Jaime Ruíz Sacristán.....	October 27, 1949	Director	2000
Divo Milán Haddad	April 3, 1956	Independent Director	2003
Fernando Ruíz Sahagún.....	October 23, 1943	Independent Director	2003
Jorge Corvera Gibsone	August 4, 1946	Independent Director	2005
Guillermo Ortiz Martinez	July 21, 1948	Independent Director	2010
Eduardo Tricio Haro	August 5, 1963	Independent Director	2008
Juan Beckmann Vidal	February 9, 1940	Independent Director	2012
Valentín Díez Morodo	June 1, 1940	Independent Director	2005
Eugenio Clariond Reyes Retana	August 10, 1943	Independent Director	2007

Juan Pablo del Valle Perochena holds a degree in Engineering from the Universidad Anáhuac, and he has an MBA from the Harvard Business School. He is the founder of Grupo Modelo Progresivo, S.A. de C.V. He has been member of Mexichem's Board of Directors since 2002, and in April 2011 he was elected Chairman of the Board of Mexichem, S.A.B. de C.V. In addition to his service on Mexichem's board and that of its subsidiaries, he is also a member of the Boards of Directors of the following companies: Banco Ve por Más, S.A., Institución de Banca Múltiple, Grupo Financiero Ve por Más, Mexichem, S.A.B. de C.V., Elementia, S.A. de C.V., Kaluz, S.A. de C.V., Controladora GEK, S.A.P.I. de C.V. and Grupo Pochteca, S.A.B. de C.V.

Antonio del Valle Ruíz holds a degree in Accounting from Escuela Bancaria Comercial and is a member of the boards of directors of Kaluz, S.A. de C.V., Mexalit, S.A. de C.V., Teléfonos de México, S.A.B. de C.V., Grupo Financiero Ve por Más, S.A. de C.V. and Pochteca Materias Primas, S.A. de C.V.

Antonio del Valle Perochena holds a degree in Business Administration from the Universidad Anáhuac, and has a degree in Executive Education from IPADE Business School. Currently, he is the CEO of Banco Ve por Mas, S.A. Institución de Banca Múltiple. He has been a member of Mexichem's Board of Directors since 2002 and is member of the Boards of Directors of the following companies: Banco Ve por Más, S.A., Institución de Banca Múltiple, Grupo Financiero Ve por Más, Mexichem, S.A.B. de C.V., Kaluz, S.A. de C.V., Elementia, S.A. de C.V., Controladora GEK, S.A.P.I. de C.V. and Afianzadora Sofimex, S.A.

Francisco Javier del Valle Perochena holds a degree in Business Administration from the Universidad Anáhuac. Currently, he is the CEO of Controladora GEK, S.A.P.I. de C.V. He has been member on the Board of Directors of Mexichem, S.A.B. de C.V. since 2002 and is also a member of the Boards of Directors of the following companies: Banco Ve por Más, S.A., Institución de Banca Múltiple, Grupo Financiero Ve por Más, Mexichem, S.A.B. de C.V., Elementia, S.A. de C.V., Kaluz, S.A. de C.V. and Controladora GEK, S.A.P.I. de C.V.

Adolfo del Valle Ruíz holds a degree in Accounting from Escuela Bancaria Comercial and is a member of the boards of directors of Constructora y Perforadora Latina, S.A. de C.V. and Pochteca Materias Primas, S.A. de C.V.

Ignacio del Valle Ruíz holds a degree in Accounting from Escuela Bancaria Comercial and is a member of the boards of directors of Mexalit, S.A. de C.V. and Fincomún Servicios Financieros, S.A. de C.V.

Ricardo Gutiérrez Muñoz holds a degree in Accounting from Instituto Politécnico Nacional and a Masters in Business Administration from Universidad La Salle and has been a member of the board of directors of Mexichem since 2000. In addition, he is a member of the boards of directors of several Mexichem subsidiaries. Mr. Gutiérrez Muñoz has been recently appointed President of the Executive Committee of Mexichem, after been the Chief Executive Officer of Mexichem for 15 years.

Jaime Ruíz Sacristán holds a degree in Business Administration from the Universidad Anáhuac and is a member of the boards of directors of Mexalit, S.A. de C.V., Banco Ve por Más, S.A., Institución de Banca Múltiple, and Casa de Bolsa Arka, S.A. de C.V.

Divo Milán Haddad holds a degree in law from Escuela Libre de Derecho. He is a member of the boards of directors of New Down Mining, Net Capital, Plus Mil, Banco Ve por Más, S.A., Institución de Banca Múltiple, Círculo de Crédito and Círculo Laboral.

Fernando Ruíz Sahagún holds a degree in Accounting from Universidad Nacional Autónoma de México and is a member of the boards of directors of Kimberly-Clark de México, S.A. de C.V., San Luis Corporación, S.A.B. de C.V., Grupo Cementos de Chihuahua S.A.B. de C.V., Pochteca, Grupo México, S.A.B. de C.V., Empresas ICA, S.A.B. de C.V., Grupo Financiero Santander, S.A.B. de C.V., Fresnillo PLC, Bolsa Mexicana de Valores, S.A.B. de C.V., Grupo Palacio de Hierro, S.A.B. de C.V., Corporación Scribe, S.A.P.I. de C.V., Bacardi y Compañía, S.A. de C.V. ArcelorMittal Lázaro Cárdenes, S.A. de C.V., Grupo Palacio de Hierro, S.A.B. de C.V.

Jorge Corvera Gibsone holds a degree in Accounting from Universidad Iberoamericana and is a member of the boards of directors of Aon Risk and Grupo Financiero Banamex, S.A.B. de C.V.

Guillermo Ortiz Martínez holds a degree in Economics from Universidad Nacional Autónoma de México and has a Ph. D. in Economics from Stanford University. He worked as governor of the Mexican Central Bank and he was appointed as minister of the Treasury Ministry. Currently, he is the president of the Board of Director of Grupo Financiero Banorte.

Eduardo Tricio Haro holds a degree in Agriculture Engineering from the ITESM and is a member of the boards of directors of Grupo Financiero Banamex, S.A.B. de C.V., Teléfonos de México, S.A.B. de C.V., Consorcio Aeroméxico S.A.B. de C.V., Grupo Industrial Saltillo, S.A.B. de C.V. and Bolsa Mexicana de Valores, S.A.B. de C.V.

Juan Beckmann Vidal holds a degree in Accounting and an MBA from ITESM. He has several postgraduate studies in Business and Management from Stanford University. He is Chairman and shareholder of several Mexican companies, including, among others, José Cuervo and subsidiaries, Grupo JB and subsidiaries, Grupo Financiero Banamex, S.A.B. de C.V. and Grupo Peñoles. He also is member of Consejo Coordinador Empresarial, Confederación Patronal de la República Mexicana (COPORMEX), Consejo Mexicano de Hombres de Negocios, A.C., Instituto Mexicano para la Competividad, A.C., (IMCO)

Valentín Díez Morodo holds a degree in Business Administration from the Universidad Iberoamericana and a Master's degree in Marketing from Michigan University and is a member of the boards of directors of Grupo Financiero Banamex, S.A.B. de C.V., Acciones y Valores Banamex, S.A. de C.V., Casa de Bolsa, Integrante del Grupo Financiero Banamex, Kimberly-Clark de México, S.A.B. de C.V., Grupo Alfa, S.A.B. de C.V., Grupo México, S.A.B. de C.V., Grupo Kuo, S.A.B. de C.V., Grupo MVS, S.A. de C.V., Zara México S.A. de C.V., Telefónica Móviles México, S.A. de C.V. and Consorcio Aeroméxico, S.A. de C.V.

Eugenio Clariond Reyes Retana holds a degree in Business Administration from ITESM and is a member of the boards of directors of Verzatec, Amanco, Grupo Industrial Saltillo, S.A.B. de C.V., Grupo Financiero Banorte, S.A.B. de C.V., Fiat Mexico, Honda Plaza Automotores and Toyota Innova.

Antonio del Valle Ruíz, Adolfo del Valle Ruíz and Ignacio del Valle Ruíz are brothers. Antonio del Valle Ruíz is the father of María Blanca del Valle Perochena, Guadalupe del Valle Perochena, Antonio del Valle Perochena, Francisco Javier del Valle Perochena and Juan Pablo del Valle Perochena. Adolfo del Valle Ruíz is the father of Adolfo del Valle Toca and Gerardo del Valle Toca. Ignacio del Valle Ruíz is the father of José Ignacio del Valle Espinoza. Antonio del Valle Ruíz, Adolfo del Valle Ruíz and Ignacio del Valle Ruíz are cousins of Jaime Ruíz Sacristán. Armando Santacruz Baca is the father-in-law of Maria Blanca del Valle Perochena.

Kaluz, S.A. de C.V., Elementia, S.A. de C.V., Grupo Financiero Ve por Más, S.A. de C.V., Grupo Pochteca, S.A.B. de C.V., Materias Primas, S.A. de C.V., Banco Ve por Más, S.A., Casa de Bolsa Arka, S.A. de C.V. and Constructora y Perforadora Latina, S.A. de C.V. are related parties to us.

Our board of directors

The management of our business is vested in our board of directors as provided in our bylaws. All of the members of our board of directors were elected or re-elected at the annual shareholders' meeting held on April 29, 2011. Our bylaws provide that the members of the board of directors are elected for renewable terms of one year, but must remain in office for 30 days after their resignation or expiration of their term if a substitute is not elected or appointed. Under the Mexican Securities Market Law and our bylaws, our board of directors must consist of at least five and no more than 21 members, of which at least 25.0% must qualify as independent directors. Independent directors are elected based on their experience, ability and reputation. Whether a director is independent or not is determined at the shareholders' meeting, although this determination may be challenged by the CNBV. Our officers and employees and those of our subsidiaries, persons with the ability to control or that own 20.0% or more of our outstanding shares, material clients and suppliers, and relatives of any of the foregoing are not deemed independent.

The chairman of our board of directors, 25.0% of the board of directors or the president of the corporate practices committee or the audit committee may call for a board of directors' meeting. In addition, the Mexican Securities Market Law provides that our board of directors must approve all transactions that deviate from our ordinary course of business and those that are to be entered into between us and any of our shareholders, our managers or other related parties. The chairman of our board of directors, Antonio del Valle Ruíz, has the decisive vote in the event of a tie. The board of directors is required to meet at least once every quarter.

Committees of our board of directors

Our board of directors has two standing committees: the corporate practices committee and the audit committee. Since May 2010, the responsibilities of these two committees have been carried out by a single audit and corporate practices committee.

As set forth in the Mexican Securities Market Law, our corporate practices committee is required to provide opinions to the board of directors, request and obtain opinions from independent third-party experts, call shareholders' meetings, provide assistance to the board in the preparation of annual reports and provide a report to the board of directors. Our corporate practices committee currently consists of Fernando Ruíz Sahagún, Divo Milán Haddad and Eugenio Clariond Reyes Retana, all of whom are independent.

Our audit committee's principal role is to supervise our external auditors, analyze the external auditors' reports, inform the board of directors in respect of existing internal controls, supervise the execution of related party transactions, require our officers to prepare reports when necessary, inform the board of any irregularities that it encounters, supervise the activities of our chief executive officer and provide an annual report to the board of directors. Our audit committee currently consists of Fernando Ruíz Sahagún, Divo Milán Haddad and Eugenio Clariond Reyes Retana, all of whom are independent directors.

Our executive officers and senior management

The following table sets forth our current executive officers, their date of birth and their position:

Name and Date of Birth	Date of Birth	Position
Antonio Carrillo Rule	May 5, 1966	Chief Executive Officer
Miguel Ruiz Tapia	April 8, 1965	Chief Financial Officer
Enrique Ortega Prieto	November 6, 1965	Director of Strategic Planning and Investor Relations

Name and Date of Birth	Date of Birth	Position
Lyz Marisol Quintero Calleja	July 8, 1978	Legal Coordinator
Héctor Valle Martín.....	November 12, 1963	Director of the Fluorine Division
Carlos Manrique Rocha.....	December 4, 1955	Director of the Chlorine-Vinyl Division
Victor Aguilera Rey.....	January 27, 1960	Director of the Integral Solutions Division

Antonio Carrillo Rule holds a degree in Mechanical and Electrical Engineering from Universidad Anáhuac and an MBA with a major in finance from the Wharton School of the University of Pennsylvania. He began his career with Electrodo S.A. de C.V. in 1988 as the production manager of the wire plant. Mr. Carrillo served as Group President of the Energy Equipment Group for Trinity Industries Inc., in Dallas, Texas from 2009 to 2012. In 2012 he was appointed CEO of Mexichem, S.A.B. de C.V.

Miguel Ruiz Tapia has been with the Company for 9 years. He holds a degree in Accounting.

Enrique Ortega Prieto has been with the Company for 23 years and has been the Director of our strategic planning and investor relations since 2005. He holds a degree in Chemical Engineering from Universidad de las Américas and a Master's degree in Business Administration in International Business from ITESM.

Lyz Marisol Quintero Calleja has been with Mexichem for four years. She holds a law degree from Universidad Nacional Autónoma de México, she has two postgraduate studies in business law and management. Prior to joining the Company she was the Assistant General Counsel for Umbral Capital, S.A.P.I. de C.V.

Héctor Valle Martín has been with the Company for 21 years and has been the Director of the Fluorine Division since 2002. He holds degrees in Industrial Engineering and Systems Engineering from ITESM.

Carlos Manrique Rocha has been with the Company for 31 years and has been the Director of the Integral Solutions Division since 2011. He holds postgraduate degrees in Business Management from IPADE and in Process Statistical Control from ITESM.

Victor Aguilera Rey has been with the Company for 22 years and has been the Director of the Chlorine-Vinyl Division since February 2011. He holds an Electrical Engineering degree, as well as a master's degree in Management.

Compensation of directors and officers

We estimate that the aggregate annual compensation for our principal executives and 32 other officers is approximately Ps. 145.8 million (US\$10.9 million). Our directors' compensation was determined at the general annual shareholders' meeting held on April 30, 2012. The chairman of the board and of the corporate practices and audit committees receive Ps. (140,000.00 (US\$10,037.57) per session attended. All other directors receive Ps. 70,000.00 (US\$5,018.78) per session attended, except that those attending corporate practices or audit committee sessions receive Ps. 80,000.00 (US\$5,735.75) per session attended.

Benefit plan for key executives

On February 28, 2011, the Company established an options plan for "phantom" shares for top level officers, which consists of granting the equivalent of a performance bonus if the eligible officers complete three years of service in the Company. The cost for the year is recognized based on the probability that the officers will remain at the Company upon maturity. The estimated fair value for each share option granted under the phantom plan is determined by applying the binomial options valuation method. At December 2011 the elements entered into the model were the share price of \$43.50 at the grant concession date, the strike price of \$44.69, expected volatility of 3%, the lack of expected dividends, the three-year term of the contract and a risk-free interest rate of 5.17%. To calculate the effects, it was assumed that the employees would exercise the options after the irrevocable date of the concession when the share price was \$49.59. The cost for year 2011 was \$5,874 and as of June 30, 2012 was \$10,407.

PRINCIPAL SHAREHOLDERS

The following table sets forth information about the beneficial ownership of our capital stock by each person or entity known by us to beneficially own 5% or more of our capital stock as of the date of this offering memorandum.

Shareholder	Shares beneficially owned	
	Total	(%) of capital stock
Kaluz, S.A. de C.V.	871,091,202	47.3
Shareholders related to the controlling group	310,787,386	16.9
Subtotal.....	1,181,878,588	64.2
Public shareholders.....	658,121,412	35.8
Total.....	1,840,000,000	100.0

Members of the del Valle family control approximately 47% of our outstanding voting capital stock through their holdings in Kaluz, S.A. de C.V.. These shareholders therefore have the ability to direct the outcome of substantially all matters submitted to a vote of our shareholders, including the election of the majority of directors and, as a result, any decisions taken by the board of directors (including those decisions affecting our future growth and strategy). Approximately 36% of the outstanding voting capital stock are publicly held.

The members of the del Valle family that are shareholders of Kaluz, S.A. de C.V. include Antonio del Valle Perochena, Francisco Javier del Valle Perochena, Juan Pablo del Valle Perochena, María Blanca del Valle Perochena and María de Guadalupe del Valle Perochena. Other members of the del Valle family that are owners of our outstanding voting capital stock are Ignacio del Valle Ruiz and Adolfo del Valle Ruiz.

All shares issued by the Company, grant their holders the same voting rights. Consequently, majority shareholders of the Company do not have different voting rights from the rest of our shareholders.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

General

In the past we have engaged in, and expect that in the future we will continue to engage in, transactions with our directors, officers, principal shareholders and their respective affiliates or subsidiaries, including, without limitation, the transactions described below. The terms of these transactions are typically negotiated by one or more of our employees who are not related parties, taking into account the same business considerations that would apply to transactions with unrelated third parties, and are subject to meeting the relevant market price for the transaction, which is verified by our independent auditors at the end of each year. We believe that these arrangements are generally on terms at least as favorable as those that we could obtain from an unaffiliated third party, to the extent there are third parties which could provide comparable services. Related party transactions must be analyzed by our Corporate Practices Committee prior to recommending for ratification by our board of directors.

Related party transactions

We have numerous investment, trust and bank accounts with Banco Ve por Más, S.A. de C.V. and Casa de Bolsa Arka, S.A. de C.V., which are controlled by members of the del Valle family. These accounts pay interest at prevailing market rates.

We have a services agreement with Kaluz, our principal shareholder, for consulting services, for which we pay Kaluz a monthly sum equivalent to the costs of the services provided including but not limited to employee salaries, taxes and expenses related to the services provided. Furthermore, we pay an additional 11.5% over the costs described above. We paid Ps. 261 million to Kaluz in 2011 in connection with this agreement.

Mexichem Fluor donates Ps. 2,000,000 (US\$149,477) per month to Fundación Kaluz, A.C., a non-profit organization that is controlled by Kaluz and that is dedicated to providing goods and services to the homeless and needy throughout Mexico.

The following table sets forth amounts due to and from our related parties at December 31:

Related Party Balances	2011	2010	2009
	(Thousands of Mexican Pesos)		
Due from related parties:			
Pochteca Materias Primas, S.A. de C.V.	62,747	15,628	35,556
Elementia, S.A. de C.V.	4,909	—	—
Controladora GEK, S.A. de C.V.	1,550	—	—
Eternir Colombiana, S.A.	678	3,913	2,914
Other	1,942	1,604	1,217
Total revenues	71,826	21,145	39,687
Due to related parties:			
Kaluz, S.A. de C.V.	365,744	262,444	212,533
Plaza Azcapotzalco, S.A. de C.V.*	8,380	5,754	4,607
Aerokaluz, S.A. C.V.*		4,947	
Other	555	608	1,162
Total expenses	374,679	273,753	218,302

* Entities controlled directly or indirectly by Kaluz, S.A. de C.V., our principal shareholder, or its shareholders.

DESCRIPTION OF NOTES

We issued the Notes under an indenture dated September 19, 2012 by and among the Company, the Subsidiary Guarantors (as defined below), Deutsche Bank Trust Company Americas, as trustee (which term includes any successor as trustee under the indenture), principal paying agent and transfer agent, and Deutsche Bank Luxembourg S.A., as paying agent and transfer agent in Luxembourg. A copy of the indenture, including the form of 2022 Notes and 2042 Notes, is available for inspection during normal business hours at the offices of the trustee and any of the other paying agents set forth on the inside back cover page of this offering memorandum. The trustee or any other paying agent, as applicable, will also act as transfer agent and registrar if we issue certificates for the Notes in definitive registered form.

This Description of Notes presents a complete description of the material provisions of the Notes and the indenture. You should refer to the indenture for a more detailed description of the terms and conditions of the Notes and the indenture, including our obligations and your rights.

You will find the definitions of capitalized terms used in this section under “—Certain definitions.” For purposes of this section of this offering memorandum, references in this description of Notes to “we,” “us,” “our,” “the Company” or “Mexichem” refer only to Mexichem, S.A.B. de C.V. and not to its subsidiaries.

General

The Notes:

- are our senior unsecured obligations (subject to certain obligations that are preferred by statute);
- are initially limited to an aggregate principal amount of U.S.\$1,150,000,000 (U.S.\$750,000,000 of 2022 Notes and U.S.\$400,000,000 of 2042 Notes);
- will mature at 100% of their principal amount, the 2022 Notes maturing on September 19, 2022 and the 2042 Notes maturing on September 19, 2042;
- are issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof;
- are represented by one or more registered notes in global form and may be exchanged for notes in definitive form only in limited circumstances; and
- are guaranteed by the following Subsidiaries: (i) Mexichem Brasil Industria de Transformação Plastica (ii) Mexichem Derivados, S.A. de C.V.; (iii) Mexichem Resinas Vinílicas, S.A. de C.V.; (iv) Mexichem Fluor, S.A. de C.V.; (v) Mexichem Resinas Colombia, S.A.S. (vi) Mexichem Soluciones Integrales, S.A. de C.V.; (vii) Mexichem Compuestos, S.A. de C.V.; (viii) Mexichem UK Limited.; (ix) Mexichem Fluor, Inc.; and (x) Mexichem Ecuador, S.A. (collectively, the “Subsidiary Guarantors”). As of and for the six months ended June 30, 2012, the Subsidiary Guarantors (in addition to Mexichem, on a stand-alone basis) accounted for 48.9% of our total assets and 56.1% of our EBITDA on a consolidated basis.

Interest on the Notes:

- accrues at the rate of 4.875% per annum for the 2022 Notes and at the rate of 6.750% per annum for the 2042 Notes;
- accrues from the date of issuance or from the most recent interest payment date;
- is payable in cash, semi-annually in arrears on March 19 and September 19 of each year, commencing on March 19, 2013;
- is payable to the persons in whose name the Notes are registered at the close of business on the March 1 and September 1 immediately preceding each interest payment date; and
- is computed on the basis of a 360-day year comprised of twelve 30-day months.

Principal of, and interest, including any Additional Amounts on, the Notes is payable, and the transfer of Notes is registrable, at the office of the trustee, and at the offices of the paying agents and transfer agents, respectively. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and trading on the Euro MTF, we will maintain a paying agent and transfer agent in Luxembourg.

Ranking of notes and guarantees

The Notes constitute our direct senior unsecured obligations. The 2022 Notes and the 2042 Notes rank *pari passu* in priority of payment with each other and if we were to issue any debt other than the Notes, the Notes will rank at least *pari passu* in priority of payment with all our other existing and future senior unsecured indebtedness.

In the event of a bankruptcy or liquidation proceeding by or against us, our obligations under the Notes will rank equal in right of payment to all other of our existing and future senior unsecured indebtedness, subject to certain statutory preferences under applicable law, including labor and tax claims.

The Subsidiary Guarantors fully and unconditionally guarantee the full and punctual payment of principal, premium, if any, interest, including any Additional Amounts, and any other amounts that may become due and payable by us in respect of the 2022 Notes and the 2042 Notes. If we fail to pay any such amount, the Subsidiary Guarantors will immediately pay the amount that is due and required to be paid.

The Subsidiary Guarantors' guarantees of the 2022 Notes and the 2042 Notes are not and will not be secured by any of their assets or properties. As a result, if the Subsidiary Guarantors are required to pay under the guarantees, holders of the Notes would be unsecured creditors of the Subsidiary Guarantors. The guarantees are not and will not be subordinated to any of the Subsidiary Guarantors' other unsecured debt obligations. In the event of a bankruptcy or liquidation proceeding against any of the Subsidiary Guarantors, the guarantees would rank equally in right of payment with all of such Subsidiary Guarantors' other unsecured and unsubordinated debt.

None of our subsidiaries other than the existing Subsidiary Guarantors will have any obligations with respect to the Notes unless other entities become guarantors. As a result, the Notes and guarantees are effectively subordinated to claims of creditors (including trade creditors and preferred stockholders, if any) of each of the subsidiaries other than the existing Subsidiary Guarantors.

A Subsidiary Guarantor's guarantee of the Notes will terminate upon: (i) a sale or other disposition (including by way of consolidation or merger) of the Subsidiary Guarantor or the sale or disposition of all or substantially all the assets of the Subsidiary Guarantor (other than to us or another Subsidiary), as provided below under "— Limitations on consolidation, merger or transfer of assets"; (ii) if the guarantee was required pursuant to the terms of the indenture, the cessation of the circumstances requiring the guarantee; or (iii) defeasance or discharge of the Notes, as provided below under the caption "—Defeasance". As of June 30, 2012, we and the Subsidiary Guarantors had Ps. 25,009.5 million of total indebtedness, none of which is secured debt and Ps. 8,203.4 million of which is unsecured debt of our non-guarantor Subsidiaries, all of which is structurally senior to the Notes.

Payments

We will make all payments on the Notes exclusively in such coin or currency of the United States as at the time of payment will be legal tender for the payment of public and private debts.

We will make payments of principal and interest on the Notes to the principal paying agent (as identified on the inside back cover page of this offering memorandum), which will pass such funds to the trustee and the other paying agents or to the holders.

We will make payments of principal upon surrender of the relevant Notes at the specified office of the trustee or any of the paying agents. We will pay principal on the Notes to the persons in whose name the Notes are registered at the close of business on the fifteenth day immediately preceding the due date for payment. Payments of principal and interest in respect of each Note will be made by the paying agents by U.S. dollar check drawn on a bank in the City of New York and mailed to the holder of such Note at its registered address. Upon application by the holder to the specified office of any paying agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a U.S. dollar account maintained by the payee with a bank in The City of New York.

Under the terms of the indenture, payment by us of any amount payable under the Notes by 10:00 A.M. (New York time) on the Business Day prior to the due date thereof to the trustee in accordance with the indenture will satisfy our obligation to make such payment; *provided, however*, that the liability of the principal paying agent shall not exceed any amounts paid to it by us, or held by it, on behalf of the holders under the indenture. We have agreed in the indenture to indemnify the holders if there is subsequent failure by the trustee and paying agent to pay any amount due in respect of the Notes in accordance with the indenture (including, without limitation, any failure to pay any amount due as a result of the imposition of any present or future taxes, duties, assessments, fees or governmental charges of whatever nature (and any fines, penalties or interest related thereto)) as will result in the receipt by the holders of such amounts as would have been received by them had no such failure occurred.

All payments will be subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions of “—Additional amounts.” No commissions or expenses will be charged to the holders in respect of such payments.

We shall, to the extent permitted by law, use commercially reasonable effort to maintain a paying agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48 EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000, or any law implementing or complying with or introduced in order to conform to, such Directive.

Subject to any applicable abandoned property law, the trustee and the paying agents will pay to us upon request any monies held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, holders entitled to such monies must look to us and the Subsidiary Guarantors for payment as our and their general creditors. After the return of such monies by the trustee or the paying agents to us, neither the trustee nor the paying agents shall be liable to the holders in respect of such monies.

Form, denomination and title

The Notes are in registered form without coupons attached in amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

Notes sold in offshore transactions in reliance on Regulation S are represented by permanent global notes in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC. Notes sold in reliance on Rule 144A are represented by permanent global notes in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC. Beneficial interests in the global notes is shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream Luxembourg. Except in certain limited circumstances, definitive registered Notes will not be issued in exchange for beneficial interests in the global notes.

Title to the Notes passed by registration in the register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, writing on, or theft or loss of, the definitive Note issued in respect of it) and no person will be liable for so treating the holder.

Redemption

No sinking fund is provided for the Notes.

We will give not less than 30 days’ nor more than 60 days’ notice of any optional redemption to holders of the Notes, which notice will be irrevocable and will be mailed to the registered address of each holder of Notes and published in Luxembourg as described in “—Notices” below. On and after any redemption date, interest will cease to accrue on any Notes called for redemption as long as we have deposited with the trustee funds in satisfaction of the applicable redemption price pursuant to the indenture.

Optional redemption

Each series of Notes is redeemable as a whole or in part, at our option at any time, at a redemption price, as calculated by the Company, equal to the greater of (i) 100% of the principal amount of each series of Notes and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a

360-day year consisting of twelve 30-day months) at the Treasury Rate plus (a) 50 basis points for the 2022 Notes, and (b) 50 basis points for the 2042 Notes, plus, in each case, accrued interest thereon to the date of redemption and any Additional Amounts payable with respect thereto.

Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Notes or portions thereof called for redemption.

On and after the redemption date, interest on the Notes or any portion of the Notes called for redemption will cease to accrue (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with the trustee funds sufficient to pay the redemption price and accrued interest, through the redemption date, on the Notes subject to redemption. If the redemption date falls after a record date but on or prior to the corresponding interest payment date, we will pay accrued interest to the holder of record on the corresponding record date, which may or may not be the person who will receive payment of the redemption price (which will exclude such accrued interest). If less than all the Notes of a series are to be redeemed, the Notes of such series to be redeemed will be selected by the trustee by lot or by such method in accordance with DTC procedures.

Tax redemption

We may at any time redeem each series of Notes, at our option, in whole, but not in part, at a redemption price equal to 100% of the then-outstanding principal amount, together with accrued and unpaid interest through the date of redemption, including any Additional Amounts, if any, if:

(a) We certify to the trustee (in the manner prescribed below) immediately prior to the giving of notice of redemption that we (or a Subsidiary Guarantor) have or will become obligated to pay Additional Amounts in connection with payments on the Notes in respect of withholding taxes in excess of 4.9% (the “Excess Additional Amounts”) as a result of any generally applicable change in or amendment to the laws or regulations of a Relevant Jurisdiction or any political subdivision or governmental authority thereof or therein having power to tax, or any generally applicable change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective or, in the case of a change in official position, is announced on or after the date of issuance of the Notes; and

(b) such obligation cannot be avoided by taking reasonable measures available to us or, as the case may be, the relevant Subsidiary Guarantor; *provided, however*, that the notice of redemption, which will specify the date and redemption price, will not be given earlier than 60 days before the earliest date on which we or, as the case may be, a Subsidiary Guarantor, would be obligated to pay such Excess Additional Amounts if a payment in respect of the relevant series of Notes were then due.

Before giving any notice of redemption as described in the preceding clauses, we will deliver an officer’s certificate to the trustee stating that we are entitled to effect such redemption in accordance with the terms of the indenture and setting forth in reasonable detail a statement of facts relating thereto. The certificate will be accompanied by a written opinion of recognized independent counsel experienced in tax and other related matters in the relevant jurisdiction to the effect that:

(a) we or, as the case may be, the relevant Subsidiary Guarantor, have or will become obligated to pay the Excess Additional Amounts as a result of such change or amendment; and

(b) all governmental approvals necessary for us to effect the redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion have not been obtained.

Redemption upon change of control

Upon the occurrence of a Change of Control Triggering Event, the holders of each series of Notes will have the right to require us to purchase all or a portion of their Notes (in integral multiples of U.S.\$1,000) pursuant to a Change of Control Offer (as defined below) at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase, including any Additional Amounts payable with respect thereto (the “Change of Control Payment” and the date of such purchase, the “Change of Control Payment Date”), in accordance with the procedures set forth below. If the date of purchase is on a date that is after a record date and on

or prior to the corresponding interest payment date, we will pay such interest to the holder of record on the corresponding record date, which may or may not be the same person to whom we will pay the purchase price.

Within 30 days following the consummation of any transaction constituting a Change of Control Triggering Event, we will send, by first-class mail, a notice to each holder with a copy to the Trustee (the “Change of Control Offer”) and publish the notice in a newspaper having a general circulation in Mexico, the United States of America and, as long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and trading on the Euro MTF and the rules of such exchange so require, in Luxembourg. Our failure to give notice in the manner described herein will not affect the rights of the holders to require us to purchase the Notes. The notice of the Change of Control Offer will state, among other things:

- (a) that a Change of Control Triggering Event has occurred and that such holder has the right to require us to purchase such holder’s Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest on the relevant interest payment date);
- (b) the circumstances and relevant facts regarding such Change of Control Triggering Event;
- (c) the Change of Control Payment Date, which will be no earlier than 30 days nor later than 60 days from the date such notice is mailed, other than as may be required by law;
- (d) the jurisdiction of incorporation of the successor controlling entity; and
- (e) the instructions, as determined by us, consistent with the covenant described hereunder, that a holder of Notes must follow in order to have its Notes purchased.

On the Change of Control Payment Date, we will, to the extent lawful:

- (a) accept for payment all Notes or portions thereof properly tendered pursuant to the Change of Control Offer;
- (b) deposit with the paying agent funds in an amount equal to the Change of Control Payment in respect of all Notes or portions thereof so tendered; and
- (c) deliver or cause to be delivered to the Trustee the Notes so accepted together with an officer’s certificate stating the aggregate principal amount of Notes or portions thereof we are purchasing.

If only a portion of a Note is purchased pursuant to a Change of Control Offer, a new Note in a principal amount equal to the portion not purchased will be issued in the name of the holder of such Note upon cancellation of the original Note, or appropriate adjustments to the amount and beneficial interests in a global note will be made, as appropriate. The minimum amount of such new Note will be U.S.\$200,000.

We will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of Notes in connection with a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the covenant described hereunder by virtue of our compliance with such securities laws or regulations.

We will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes a Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Open market purchases

We may at any time purchase Notes of either series in the open market or otherwise at any price.

Transfer of notes

The Notes may be transferred in whole or in part in an authorized denomination upon the surrender of the Note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the registrar or the specified office of any transfer agent. Each new note to be issued upon exchange of Notes or transfer of Notes will, within three business days of the receipt of a request for exchange or form of transfer, be mailed at the risk of the holder entitled to the note to such address as may be specified in such request or form of transfer.

The Notes will be subject to certain restrictions on transfer as more fully set out in the indenture. See “Notice to investors.” Transfer of beneficial interests in the Global Notes will be effected only through records maintained by DTC and its participants, including Euroclear and Clearstream Luxembourg.

Transfers will be effected without charge by or on our behalf, the registrar or the transfer agents, but upon payment, or the giving of such indemnity as the registrar or the relevant transfer agent may require, in respect of any tax or other governmental charges which may be imposed in relation to it. We are not required to transfer or exchange any Note selected for redemption.

No holder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Note.

Additional amounts

All payments by us or the Subsidiary Guarantors in respect of the Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments, fees or other governmental charges of whatever nature (and any fines, penalties or interest related thereto) imposed or levied by or on behalf of a Relevant Jurisdiction, or any political subdivision or authority of or in such jurisdiction having power to tax, unless such withholding or deduction is required by law. In that event, we or the relevant Subsidiary Guarantor will pay to each holder such additional amounts (“Additional Amounts”) as may be necessary in order that every net payment made on each Note after deduction or withholding for or on account of any present or future tax, penalty, fine, duty, assessment or other governmental charge imposed upon or as a result of such payment by such Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein, will not be less than the amount then due and payable on such Note. The foregoing obligation to pay Additional Amounts to any holder of Notes, however, will not apply to or in respect of:

(a) any tax, assessment or other governmental charge which would not have been imposed but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder, if such holder is an estate, a trust, a partnership or a corporation), on the one hand, and the applicable Relevant Jurisdiction, on the other hand (including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein), other than the mere receipt of such payment or the ownership or holding of such Note;

(b) any tax, assessment or other governmental charge which would not have been so imposed but for the presentation by such holder of a Note for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later, except to the extent that the holder would have been entitled to such Additional Amounts on presenting such Note for payment on any date during such 30-day period (and no Additional Amounts shall be paid for or on account of any additional withholdings or deductions that arise as a result of such presentment after such 30-day period);

(c) any tax, duty, assessment or other governmental charge to the extent that such tax, duty, assessment or other governmental charge would not have been imposed but for the failure of such holder to comply with any certification, identification or other reporting requirements concerning the nationality, residence, identity or connection with the applicable Relevant Jurisdiction of the holder if (i) such compliance is required or imposed by law as a precondition to exemption from all or a part of such tax, duty, assessment or other governmental charge and (ii) at least 30 days prior to the date on which we will apply this clause (c), we shall have notified all holders of Notes that some or all holders of Notes will be required to comply with such requirement;

(d) any estate, inheritance, gift, sales, transfer, excise or personal property or similar tax, assessment or governmental charge imposed with respect to the Notes;

(e) any withholding or deduction imposed on a payment to or for the benefit of an individual that is required to be made pursuant to European Council Directive 2003/48 EC or any other Directive on the taxation of savings implementing the conclusion of the ECOFIN council meeting on November 26-27, 2000, or any law implementing or complying with, or introduced in order to conform to, such Directive;

(f) any tax, assessment or other governmental charge which would have been avoided by a holder presenting the relevant Note (if presentation is required) or requesting that such payment be made to another paying agent in a member state of the European Union;

(g) any tax, assessment or other governmental charge which is payable other than by deduction or withholding from payments on the Note;

(h) any tax, assessment or other governmental charge imposed with respect to a payment on any Note to a holder that is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary or a member of such partnership or beneficial owner would not have been entitled to receive payment of the Additional Amounts had the beneficiary, settlor, member or beneficial owner been the holder of the Note; or

(i) any combination of the above.

The limitations on our obligations and of any Subsidiary Guarantor to pay Additional Amounts set forth in clause (c) above shall not apply if (i) the provision of information, documentation or other evidence described in such clause (c) would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a holder of a Note, than comparable information or other reporting requirements imposed under U.S. tax law (including the United States-Mexico income tax treaty), regulations (including temporary or proposed regulations) and administrative practice, or (ii) Article 195, Section II, paragraph (a) of the Mexican Income Tax Law (*Ley de Impuestos Sobre la Renta*) (or a substitute or equivalent provision) is in effect, unless (A) the provision of the information, documentation or other evidence described in such clause (c) above is expressly required by the applicable Mexican laws and regulations in order to apply Article 195, Section II, paragraph (a) of the Mexican Income Tax Law (or substitute or equivalent provision), (B) we or any Subsidiary Guarantor cannot obtain the information, documentation or other evidence necessary to comply with the applicable Mexican laws and regulations on our own through reasonable diligence and (C) we or any Subsidiary Guarantor otherwise would meet the requirements for application of the applicable Mexican laws and regulations.

In addition, such clause (c) above does not require, and shall not be construed to require, that any holder, including any non-Mexican pension fund, retirement fund, tax-exempt organization or financial institution, register with the Tax Management Service (*Servicio de Administración Tributaria*) or the Mexican Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) to establish eligibility for an exemption from, or a reduction of, Mexican withholding taxes.

We will also pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in any jurisdiction from the execution, delivery, registration or the making of payments in respect of the Notes, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of a Relevant Jurisdiction, other than those resulting from, or required to be paid in connection with, the enforcement of the Notes following the occurrence of any Default or Event of Default.

We will provide the trustee with the official acknowledgment of the relevant taxing authority (or, if such acknowledgment is not available, a certified copy thereof) evidencing any payment of taxes in respect of which we or a Subsidiary Guarantor have paid any Additional Amounts. Copies of such documentation will be made available to the holders of the Notes or the paying agents, as applicable, upon request therefor.

All references in this offering memorandum to principal (and premium, if any) of and interest on the Notes will include any Additional Amounts payable by us or a Subsidiary Guarantor in respect of such principal (and premium, if any) and such interest.

Covenants

The indenture contains the following covenants in addition to customary covenants regarding maintenance of office or agency, maintenance of corporate existence, payments of taxes and claims, and maintenance of insurance:

Limitation on liens

We will not, and will not permit any Subsidiary to, create or suffer to exist any Lien upon any of our or such Subsidiary's property or assets now owned or hereafter acquired by us or it or on any Capital Stock of any Subsidiary securing any Debt, unless contemporaneously therewith effective provision is made to secure the Notes equally and ratably with such Debt for so long as such Debt is so secured. The preceding sentence will not require us or any Subsidiary to equally and ratably secure the Notes if the Lien consists of the following:

- (a) any Lien existing on the date of the indenture, and any extension, renewal or replacement thereof or of any Lien in clause (b), (c) or (d) below; *provided, however*, that the total amount of Debt so secured is not increased;
- (b) any Lien on any property or assets (including Capital Stock of any person) securing Debt incurred solely for purposes of financing the acquisition, construction or improvement of such property or assets after the date of the indenture; *provided* that (i) the aggregate principal amount of Debt secured by the Liens will not exceed (but may be less than) the cost (i.e., purchase price) of the property or assets so acquired, constructed or improved and (ii) the Lien is incurred before, or within 120 days after the completion of, such acquisition, construction or improvement and does not encumber any other property or assets owned by us or any Subsidiary; and *provided, further*, that to the extent that the property or asset acquired is Capital Stock, the Lien also may encumber other property or assets of the person so acquired;
- (c) any Lien securing Debt for the purpose of financing all or part of the cost of the acquisition, construction or development of a project; *provided* that the lenders of such Debt expressly agree to limit their recourse in respect of such Debt to assets (including Capital Stock of the project entity) and/or revenues of such project with an aggregate value of not more than the amount of such Debt; and *provided, further*, that the Lien is incurred before, or within 120 days after the completion of, that acquisition, construction or development and does not apply to any other property or assets owned by us or any Subsidiary;
- (d) any Lien existing on any property or assets of any person before that person's acquisition by, merger into or consolidation with us or any Subsidiary after the date of the indenture; *provided* that (i) the Lien is not created in contemplation of or in connection with such acquisition, merger or consolidation, (ii) the Debt secured by the Liens may not exceed the Debt secured on the date of such acquisition, merger or consolidation, (iii) the Lien will not apply to any other property or assets owned by us or any of our Subsidiaries and (iv) the Lien will secure only the Debt that it secures on the date of such acquisition, merger or consolidation;
- (e) any Lien imposed by law that was incurred in the ordinary course of business, including, without limitation, carriers', warehousemen's and mechanics' liens and other similar encumbrances arising in the ordinary course of business, in each case for sums not yet due or being contested in good faith by appropriate proceedings;
- (f) any pledge or deposit made in connection with workers' compensation, unemployment insurance or other similar social security legislation, any deposit to secure appeal notes in proceedings being contested in good faith to which we or any Subsidiary is a party, good faith deposits in connection with bids, tenders, contracts (other than for the payment of Debt) or leases to which we or any Subsidiary is a party or deposits for the payment of rent, in each case made in the ordinary course of business;
- (g) any Lien in favor of issuers of surety notes or letters of credit issued pursuant to the request of and for the account of the Company or any Subsidiary in the ordinary course of business;
- (h) any Lien securing taxes, assessments or other governmental charges, the payment of which is not yet due or that are being contested in good faith by appropriate proceedings and for which reserves or other appropriate provisions, if any, have been established as required by IFRS;

(i) minor defects, easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and encumbrances consisting of zoning restrictions, licenses, restrictions on the use of property or assets or minor imperfections in title that do not materially impair the value or use of the property or assets affected thereby, and any leases and subleases of real property that do not interfere with the ordinary conduct of the business of the Company or any Subsidiary, and which are made on customary and usual terms applicable to similar properties;

(j) any rights of set-off of any person with respect to any deposit account of the Company or any Subsidiary arising in the ordinary course of business and not constituting a financing transaction;

(k) any Liens granted, directly or indirectly, to secure borrowings from (i) *Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo* (BANOBRAS), *Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo* (NAFINSA), or any other Mexican governmental development bank or government credit institution or (ii) any international or multilateral development bank, government-sponsored agency, export-import bank or official, export-import credit insurer;

(l) any Liens on the inventory or receivables of the Company or any Subsidiary securing the obligations of such person under any lines of credit or working capital facility or in connection with any structured export or import financing or other trade transaction; *provided* that the aggregate principal amount of Debt incurred that is secured by receivables that will fall due in any calendar year shall not exceed: (i) with respect to transactions secured by receivables from export sales, 50% of our consolidated gross revenues from export sales for the immediately preceding calendar year; or, (ii) with respect to transactions secured by receivables from domestic (Mexican) sales, 50% of such person's consolidated gross revenues from sales within Mexico for the immediately preceding calendar year; and *provided, further*, that Advance Transactions will not be deemed transactions secured by receivables for purposes of the above calculation; and

(m) in addition to the foregoing Liens set forth in clauses (a) through (l) above, Liens securing Debt of the Company or any Subsidiary (including, without limitation, guarantees of the Company or any Subsidiary) which do not in aggregate principal amount, at any time of determination, exceed 15.0% of the Company's Consolidated Net Tangible Assets.

Limitation on sale and lease-back transactions

Neither we nor any Subsidiary may undertake sale and lease-back transactions involving any principal property (except for temporary leases for a term, including any renewal thereof, of not more than three years and except for leases between us and a Subsidiary or between Subsidiaries) unless the net proceeds of the sale and leaseback transaction are at least equal to the fair value of the property.

Limitation on consolidation, merger or transfer of assets

We will not consolidate with or merge with or into, or convey, transfer or lease all or substantially all of our assets to, any person, unless:

(a) the resulting, surviving or transferee person (if not the Company) will be a person organized and existing under the laws of Mexico, the United States of America, any State thereof or the District of Columbia, any other country that is a member country of the European Union or of the Organization for Economic Cooperation and Development and such person expressly assumes, by supplemental indenture to the indenture, executed and delivered to the trustee, all the obligations of us under each series of Notes and the indenture;

(b) the resulting, surviving or transferee person (if not the Company), if not organized and existing under the laws of Mexico, undertakes, in such supplemental indenture, to pay such additional amounts in respect of principal and interest as may be necessary in order that every payment made in respect of the Notes after deduction or withholding for or on account of any present or future tax, duty, assessment or other governmental charge imposed by such other country or any political subdivision or taxing authority thereof or therein will not be less than the amount of principal (and premium, if any) and interest then due and payable on the Notes, subject to the same exceptions set forth under “—Additional amounts” but replacing existing references in such clause to Mexico with references to such other country;

(c) immediately prior to such transaction and immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing; and

(d) we will have delivered to the trustee an officers' certificate and an opinion of legal counsel of recognized standing, each stating that such consolidation, merger or transfer and such supplemental indenture, if any, comply with the indenture.

A Subsidiary Guarantor will not consolidate with or merge with or into, or convey, transfer or lease all or substantially all of its assets to, any person, unless:

(a) the resulting, surviving or transferee person (if not such Subsidiary Guarantor) will be a person organized and existing under the laws of Mexico, the United States of America, any State thereof or the District of Columbia, any other country that is a member country of the European Union or of the Organization for Economic Cooperation and Development, or the jurisdiction of incorporation of the relevant Subsidiary Guarantor on the date of the indenture, and such person expressly assumes, by supplemental indenture to the indenture, executed and delivered to the trustee, all the obligations of such Subsidiary Guarantor under each series of Notes and the indenture;

(b) the resulting, surviving or transferee person (if not such Subsidiary Guarantor), if not organized and existing under the laws of Mexico, undertakes, in such supplemental indenture, to pay such additional amounts in respect of principal and interest as may be necessary in order that every payment made in respect of the Notes after deduction or withholding for or on account of any present or future tax, duty, assessment or other governmental charge imposed by such other country or any political subdivision or taxing authority thereof or therein will not be less than the amount of principal (and premium, if any) and interest then due and payable on the Notes, subject to the same exceptions set forth under "—Additional amounts" but replacing existing references in such clause to Mexico with references to such other country;

(c) immediately prior to such transaction and immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing; and

(d) such Subsidiary Guarantor will have delivered to the trustee an officers' certificate and an opinion of legal counsel of recognized standing, each stating that such consolidation, merger or transfer and such supplemental indenture, if any, comply with the indenture.

The trustee will accept such certificates and opinions as sufficient evidence of the satisfaction of the conditions precedent set forth in this covenant, in which event it will be conclusive and binding on the holders.

Reporting requirements

We will provide the trustee with the following reports in electronic format and will publish such reports on our website:

(a) an English language version of our annual audited consolidated financial statements prepared in accordance with IFRS promptly upon such financial statements becoming available but not later than 120 days after the close of our fiscal year;

(b) an English language version of our unaudited quarterly financial statements prepared in accordance with IFRS (including, as supplementary information, an unaudited condensed consolidated balance sheet and an unaudited condensed consolidated statement of operations, in each case, prepared in accordance with IFRS), promptly upon such financial statements becoming available but not later than 60 days after the close of each fiscal quarter (other than the last fiscal quarter of our fiscal year);

(c) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, an officers' certificate stating whether a Default or Event of Default exists on the date of such certificate and, if a Default or Event of Default exists, setting forth the details thereof and the action which we are taking or propose to take with respect thereto;

(d) without duplication, upon request, English language versions or summaries of such other reports or notices as may be filed or submitted by (and promptly after filing or submission by) us with (i) the CNBV and

(ii) the Euro MTF market, or any other stock exchange on which the Notes may be listed, in each case, to the extent that any such report or notice is generally available to our securityholders or the public in Mexico or elsewhere, *provided, however*, that we shall not be required to furnish such information to the extent such information is available on our website;

(e) if we are not subject to Section 13 or 15(d) of the Exchange Act or if we are exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, we will make available, upon request, to any Holder and any prospective purchaser of Notes the information required pursuant to Rule 144A(d)(4) under the Securities Act; and

(f) upon any of our directors or executive officers becoming aware of the existence of a Default or Event of Default or any event by reason of which payments of either principal or interest on the Notes are prohibited, an officers' certificate setting forth the details thereof and the action we are taking or propose to take with respect thereto.

Delivery of the above reports to the trustee is for informational purposes only and the trustee's receipt of such reports will not constitute constructive notice of any information contained therein or determinable from information contained therein, including our compliance with any covenant in the indenture (as to which the trustee is entitled to rely exclusively on officers' certificates).

Events of default

An "Event of Default" under the relevant series of Notes will occur if:

(a) we fail to pay interest (including any related Additional Amounts) on the relevant series of Notes within 30 days from the due date;

(b) we default in the payment of principal (including any related Additional Amounts) on the relevant series of Notes on the due date;

(c) we fail to comply with any of the covenants described under "—Covenants—Limitation on liens", "—Limitation on consolidation, merger or transfer of assets", and such failure continues for 30 days after the notice specified below;

(d) we fail to comply with any of our covenants or agreements in the relevant series of Notes or the indenture (other than those referred to in clauses (a), (b) and (c) above), and such failure continues for 60 days after the notice specified below;

(e) we or any Significant Subsidiary defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Debt for money borrowed by us or any such Significant Subsidiary (or the payment of which is guaranteed by us or any such Significant Subsidiary) whether such Debt or guarantee now exists, or is created after the date of the indenture, which default (i) is caused by failure to pay principal of or premium, if any, or interest on such Debt after giving effect to any grace period provided in such Debt on the date of such default ("Payment Default") or (ii) results in the acceleration of such Debt prior to its express maturity and, in each case, the principal amount of any such Debt, together with the principal amount of any other such Debt under which there has been a Payment Default or the maturity of which has been so accelerated, totals U.S.\$50 million (or the equivalent thereof at the time of determination) or more in the aggregate;

(f) one or more final judgments or decrees for the payment of money of U.S.\$50 million (or the equivalent thereof at the time of determination) or more in the aggregate are rendered against us or any Significant Subsidiary and are not paid (whether in full or in installments in accordance with the terms of the judgment) or otherwise discharged and, in the case of each such judgment or decree, either (i) an enforcement proceeding has been commenced by any creditor upon such judgment or decree and is not dismissed within 30 days following commencement of such enforcement proceedings or (ii) there is a period of 60 days following such judgment during which such judgment or decree is not discharged, waived or the execution thereof stayed;

(g) any guarantee of the relevant series of Notes is held in any judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force and effect, or any Subsidiary Guarantor (or any person acting on behalf of any Subsidiary Guarantor) denies or disaffirms its obligations under the guarantees of the relevant series of Notes; or,

(h) certain events of bankruptcy, insolvency or liquidation relating to us or any Significant Subsidiary.

A Default under clause (c) or (d) above will not constitute an Event of Default under the relevant series of Notes until the trustee or the holders of at least 25% in principal amount of the 2022 Notes or the 2042 Notes then outstanding, as the case may be, notify us of the Default and we do not cure such Default within the time specified after receipt of such notice.

The trustee is not to be charged with knowledge of any Default or Event of Default or knowledge of any cure of any Default or Event of Default with respect to the relevant series of Notes unless either (i) an authorized officer of the trustee with direct responsibility for the indenture has actual knowledge of such Default or Event of Default or (ii) written notice of such Default or Event of Default has been given to the trustee by us or any holder in the manner specified in the indenture.

If an Event of Default (other than an Event of Default specified in clause (h) above) with respect to the relevant series of Notes occurs and is continuing, the trustee or the holders of not less than 25% in principal amount of the 2022 Notes or the 2042 Notes then outstanding, as the case may be, may declare all unpaid principal of and accrued interest on the corresponding series of Notes to be due and payable immediately, by a notice in writing to us, and upon any such declaration such amounts will become due and payable immediately. If an Event of Default specified in clause (h) above with respect to the relevant series of Notes occurs and is continuing, then the principal of and accrued interest on all Notes of such series will become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Subject to the provisions of the indenture relating to the duties of the trustee in case an Event of Default under the relevant series of Notes will occur and be continuing, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders, unless such holders will have offered to the trustee indemnity and/or security reasonably satisfactory to the trustee. Subject to such provision for the indemnification of the trustee, the holders of a majority in aggregate principal amount of the outstanding Notes of such series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

Defeasance

We may at any time terminate all of our obligations with respect to any series of Notes (“defeasance”), except for certain obligations, including those regarding any trust established for a defeasance and obligations to register the transfer or exchange of the Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain agencies in respect of Notes. We may at any time terminate our obligations under certain covenants set forth in the indenture, and any omission to comply with such obligations will not constitute a Default or an Event of Default with respect to any series of Notes issued under the indenture (“covenant defeasance”). In order to exercise either defeasance or covenant defeasance, we must irrevocably deposit in trust, for the benefit of the holders of the relevant series of Notes, with the trustee money or U.S. government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants expressed in a written certificate delivered to the trustee, without consideration of any reinvestment, to pay the principal of and interest on the 2022 Notes or the 2042 Notes, as the case may be, to redemption or maturity and comply with certain other conditions, including the delivery of an opinion of legal counsel of recognized standing to the effect that the holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would otherwise have been the case (and in the case of a defeasance that is not a covenant defeasance, such opinion shall be based on a change in law or a ruling of the U.S. Internal Revenue Service).

Amendment, supplement, waiver

Subject to certain exceptions, the indenture may be amended or supplemented with the consent of the holders of at least a majority in principal amount of each series of Notes then outstanding, and any past Default or compliance

with any provision may be waived with the consent of the holders of at least a majority in principal amount of each series of Notes then outstanding. However, without the consent of each holder of an outstanding Note affected thereby, no amendment may:

- (a) reduce the rate of or extend the time for payment of interest on any Note;
- (b) reduce the principal, or extend the Stated Maturity, of any Note;
- (c) reduce the amount payable upon redemption of any Note or change the time at which any Note may be redeemed;
- (d) change the currency for, or place of payment of, principal or interest on any Note;
- (e) impair the right to institute suit for the enforcement of any payment on or with respect to any Note;
- (f) waive certain payment defaults with respect to the Notes;
- (g) reduce the principal amount of Notes whose holders must consent to any amendment or waiver; or
- (h) make any change in the amendment or waiver provisions which require each holder's consent.

The holders of the relevant series of Notes will receive prior notice as described under “—Notices” of any proposed amendment to the Notes or the indenture described in this paragraph. After an amendment described in the preceding paragraph becomes effective, we are required to mail to the holders a notice briefly describing such amendment. However, the failure to give such notice to all holders of such series of Notes, or any defect therein, will not impair or affect the validity of the amendment.

The consent of the holders of a series of Notes is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

We and the trustee may, without the consent or vote of any holder of a series of Notes, amend or supplement the indenture or the Notes for the following purposes:

- (a) to cure any ambiguity, omission, defect or inconsistency; *provided* that such amendment or supplement does not materially and adversely affect the rights of any holder;
- (b) to comply with the covenant described under “—Covenants—Limitation on consolidation, merger or transfer of assets”;
- (c) to add guarantees or collateral with respect to the Notes;
- (d) to add to the covenants of the Company for the benefit of holders of the Notes;
- (e) to surrender any right conferred upon us;
- (f) to evidence and provide for the acceptance of an appointment by a successor trustee;
- (g) to provide for the issuance of additional Notes; or
- (h) to make any other change that does not materially and adversely affect the rights of any holder of the Notes.

In executing any amendment, waiver or supplemental indenture to the indenture or the Notes, the Trustee will be entitled to receive an officers' certificate and an opinion of legal counsel of recognized standing, each stating that such amendment, waiver or supplemental indenture is authorized or permitted by the indenture, that it is not inconsistent with the terms of the indenture, and that it shall be valid and binding upon the Company in accordance with its terms.

Notices

For so long as Notes in global form are outstanding, notices to be given to holders will be given to the depository, in accordance with its applicable policies as in effect from time to time. If Notes are issued in individual definitive form, notices to be given to holders will be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to holders of the Notes at their registered addresses as they appear in the trustee's records. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and trading on the Euro MTF and the rules of such exchange so require, publication of such notice to the holders of the Notes will be in English in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxembourg Wort*). Notices may also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). Neither the failure to give any notice to a particular holder of the Notes, nor any defect in a notice given to a particular holder of the Notes, will affect the sufficiency of any notice given to another holder of the Notes.

Trustee

Deutsche Bank Trust Company Americas is the trustee under the indenture.

The indenture will contain provisions for the indemnification of the trustee and for its relief from responsibility. The obligations of the trustee to any holder are subject to such immunities and rights as are set forth in the indenture. Except during the continuance of an Event of Default under any series of Notes, the trustee need perform only those duties that are specifically set forth in the indenture and no others, and no implied covenants or obligations will be read into the indenture against the trustee. In case an Event of Default with respect to any series of Notes has occurred and is continuing, the trustee shall exercise those rights and powers vested in it by the indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. No provision of the indenture will require the trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of its rights or powers, unless it receives indemnity and/or security satisfactory to it against any loss, liability or expense.

We and our affiliates may from time to time enter into normal banking and trustee relationships with the trustee and its affiliates.

Governing law and submission to jurisdiction

The Notes and the indenture are and will be governed by, and construed in accordance with, the laws of the State of New York. To be valid, claims under the Notes and the indenture for non-payment of principal or interest must be made within six years of the date of non-payment.

Each of the parties to the indenture will submit to the jurisdiction of the U.S. federal and New York State courts located in the Borough of Manhattan, City and State of New York and to the courts of its own corporate domicile for purposes of all legal actions and proceedings instituted in connection with the Notes and the indenture. We and the Subsidiary Guarantors have appointed National Corporate Research, Ltd. at 10 East 40th Street, 10th Floor, New York, New York 10016, as our authorized agent upon which process may be served in any such action.

Currency indemnity

U.S. dollars are the sole currency of account and payment for all sums payable by us and the Subsidiary Guarantors under or in connection with the Notes, including damages. Any amount received or recovered in a currency other than dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Company or otherwise) by any holder of a Note in respect of any sum expressed to be due to it from us or a Subsidiary Guarantor will only constitute a discharge to us and the relevant Subsidiary Guarantor to the extent of the dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that dollar amount is less than the dollar amount expressed to be due to the recipient under any Note, we and the Subsidiary Guarantors will indemnify such holder against any loss sustained by it as a result; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such holder, such holder will, by accepting a Note, be deemed to have agreed to repay such excess. In any event, we and the Subsidiary Guarantors will indemnify the recipient against the cost of making any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the holder of a Note to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from the other obligations of the Company and the Subsidiary Guarantors, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any holder of a Note and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note.

Certain definitions

The following is a summary of certain defined terms used in the indenture. Reference is made to the indenture for the full definition of all such terms as well as other capitalized terms used herein for which no definition is provided.

“Additional Amounts” has the meaning set forth under “Additional Amounts” above.

“Advance Transaction” means an advance from a financial institution involving either (i) a foreign exchange contract or (ii) an export contract.

“Capital Lease Obligation” means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with IFRS, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

“Capital Stock” means, with respect to any person, any and all shares of stock, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated, whether voting or non-voting), such person’s equity including any preferred stock, but excluding any debt securities convertible into or exchangeable for such equity.

“Change of Control” means (a) that any Person other than the Existing Investors acquires, directly or indirectly, beneficial ownership of securities representing more than 50.0% of the voting power of the voting stock in the Company, (b) the Existing Investors cease to beneficially own, directly or indirectly, securities representing at least 30.0% of the voting power of the voting stock in the Company, (c) the first day on which a majority of the members of the board of directors of the Company are not Continuing Directors, (d) the sale, lease, transfer, conveyance or other disposition (other than through merger or consolidation), in one or a series of transactions, of all or substantially all of the consolidated assets of the Company and its Subsidiaries, taken as a whole, to any person other than the Company, any Subsidiary or any Existing Investor, or (e) the adoption by the stockholders of the Company of a plan or proposal for the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of a Change of Control that results in a Ratings Decline.

“Comparable Treasury Issue” means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of a series of Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such series of Notes.

“Comparable Treasury Price” means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Company obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Consolidated Net Tangible Assets” means the total amount of assets of the Company and its Subsidiaries less (i) applicable depreciation, amortization and other valuation reserves, (ii) all current liabilities excluding intercompany Debt and (iii) all goodwill, trade names, trademarks, patents, and other intangibles as set forth on the most recent financial statements delivered by us to the trustee in accordance with “—Covenants—Reporting Requirements”.

“Continuing Directors” means, as of any date of determination, any member of the board of directors of the Company who (i) was a member of the board of directors on the date of the indenture or (ii) was nominated for election or elected to the board of directors of the Company with the approval of a majority of the Existing Investors on the date of the indenture.

“CNBV” means the Mexican National Banking and Securities Commission, or *Comisión Nacional Bancaria y de Valores*.

“Debt” means, with respect to any person, without duplication:

- (a) the principal of and premium, if any, in respect of (i) indebtedness of such person for money borrowed and (ii) indebtedness evidenced by the Notes, debentures, notes or other similar instruments for the payment of which such person is responsible or liable;
- (b) all Capital Lease Obligations of such person;
- (c) all obligations of such person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such person and all obligations of such person under any title retention agreement (but excluding trade accounts payable or other short-term obligations to suppliers payable within 180 days, in each case arising in the ordinary course of business);
- (d) all obligations of such person for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses (a) through (c) above) entered into in the ordinary course of business of such person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business Day following receipt by such person of a demand for reimbursement following payment on the letter of credit);
- (e) all Hedging Obligations;
- (f) all obligations of the type referred to in clauses (a) through (d) of other persons and all dividends of other persons for the payment of which, in either case, such person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any guarantee (other than obligations of other persons that are customers or suppliers of such person for which such person is or becomes so responsible or liable in the ordinary course of business to (but only to) the extent that such person does not, or is not required to, make payment in respect thereof);
- (g) all obligations of the type referred to in clauses (a) through (e) of other persons secured by any Lien on any property or asset of such person (whether or not such obligation is assumed by such person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured; and
- (h) any other obligations of such person which are required to be, or are in such person’s financial statements, recorded or treated as debt under IFRS.

“Default” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“Existing Investors” means (1) Kaluz, S.A. de C.V., Ignacio del Valle Ruíz, Adolfo del Valle Ruíz or any Related Party of any thereof and (2) any Person at least 51 % of the voting stock of which (or, in the case of a trust, the beneficial interests in which) is owned directly or indirectly by one or more Persons specified in clause (1) of this definition.

“guarantee” means any obligation of any person directly or indirectly guaranteeing any Debt or other obligation of any person and any obligation, direct or indirect, contingent or otherwise, of such person, including an *aval* (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or pay, or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided, however,*

that the term “guarantee” will not include endorsements for collection or deposit in the ordinary course of business. The term “guarantee” used as a verb has a corresponding meaning.

“Hedging Obligations” means, with respect to any specified Person, the obligations of such Person under:

- (a) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;
- (b) other agreements or arrangements designed to manage interest rates or interest rate risk; and
- (c) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices;

provided, however, that the amount of Debt with respect to any Hedging Obligation is the new amount payable if such Hedging Obligation terminated at that time due to a default by such Person.

“holder” means the person in whose name a Note is registered in the register.

“IFRS” means the International Financial Reporting Standards as issued by the International Accounting Standards Board as in effect from time to time.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Trustee after consultation with the Company.

“Investment” means, with respect to any person, any loan or advance to, any acquisition of Capital Stock, equity interest, obligation or other security of, or capital contribution or other investment in, such person.

“Lien” means any mortgage, pledge, security interest, conditional sale or other title retention agreement or other similar lien.

“Mexico” means the United Mexican States.

“Person” means an individual, partnership, limited partnership, corporation, company, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

“Ratings Decline” means that at any time within 90 days (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by Moody’s or Fitch (or any rating agency) or a substitute or successor of any thereof) after the date of public notice of a Change of Control, of an arrangement that could result in a Change of Control, or of the Company’s intention or that of any other person to effect a Change of Control, the then-applicable rating of the Notes is decreased by either Moody’s or Fitch (or any other rating agency) or a substitute or successor of any thereof; *provided* that any such rating decline is in whole or in part in connection with a Change of Control.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Company, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

“Reference Treasury Dealer” means each of Citigroup Global Markets Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, and Morgan Stanley & Co. LLC, or their respective affiliates or successors which are primary U.S. Government securities dealers, and no less than two other leading primary U.S. Government securities dealers in The City of New York reasonably designated by the Company; *provided, however*, that if any of the foregoing or their affiliates shall cease to be a primary U.S. Government securities dealer in The City of New York (a “Primary Treasury Dealer”), the Company shall substitute therefor another Primary Treasury Dealer.

“Related Party” means, with respect to any Person, (1) any Subsidiary, spouse, descendant or other immediate family member (which includes any child, stepchild, parent, stepparent, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law) (in the case of an individual), of such Person, (2) any estate, trust, corporation, partnership or other entity, the beneficiaries and stockholders, partners or owners of which consist solely of one or more Existing Investors and/or such other Persons referred to in the immediately preceding clause (1), or (3) any executor, administrator, trustee, manager, director or other similar fiduciary of any Person referred to in the immediately preceding clause (2), acting solely in such capacity.

“Relevant Jurisdiction” means Mexico or any other jurisdiction in which the Company or a Subsidiary Guarantor is organized or resident for tax purposes or through or from which payment on the Notes is made.

“Significant Subsidiary” means any Subsidiary of the Company that at the time of determination (a) had assets which, as of the date of the Company’s most recent quarterly consolidated balance sheet, constituted at least 10% of the Company’s total assets on a consolidated basis as of such date, or (b) had revenues for the 12-month period ending on the date of the Company’s most recent quarterly consolidated statement of income which constituted at least 10% of the Company’s total revenues, on a consolidated basis for such period or (c) had operating income which, as of the date of the Company’s most recent quarterly consolidated balance sheet, constituted at least 10% of the Company’s operating income on a consolidated basis as of such date.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which the principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“Subsidiary” means any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (a) the Company, (b) the Company and one or more Subsidiaries or (c) one or more Subsidiaries.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

TAXATION

Certain Mexican Tax Considerations

General

The following is a general summary of the principal Mexican federal income tax consequences of the purchase, ownership and disposition of the Notes by holders that are not residents of Mexico for tax purposes and that do not hold the Notes through a permanent establishment for tax purposes maintained in Mexico to which the holding of the Notes is attributable for tax purposes. For purposes of this summary, each such holder is a “foreign holder.” This summary is based upon the provisions of the Mexican Federal Income Tax Law (*Ley del Impuesto Sobre la Renta*, or the “Mexican Income Tax Law”) in effect on the date of this offering memorandum, all of which are subject to change or to new or different interpretations, which could affect the continued validity of this summary. This summary does not address all of the Mexican tax consequences that may be applicable to specific holders of the Notes and does not purport to be a comprehensive description of all the Mexican tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes. This summary does not describe any tax consequences arising under the laws of any state or municipality other than the Mexican Income Tax Law.

POTENTIAL PURCHASERS OF THE NOTES SHOULD CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE PARTICULAR TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES UNDER THE LAWS OF MEXICO AND ANY OTHER JURISDICTION OR UNDER ANY APPLICABLE DOUBLE TAXATION TREATY TO WHICH MEXICO IS A PARTY AND IS IN EFFECT.

For purposes of Mexican taxation, an individual or corporation that does not satisfy the requirements to be considered a resident of Mexico for tax purposes, as described below, is deemed a non-resident of Mexico for tax purposes.

An individual is a resident of Mexico for tax purposes if such person has established his or her domicile in Mexico. When such person has a home in another country, the individual will be considered a resident of Mexico for tax purposes if his/her center of vital interests is located in Mexico, which is deemed to occur if (i) more than 50% of such individual’s total income, in any calendar year, is from a Mexican source, or (ii) such individual’s principal center of professional activities is located in Mexico. A Mexican national that is employed by the Mexican government is deemed a resident of Mexico, even if his/her center of vital interests is located outside Mexico. Unless otherwise proven, Mexican nationals are deemed residents of Mexico for tax purposes.

A legal entity is a resident of Mexico if it maintains the principal administration of its business or the effective location of its management in Mexico.

A permanent establishment in Mexico for tax purposes of a foreign person will be regarded as a resident of Mexico, and such permanent establishment will be required to pay taxes in Mexico in accordance with applicable tax laws, for any income attributable to such permanent establishment.

Taxation of Payments of Interest

Under the Mexican Income Tax Law, payments of interest (including original issue discount and premiums, which are deemed interest under the Mexican Income Tax Law) made by us or the Subsidiary Guarantors that are residents in Mexico for tax purposes in respect of the Notes to a foreign holder will generally be subject to a Mexican withholding tax assessed at a rate of 4.9% if, as expected, the following requirements are met:

- the Notes are placed outside Mexico, through a bank or a broker-dealer, in a country with which Mexico has a treaty for the avoidance of double taxation that is in effect;
- a notice is filed before the CNBV describing the main characteristics of the Notes offering pursuant to Article 7 of the Mexican Securities Market Law (*Ley del Mercado de Valores*); and
- the information requirements specified from time to time by the *Servicio de Administración Tributaria* under general rules, including, after completion of the offering of the Notes, the filing of certain information related to the Notes offering and this offering memorandum, are duly complied with.

If any of such requirements is not met, the applicable withholding tax rate will be 10% or higher.

In addition, if the effective beneficiaries, whether directly or indirectly, severally or jointly with related parties, receiving more than 5% of the aggregate amount of each interest payment under the Notes are (i) shareholders holding more than 10% of our voting stock, directly or indirectly, severally or jointly with related parties, or (ii) corporations or other entities having more than 20% of their stock owned, directly or indirectly, jointly or severally, by persons related to us, the Mexican withholding tax will be applied at a rate of 28% or higher with respect to such beneficiaries.

Payments of interest made by us or any Subsidiary Guarantor that is a resident of Mexico for tax purposes in respect of the Notes to a non-Mexican pension or retirement fund will be exempt from Mexican withholding taxes if:

- such fund is organized pursuant to the laws of its country of residence and is the effective beneficiary of the interest payment;
- such income is exempt from income taxes in such country; and
- such fund is registered with the *Servicio de Administración Tributaria* for these purposes.

Holders or beneficial owners of the Notes may be requested, subject to specified exemptions and limitations, to provide certain information or documentation necessary to enable us to apply the appropriate Mexican withholding tax rate on interest payments under the Notes made by us to such holders or beneficial owners. In the event that the specified information or documentation concerning the holder or beneficial owner, if requested, is not timely or completely provided at all, we may withhold Mexican tax from that interest payment on the Notes to that holder or beneficial owner at the maximum applicable rate, and our obligation to pay Additional Amounts relating to those withholding taxes would be limited as described under “Description of notes—Additional amounts.”

Taxation of Principal Payments

Under the Mexican Income Tax Law, payments of principal made by us or any Subsidiary Guarantor in respect of the Notes to a foreign holder will not be subject to Mexican withholding tax.

Taxation of Dispositions and Acquisitions of the Notes

Under the Mexican Income Tax Law, gains resulting from the sale or disposition of the Notes by a foreign holder to another foreign holder are not taxable in Mexico. Gains resulting from the sale of the Notes by a foreign holder to a purchaser who is a Mexican resident for tax purposes or to a foreign holder deemed to have a permanent establishment in Mexico for tax purposes will be subject to Mexican federal income or other taxes pursuant to the rules described above in respect of interest payments. The acquisition of the Notes at a discount by a foreign holder will result in deemed interest income for the foreign holder, and associated Mexican withholding taxes, if the seller is a Mexican resident or a foreign resident deemed to have a permanent establishment in Mexico for tax purposes.

Other Mexican Taxes

Under current Mexican tax laws, there are no estate, inheritance, succession or gift taxes generally applicable to the purchase, ownership or disposition of the Notes by a foreign holder. Gratuitous transfers of the Notes in certain circumstances may result in the imposition of Mexican income taxes upon the recipient. There are no Mexican stamp, issuer registration or similar taxes or duties payable by foreign holders of the Notes with respect to the Notes.

Certain U.S. Federal Income Tax Considerations

This disclosure is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal tax treatment of the Notes. This tax disclosure was written in connection with the promotion or marketing of the Notes by the Company, and it cannot be used by any holder for the purpose of avoiding penalties that may be asserted against the holder under the Internal Revenue Code of 1986, as amended (the “Code”). Prospective investors should seek their own advice based on their particular circumstances from an independent tax adviser.

The following are material U.S. federal income tax consequences of owning and disposing of Notes purchased in this offering at the “issue price,” which we assume will be the price indicated on the cover of this offering memorandum and held as capital assets for U.S. federal income tax purposes.

This discussion does not describe all of the tax consequences that may be relevant to you in light of your particular circumstances, including alternative minimum tax consequences, application of “Medicare contribution tax” and differing tax consequences applicable to you if you are, for instance:

- a financial institution;
- a regulated investment company;
- a dealer or trader in securities;
- holding Notes as part of a “straddle” or integrated transaction;
- a U.S. Holder (as defined below) whose functional currency is not the U.S. dollar;
- a partnership for U.S. federal income tax purposes; or
- a tax-exempt entity.

If you are a partnership for U.S. federal income tax purposes, the U.S. federal income tax treatment of your partners will generally depend on the status of the partners and your activities.

This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which subsequent to the date of this offering memorandum may affect the tax consequences described herein. This summary does not address any U.S. federal tax consequences other than income tax consequences, such as estate and gift tax consequences. If you are considering the purchase of Notes, you should consult your tax adviser with regard to the application of the U.S. federal tax laws to your particular situation, as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

This discussion applies to you if you are a U.S. Holder. You are a U.S. Holder if for U.S. federal income tax purposes you are a beneficial owner of a Note that is:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Payments of Interest

Stated interest paid on a Note will be taxable to you as ordinary interest income at the time it accrues or is received, in accordance with your method of accounting for federal income tax purposes. It is expected, and this discussion assumes, that the Notes will be issued without original issue discount for U.S. federal income tax purposes.

The amount of interest taxable as ordinary income will include amounts withheld in respect of Mexican taxes. Interest income earned with respect to a Note will constitute foreign-source income for U.S. federal income tax purposes. Subject to applicable limitations, some of which may vary depending upon your particular circumstances, Mexican income taxes withheld from interest income on a Note may be creditable against your U.S. federal income tax liability. The rules governing foreign tax credits are complex, and you should consult your tax adviser regarding the availability of foreign tax credits in your particular circumstances.

Any Additional Amounts paid pursuant to the obligations described under “Description of Notes—Additional amounts” will be treated as ordinary interest income.

Certain Additional Payments

There are circumstances in which we might be required to make additional payments on a Note, as described under “Description of Notes—Redemption upon change of control.” We intend to take the position that the possibility of such payments does not result in the Notes being treated as contingent payment debt instruments under the applicable Treasury Regulations. Our position is not binding on the Internal Revenue Service (“IRS”). If the IRS takes a position contrary to that described above, you may be required to accrue interest income based upon a “comparable yield” (as defined in the Treasury Regulations) determined at the time of issuance of the Notes (which is not expected to differ significantly from the actual yield on the Notes), with adjustments to such accruals when any contingent payments are made that differ from the payments based on the comparable yield. In addition, any income on the sale, exchange, retirement or other taxable disposition of the Notes would be treated as ordinary income rather than as capital gain. You should consult your tax adviser regarding the tax consequences if the Notes were treated as contingent payment debt instruments. The remainder of this discussion assumes that the Notes are not treated as contingent payment debt instruments.

Sale or Other Taxable Disposition of the Notes

Upon the sale or other taxable disposition of a Note, you will recognize taxable gain or loss equal to the difference between the amount realized on the sale or other taxable disposition and your adjusted tax basis in the Note. Your adjusted tax basis in a Note will equal the cost of your Note. Gain or loss, if any, will generally be U.S.-source income for purposes of computing your foreign tax credit limitation. For these purposes, the amount realized does not include any amount attributable to accrued interest, which is treated as described under “Payments of Interest” above.

Gain or loss realized on the sale or other taxable disposition of a Note will generally be capital gain or loss and will be long term capital gain or loss if at the time of the sale or other taxable disposition the Note has been held for more than one year. Long-term capital gains recognized by non-corporate taxpayers are subject to reduced tax rates. The deductibility of capital losses is subject to limitations.

Backup Withholding and Information Reporting

Information returns may be required to be filed with the IRS in connection with payments on the Notes and proceeds received from a sale or other disposition of the Notes unless you are an exempt recipient. You may also be subject to backup withholding on these payments in respect of your Notes unless you provide your taxpayer identification number and otherwise comply with applicable requirements of the backup withholding rules or you provide proof of an applicable exemption. Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

PLAN OF DISTRIBUTION

Citigroup Global Markets Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC are acting as representatives of the initial purchasers.

Subject to the terms and conditions stated in the purchase agreement, dated September 12, 2012, each initial purchaser named below has severally agreed to purchase, and we have agreed to sell to the initial purchasers, the principal amount of the Notes set forth opposite such initial purchaser's name.

Initial Purchaser	Principal Amount of 2022 Notes
Citigroup Global Markets, Inc.	178,125,000
HSBC Securities (USA) Inc.	178,125,000
J.P. Morgan Securities LLC.....	178,125,000
Morgan Stanley & Co. LLC	178,125,000
Barclays Capital, Inc.....	18,750,000
Rabo Securities USA, Inc.	18,750,000
Total	US\$750,000,000

Initial Purchaser	Principal Amount of 2042 Notes
Citigroup Global Markets, Inc.	95,000,000
HSBC Securities (USA) Inc.	95,000,000
J.P. Morgan Securities LLC.....	95,000,000
Morgan Stanley & Co. LLC	95,000,000
Barclays Capital, Inc.....	10,000,000
Rabo Securities USA, Inc.	10,000,000
Total	US\$400,000,000

Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed to purchase all of the Notes of each series sold under the purchase agreement if any of these Notes are purchased. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the initial purchasers and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the initial purchasers may be required to make in respect of those liabilities.

The initial purchasers are offering each series of Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer's certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The initial purchasers have advised us that they propose initially to offer each series of Notes at the offering price set forth on the cover page of this offering memorandum and to certain dealers at that price less a selling concession. After the initial offering, the offering price, concession or any other term of the offering may be changed.

Notes Are Not Being Registered

The Notes have not been registered under the Securities Act, or the securities law of any other jurisdiction, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Each purchaser of the Notes of each series will be deemed to have made acknowledgements, representations and agreements as described under “Notice to Investors.” In connection with sales outside the United States, each of the initial purchasers has agreed that it will not offer, sell or deliver the Notes to, or for the account of, U.S. persons (unless in reliance on Rule 144A) (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, and it will send to each dealer to whom it sells such Notes during such period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Resales of the Notes of each series are restricted as described below under “Notice to Investors.”

Further, until 40 days after the commencement of the offering, an offer or sale of the Notes of either series within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

New Issue of Notes

Each series of Notes is a new issue of securities with no established trading market. Application has been made to list the Notes of each series on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market. However, we cannot assure you that the listing application will be approved. We have been advised by the initial purchasers that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes of each series. If an active trading market for the Notes of each series does not develop, the market price and liquidity of the Notes of each series may be adversely affected. If the Notes of each series are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Settlement

Delivery of each series of Notes was made to investors on September 19, 2012.

No Sales of Similar Securities

We and our subsidiary guarantors have agreed that for a period of 30 days after the date of this offering memorandum, we and our subsidiary guarantors will not without first obtaining the prior written consent of the representatives of the initial purchasers, directly or indirectly, sell, offer, announce the offering of, or file any registration statement under the Securities Act in respect of, any of our or our subsidiary guarantors’ debt securities offered or sold in the Mexican or international capital markets, except for the Notes sold to the initial purchasers pursuant to the purchase agreement and except for the offer and sale of *certificados bursátiles* in the local Mexican market.

Short Positions

In connection with the offering, the initial purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the initial purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The initial purchasers must close out any short position by purchasing Notes in the open market.

Similar to other purchase transactions, purchases by the initial purchasers to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor the initial purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the initial purchasers make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

The initial purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

We expect to use approximately US\$600 million from proceeds of this offering to repay our revolving credit facility dated August 26, 2011, to which certain of the initial purchasers or their affiliates are party as lenders.

Sales Outside the United States

Neither we nor the initial purchasers are making an offer to sell, or seeking offers to buy, the Notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefor.

Notice to Prospective Investors in Mexico

The information contained in this offering memorandum is exclusively our responsibility and has not been reviewed or authorized by the CNBV. The Notes have not been and will not be registered with the Mexican National Securities Registry (*Registro Nacional de Valores*) maintained by the CNBV and, therefore, the Notes may not be publicly offered or sold nor be the subject of brokerage activities in Mexico, except that the Notes may be offered in Mexico to institutional and qualified investors, pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law (*Ley del Mercado de Valores*). As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the notes outside of Mexico. Such notice will be delivered to the CNBV to comply with a legal requirement and for information purposes only, and the delivery of such notice to, and the receipt of such notice by, the CNBV, does not imply any certification as to the investment quality of the Notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information set forth herein. This offering memorandum may not be publicly distributed in Mexico.

Notice to Prospective Investors in the EEA

In any Member State of the European Economic Area that has implemented the Prospectus Directive (each, a “Relevant Member State”), this communication is only addressed to and is only directed at qualified investors in that Member State within the meaning of the Prospectus Directive.

This offering memorandum has been prepared on the basis that any offer of Notes in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make any offer within the European Economic Area of Notes which are the subject of the offering contemplated in this offering memorandum may only do so in circumstances in which no obligation arises for us or any of the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither we nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer (other than permitted public offers) of Notes in circumstances in which an obligation arises for us or the Initial Purchasers to publish a prospectus for such offer.

For the purposes of this provision, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.”

Purchasers’ representation

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Notes under, the offers contemplated in this offering memorandum will be deemed to have represented, warranted and agreed to and with each Initial Purchaser and us that:

- (a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- (b) in the case of any Notes acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Notes acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Initial Purchasers has been given to the offer or resale; or (ii) where Notes have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Notes to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an “offer to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

Notice to Prospective Investors in United Kingdom

This communication is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Each initial purchaser has represented, warranted and agreed that:

- (a) they have only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the United Kingdom Financial Services and Markets Act of 2000 (“FSMA”) received by it in connection with the issue or sale of such Notes in circumstances in which Section 21(1) of the FSMA does not, or would not, apply to us; and
- (b) they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in Switzerland

This document, as well as any other material relating to the Notes which are the subject of the offering contemplated by this offering memorandum, do not constitute an issue prospectus pursuant to Article 652a of the Swiss Code of Obligations. The Notes will not be listed on the SWX Swiss Exchange and, therefore, the documents relating to the Notes, including, but not limited to, this document, do not claim to comply with the disclosure standards of the listing rules of SWX Swiss Exchange and corresponding prospectus schemes annexed to the listing

rules of the SWX Swiss Exchange. The Notes are being offered in Switzerland by way of a private placement, *i.e.* to a small number of selected investors only, without any public offer and only to investors who do not purchase the Notes with the intention to distribute them to the public. The investors will be individually approached by us from time to time. This document, as well as any other material relating to the Notes, is personal and confidential and do not constitute an offer to any other person. This document may only be used by those investors to whom it has been handed out in connection with the offering described herein and may neither directly nor indirectly be distributed or made available to other persons without our express consent. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

Notice to Prospective Investors in the Dubai International Financial Centre

This document relates to an exempt offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This document is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with exempt offers. The Dubai Financial Services Authority has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it. The Notes which are the subject of the offering contemplated by this offering memorandum may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Notes offered should conduct their own due diligence on the Notes. If you do not understand the contents of this document you should consult an authorized financial adviser.

Notice to Prospective Investors in Hong Kong

The notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Singapore

This offering circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is or will be given for the transfer; or (3) where the transfer is by operation of law.

Notice to Prospective Investors in Japan

The notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”) and the Initial Purchaser has agreed that it will not offer or sell any notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

TRANSFER RESTRICTIONS

The Notes have not been registered, and will not be registered, under the Securities Act or any state securities laws, and the Notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the Notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) pursuant to Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

Purchasers' representations and restrictions on resale and transfer

Each purchaser of Notes (other than the initial purchasers in connection with the initial issuance and sale of Notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

(1) it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;

(2) it acknowledges that the Notes have not been registered under the Securities Act or with any securities regulatory authority of any state and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(3) it understands and agrees that Notes initially offered in the United States to qualified institutional buyers will be represented by a global Note and that Notes offered outside the United States pursuant to Regulation S will also be represented by a global Note;

(4) it will not resell or otherwise transfer any of such Notes except (a) to us, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;

(5) it agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes;

(6) it acknowledges that prior to any proposed transfer of Notes (other than pursuant to an effective registration statement or in respect of Notes sold or transferred either pursuant to (a) Rule 144A or (b) Regulation S) the holder of such Notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;

(7) it acknowledges that the trustee, registrar or transfer agent for the Notes will not be required to accept for registration transfer of any Notes acquired by it, except upon presentation of evidence satisfactory to us and the trustee, registrar or transfer agent that the restrictions set forth herein have been complied with;

(8) it acknowledges that we, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it will promptly notify us and the initial purchasers; and

(9) if it is acquiring the Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

Legends

The following is the form of restrictive legend which will appear on the face of the Rule 144A global Note, and which will be used to notify transferees of the foregoing restrictions on transfer:

“This Note has not been registered under the US. Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws. The holder hereof, by purchasing this Note, agrees for the benefit of Mexichem, S.A.B. de C.V. (the “Company”) that this Note or any interest or participation herein may be offered, resold, pledged or otherwise transferred only (1) to the Company, (2) so long as this Note is eligible for resale pursuant to Rule 144A under the Securities Act (“Rule 144A”), to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (3) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (4) pursuant to an exemption from registration under the Securities Act afforded by Rule 144 under the Securities Act (if available) or (5) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the United States or other applicable jurisdiction. The holder hereof, by purchasing this Note, represents and agrees that it shall notify any purchaser of this Note from it of the resale restrictions referred to above.

The following is the form of restrictive legend which will appear on the face of the Regulation S global Note and which will be used to notify transferees of the foregoing restrictions on transfer:

“This Note has not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws. The holder hereof, by purchasing this Note, agrees that neither this Note nor any interest or participation herein may be offered, resold, pledged or otherwise transferred in the absence of such registration unless such transaction is exempt from, or not subject to, such registration and in accordance with any applicable securities laws of any other applicable jurisdiction.

The foregoing legend may be removed from this Note after 40 days beginning on and including the later of (a) the date on which the Notes are offered to persons other than distributors (as defined in Regulation S under the Securities Act) and (b) the original issue date of the Notes.”

GENERAL INFORMATION

Clearing Systems

Application has been made to have the Notes accepted for clearance through Euroclear and Clearstream Luxembourg. In addition, application has been made to have each series of Notes accepted for trading in book-entry form by DTC. For the 2022 Rule 144A Notes, the ISIN number is US59284BAB45, the CUSIP number is 59284BAB4 and the common code is 083167939. For the 2022 Regulation S Notes, the ISIN number is USP57908AD01, the CUSIP number is P57908AD0 and the common code is 083156007. For the 2042 Rule 144A Notes, the ISIN number is US59284BAD01, the CUSIP number is 59284B AD0 and the common code is 083156112. For the 2042 Regulation S Notes, the ISIN number is USP57908AE83, the CUSIP number is P57908 AE8 and the common code is 083156198.

Listing

Application has been made to the Luxembourg Stock Exchange for each series of Notes to be listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF market under their respective Regulation S and Rule 144A codes. Copies of (i) our by-laws, (ii) the by-laws of our subsidiary guarantors, (iii) the indenture, which contains the terms of the subsidiary guarantees, as may be amended or supplemented from time to time, (iv) our published annual audited consolidated financial statements and (v) any published quarterly unaudited consolidated financial statements, will be available at our principal executive offices, as well as at the offices of the trustee, registrar, paying agent and transfer agent, and at the offices of the Luxembourg listing agent, paying agent, and transfer agent, as such addresses are set forth in this offering memorandum. Our subsidiary guarantors do not publish separate non-consolidated financial statements. Their financial accounts are consolidated with ours when we publish financial statements. We do not publish unconsolidated financial statements. We believe the auditor's reports included herein have been accurately reproduced. We will maintain a paying and transfer agent in Luxembourg for so long as any of the Notes are listed on the Luxembourg Stock Exchange.

As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of each series of Notes outside Mexico. Such notice will be delivered to the CNBV to comply with a legal requirement and for information purposes only, and the delivery to, and the receipt by, the CNBV of such notice, does not imply any certification as to the investment quality of the Notes of each series or our solvency, liquidity or credit quality. The information contained in this offering memorandum is exclusively our responsibility and has not been reviewed or authorized by the CNBV. The acquisition of the each series of Notes by an investor who is a resident of Mexico will be made under its own responsibility.

Authorization

Pursuant to resolutions adopted by our board of directors on July 19, 2012, we have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Notes.

No Material Adverse Change

Except as disclosed in this offering memorandum, there has been no material adverse change in our financial position or prospects or that of our subsidiaries taken as a whole since June 30, 2012.

Litigation

We are not involved in any legal or arbitration proceedings (including any such pending or threatened proceedings) relating to claims or amounts that may have or have had during the 12 months prior to the date of this offering memorandum a material adverse effect on our financial position and that our subsidiaries taken as a whole.

General Information Regarding the Issuer

Mexichem S.A.B. de C.V., a publicly traded stock corporation with variable capital (*sociedad anónima bursátil de capital variable*) was incorporated on June 30, 1978 in Mexico City, Federal District, Mexico, under the laws of Mexico with duration of 99 years. The issuer's executive offices are located at Río San Javier No.10, Fraccionamiento Viveros del Río, Tlalnepantla, Estado de México, México, C.P. 54060.

Subsidiary Guarantors

Each series of Notes will be guaranteed by the following subsidiaries of the issuer, operating variously in the PVC resin and pipe, fluid transportation solutions, chlorine, caustic soda, fluorspar and hydrofluoric acid, aluminum fluoride, phosphates and coolants markets: (i) Mexichem Brasil Industria de Transformação Plastica (ii) Mexichem Derivados, S.A. de C.V.; (iii) Mexichem Resinas Vinílicas, S.A. de C.V.; (iv) Mexichem Fluor, S.A. de C.V.; (v) Mexichem Resinas Colombia, S.A.S. (vi) Mexichem Soluciones Integrales, S.A. de C.V.; (vii) Mexichem Compuestos, S.A. de C.V.; (viii) Mexichem UK Limited.; (ix) Mexichem Fluor, Inc.; and (x) Mexichem Ecuador, S.A. The address of the subsidiary guarantors is Río San Javier No.10, Fraccionamiento Viveros del Río, Tlalnepantla, Estado de México, México, C.P. 54060.

Prospects

We have no reason to expect that our financial performance for the fiscal year ended December 31, 2012 will be materially different from that anticipated by the market.

LEGAL EXPERTS

The validity of the Notes will be passed upon for us by Davis Polk & Wardwell LLP, New York, New York and for the initial purchasers by Cleary Gottlieb Steen & Hamilton LLP, New York, New York. Certain Mexican legal matters will be passed upon for us by White & Case, S.C. and for the initial purchasers named herein by Ritch Mueller, S.C., Mexico City, Mexico.

INDEPENDENT AUDITORS

The consolidated financial statements of Mexichem, S.A.B. de C.V. and its subsidiaries as of December 31, 2011, 2010 and 2009 and for each of the years then ended included in this offering memorandum, have been audited by Galaz, Yamazaki, Ruíz Urquiza, S.C. (member of Deloitte and Touche Tohmatsu Limited), independent auditors, as stated in their report appearing therein.

The consolidated financial statements of Wavin N.V. and its subsidiaries as of December 31, 2011 and for the year then ended included in this offering memorandum, have been audited by PricewaterhouseCoopers Accountants N.V., independent auditors, as stated in their report appearing therein. The independent auditor's report is the original auditor's report that was issued on February 28, 2012 with respect to the consolidated financial statements and the company financial statements for the year ended December 31, 2011 as included in the Wavin Annual Report. This Annual Report also contained the Management Board Report. For purposes of this offering memorandum, the Management Board Report and company financial statements have been omitted.

INDEX TO FINANCIAL STATEMENTS

Unaudited Condensed Consolidated Interim Financial Statements of Mexichem, S.A.B. de C.V. and Subsidiaries as of June 30, 2012 and for the six and three months ended June 30, 2012 and 2011

Condensed Consolidated Interim Statements of Financial Position	F-3
Condensed Consolidated Interim Statements of Comprehensive Income	F-4
Condensed Consolidated Interim Statements of Changes in Stockholders' Equity.....	F-5
Condensed Consolidated Interim Statements of Cash Flows	F-6
Notes to Condensed Consolidated Interim Financial Statements	F-8

Audited Consolidated Financial Statements of Mexichem, S.A.B. de C.V. and Subsidiaries as of and for the years ended December 31, 2011, 2010 and 2009

Independent Auditors' Report	F-24
Consolidated Statements of Financial Position.....	F-26
Consolidated Statements of Comprehensive Income	F-27
Consolidated Statements of Changes in Stockholders' Equity	F-29
Consolidated Statement of Cash Flows	F-30
Notes to Consolidated Financial Statements.....	F-32

Audited Consolidated Financial Statements of Wavin N.V. and Subsidiaries as of and for the year ended December 31, 2011

Consolidated Balance Sheet	F-82
Consolidated Income Statement	F-83
Consolidated Statement of Comprehensive Income	F-84
Consolidated Statement of Changes in Equity.....	F-85
Consolidated Statement of Cash Flows	F-86
Notes to the Group Financial Statements	F-87
Independent Auditors' Report	F-138

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

Condensed Consolidated Interim Financial Statements
(Unaudited) as of June 30, 2012 and for the Six and
Three Months Ended June 30, 2012 and 2011

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

Condensed Consolidated Interim Statement of Financial Position

As of June 30, 2012 (Unaudited) and December 31, 2011
(Thousands of Mexican pesos)

	2012 (Unaudited)	2011		2012 (Unaudited)	2011
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 6,827,781	\$ 7,319,536	Bank loans and current portion of long-term debt	\$ 1,608,340	\$ 3,792,465
Investments in available-for sale securities	-	355,968	Suppliers	13,615,700	8,269,840
Accounts receivable, Net	16,285,249	10,578,514	Related parties	433,993	374,679
Inventories, Net	87,757	71,826	Other accounts payable and accrued liabilities	3,477,514	2,604,212
Prepaid expenses	10,094,635	6,657,677	Provisions	686,156	551,899
Derivative financial instruments	626,491	172,302	Employee benefits	62,363	154,082
	<u>148,544</u>	<u>-</u>	Derivative financial instruments	-	138,161
Total current assets	<u>34,070,457</u>	<u>25,155,823</u>	Total current liabilities	<u>19,884,066</u>	<u>15,885,338</u>
Non-current assets:			Non-current liabilities:		
Property, plant and equipment, Net	28,956,450	22,945,893	Bank loans and long-term debt	31,604,563	16,836,010
Other assets, Net	555,452	349,983	Other liabilities	1,336,907	999,039
Investment in shares of associated companies	362,479	-	Employee benefits	774,190	-
Employee benefits	-	53,471	Deferred income taxes	4,457,620	2,671,234
Intangible assets, Net	11,693,523	5,955,205	Derivative financial instruments	210,578	-
Deferred income taxes	501,604	577,113	Total non-current liabilities	<u>38,383,858</u>	<u>20,506,283</u>
Goodwill	<u>8,720,012</u>	<u>5,419,273</u>	Total liabilities	<u>58,267,924</u>	<u>36,391,621</u>
Total non-current assets	<u>50,789,520</u>	<u>35,300,938</u>	Stockholders' equity:		
Total assets	<u>\$ 84,859,977</u>	<u>\$ 60,456,761</u>	Paid-in capital -		
			Nominal	2,427,433	2,374,661
			Additional paid-in capital	5,407,844	3,602,085
			Cumulative effect of restatement	193,120	193,120
			Earned capital -	8,028,397	6,169,866
			Retained earnings	13,987,831	12,435,935
			Other comprehensive income	3,505,541	4,599,493
			Reserve for reacquisition of shares	832,312	787,866
			Controlling interest	18,325,684	17,823,294
			Non-controlling interest	26,354,081	23,993,160
			Total stockholders' equity	237,972	71,980
			Total liabilities and stockholders' equity	<u>26,592,053</u>	<u>24,065,140</u>
				<u>\$ 84,859,977</u>	<u>\$ 60,456,761</u>

See accompanying notes to condensed consolidated interim financial statements.

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

Unaudited Condensed Consolidated Statements of Comprehensive Income

For the six and three months ended June 30, 2012 and 2011

(Thousands of Mexican pesos except shares and earnings (loss) per share expressed in pesos)

	Six months ended June 30, 2012	Six months ended June 30, 2011	Three months ended June 30, 2012	Three months ended June 30, 2011
Continuing operations:				
Net sales	\$ 30,164,957	\$ 23,523,732	\$ 17,125,684	\$ 11,772,958
Cost of sales	<u>19,925,883</u>	<u>15,151,416</u>	<u>11,298,809</u>	<u>7,344,662</u>
	10,239,074	8,372,316	5,826,875	4,428,296
Net sales of finished goods purchased	984,133	958,438	508,319	522,314
Cost of sales	<u>922,447</u>	<u>938,725</u>	<u>476,385</u>	<u>499,822</u>
	61,686	19,713	31,934	22,492
Gross profit	10,300,760	8,392,029	5,858,809	4,450,788
Selling and development expenses	3,516,808	2,593,277	2,002,678	1,328,378
Administrative expenses	1,248,504	1,062,259	752,516	577,556
Depreciation and amortization	587,120	394,462	345,168	195,367
Other expenses (income)	(81,359)	154,970	(155,332)	87,279
Exchange gain	(662,007)	(652,834)	(945,941)	(593,505)
Exchange loss	173,735	169,150	1,351,813	448,091
Interest expense	936,491	685,914	542,666	359,487
Interest income	(176,236)	(43,508)	(133,883)	(23,309)
Monetary position loss	11,637	15,120	4,017	7,213
Tax on assets	-	102,764	-	51,382
Equity in income of associated companies	<u>(7,829)</u>	<u>-</u>	<u>(7,829)</u>	<u>-</u>
Profit before income taxes	4,754,076	3,910,455	2,102,936	2,012,849
Income tax expense	<u>1,386,998</u>	<u>1,336,515</u>	<u>550,203</u>	<u>683,456</u>
Profit for the period from continuing operations	3,367,078	2,573,940	1,552,733	1,329,393
Discontinued operations:				
Loss from discontinued operations, Net	<u>-</u>	<u>(3,044)</u>	<u>-</u>	<u>(3,044)</u>
Consolidated profit for the period	3,367,078	2,570,896	1,552,733	1,326,349
Other comprehensive income (loss):				
Exchange differences on translating foreign operations	(1,146,293)	1,231,495	(41,535)	615,747
Net gain (loss) on instruments available-for-sale	44,010	(60,990)	(2,311)	(30,495)
Income taxes on net gain (loss) on instruments available-for-sale	<u>(12,763)</u>	<u>17,686</u>	<u>670</u>	<u>8,844</u>
Total consolidated comprehensive income for the period	<u>\$ 2,252,032</u>	<u>\$ 3,759,087</u>	<u>\$ 1,509,557</u>	<u>\$ 1,920,445</u>
Total comprehensive income attributable to:				
Owners of the Company	\$ 2,257,944	\$ 3,752,133	\$ 1,499,818	\$ 1,916,857
Non-controlling interests	<u>(5,912)</u>	<u>6,954</u>	<u>9,739</u>	<u>3,588</u>
	\$ 2,252,032	\$ 3,759,087	\$ 1,509,557	\$ 1,920,445
Earnings per share:				
From continuing operations	\$ 1.86	\$ 1.43	\$ 0.85	\$ 0.74
From discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Basic and diluted earnings per share	\$ 1.86	\$ 1.43	\$ 0.85	\$ 0.74
Weighted average common shares outstanding	<u>1,809,333,333</u>	<u>1,800,000,000</u>	<u>1,818,666,667</u>	<u>1,800,000,000</u>

See accompanying notes to condensed consolidated interim financial statements.

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

Condensed Consolidated Interim Statements of Changes in Stockholders' Equity

For the six months ended June 30, 2012 and 2011
(Thousands of Mexican pesos)

	Paid-in capital			Earned capital							Total stockholders' equity
	Common stock			Retained earnings	Property, plant and equipment revaluation	Translation effects of foreign operations	Reserve for valuation of investments in available for sale securities	Reserve for reacquisition of shares	Controlling interest	Non-controlling interest	
	Nominal	Additional paid-in capital	Cumulative effect of restatement								
Balances at January 1, 2011	\$ 2,374,661	\$ 3,566,659	\$ 193,120	\$ 10,452,916	\$ 2,805,913	\$ (615,064)	\$ 36,016	\$ 908,850	\$ 19,723,071	\$ 60,093	\$ 19,783,164
Purchase - sale of shares	-	23,189	-	-	-	-	-	6,074	29,263	-	29,263
Consolidated profit for the period	-	-	-	2,566,166	-	-	-	-	2,566,166	4,730	2,570,896
Other comprehensive income (loss) of the period	-	-	-	-	-	1,231,495	(45,528)	-	1,185,967	2,224	1,188,191
Balances as of June 30, 2011 (Unaudited)	2,374,661	3,589,848	193,120	13,019,082	2,805,913	616,431	(9,512)	914,924	23,504,467	67,047	23,571,514
Dividends declared in cash	-	-	-	(720,000)	-	-	-	-	(720,000)	-	(720,000)
Purchase - sale of shares	-	12,237	-	-	-	-	-	(127,058)	(114,821)	-	(114,821)
Consolidated profit for the period	-	-	-	136,853	-	-	-	-	136,853	3,403	140,256
Other comprehensive income (loss) of the period	-	-	-	-	-	1,227,740	(41,079)	-	1,186,661	1,530	1,188,191
Balances as of December 31, 2011	2,374,661	3,602,085	193,120	12,435,935	2,805,913	1,844,171	(50,591)	787,866	23,993,160	71,980	24,065,140
Capital increase in cash and shares	52,772	1,747,228	-	-	-	-	-	-	1,800,000	-	1,800,000
Dividends declared in cash and shares	-	-	-	(1,800,000)	-	-	-	-	(1,800,000)	-	(1,800,000)
Purchase - sale of shares	-	58,531	-	-	-	-	-	44,446	102,977	-	102,977
Non-controlling interest from business acquisition	-	-	-	-	-	-	-	-	-	171,904	171,904
Consolidated profit for the period	-	-	-	3,351,896	-	-	-	-	3,351,896	15,182	3,367,078
Other comprehensive income (loss) of the period	-	-	-	-	-	(1,125,199)	31,247	-	(1,093,952)	(21,094)	(1,115,046)
Balances as of June 30, 2012 (Unaudited)	\$ 2,427,433	\$ 5,407,844	\$ 193,120	\$ 13,987,831	\$ 2,805,913	\$ 718,972	\$ (19,344)	\$ 832,312	\$ 26,354,081	\$ 237,972	\$ 26,592,053

See accompanying notes to condensed consolidated interim financial statements.

Mexichem, S.A.B. de C.V. and Subsidiaries

(A Subsidiary of Kaluz, S.A. de C.V.)

**Unaudited Condensed Consolidated Interim
Statements of Cash Flows**

For the six months ended June 30, 2012 and 2011

(Thousands of Mexican pesos)

	2012	2011
Cash flows from operating activities:		
Profit before income taxes	\$ 4,754,076	\$ 3,910,455
Items related to investing activities:		
Net labor obligation cost for the period	12,857	22,539
Depreciation and amortization	1,860,813	1,391,578
Gain on sale of fixed assets	(12,809)	(15,663)
Exchange (gain) loss	810,047	(483,684)
Impairment (reversal of impairment) of property, machinery and equipment	(218,690)	167,461
Items related to financing activities:		
Interest received	(176,236)	(43,508)
Interest expense	<u>936,491</u>	<u>685,914</u>
	7,966,549	5,635,092
Changes in working capital:		
(Increase) decrease in:		
Accounts receivable	(867,510)	(2,262,449)
Inventories	(142,296)	(1,419,530)
Other assets	(257,265)	(1,621,799)
Increase (decrease) in:		
Suppliers	(1,566,059)	1,690,315
Related parties	(45,850)	(299,097)
Other liabilities	58,002	(198,713)
Interest received	176,236	43,508
Derivative financial instruments	<u>72,418</u>	<u>31,934</u>
Net cash provided by operating activities	5,394,225	1,599,261
Cash flows from investing activities:		
Acquisition of machinery and equipment	(2,158,377)	(797,931)
Proceeds from sale of machinery and equipment	279,857	53,305
Investments in available-for sale securities	184,767	148,855
Acquisition of subsidiaries, net of cash acquired	<u>(8,933,137)</u>	<u>(3,400,985)</u>
Net cash used in investing activities	(10,626,890)	(3,996,756)

(Continued)

	2012	2011
Cash flows from financing activities:		
Borrowings	9,488,783	1,107,624
Loan repayments	(3,491,304)	(697,162)
Interest paid	(801,218)	(455,139)
Dividends paid	(1,620,166)	(251,554)
Capital increase	1,261,340	-
Purchase - sale of shares	<u>102,977</u>	<u>29,263</u>
Net cash provided by (used in) financing activities	4,940,412	(266,968)
Adjustment to cash flows due to exchange rate fluctuations	(199,502)	1,036,803
Net decrease in cash and cash equivalents	(491,755)	(1,627,660)
Cash and cash equivalents at beginning of period	<u>7,319,536</u>	<u>6,609,552</u>
Cash and cash equivalents at end of period	<u>\$ 6,827,781</u>	<u>\$ 4,981,892</u>

(Concluded)

See accompanying notes to condensed consolidated interim financial statements.

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

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2012 (Unaudited) and for the year ended December 31, 2011
(Thousands of Mexican pesos)

1. Activities

Mexichem, S.A.B. de C.V. and subsidiaries (the Company or Mexichem), whose main address and place of business is disclosed in the introduction of the annual report, is an entity that holds the shares of a group of companies located in the American and European continents, United Kingdom, Japan and Taiwan. The Company is engaged in the production and sale of chemicals and petrochemical products. The Company's main products are: chlorine, caustic soda, resins and compounds of polyvinyl chloride (PVC), extractions of fluorite, hydrofluoric acid and refrigerant gases, as well as fluid conduction systems, PVC connections and geo-synthetics. Currently, the strategic position of the Company focuses on the chemical sector through three productive chains: chlorine-vinyl, fluorine and integral solutions (mainly pipeline of PVC).

2. Significant events

Acquisition of new business - During 2012 and 2011, Mexichem acquired the businesses described below:

- i. In May 2012, Mexichem acquired 95.7% of the shares of Wavin N.V.A. (Wavin), a leading European company in the production of plastic piping systems and solutions. Wavin has its headquarters in Zwolle (the Netherlands) and operates in 25 European countries. This acquisition had an approximate value of 526 million euros. The Company is currently in the process of determining the fair values of the net assets acquired, which it expects to complete within one year of the acquisition date, as permitted by International Financial Reporting Standard 3, *Business Combinations*. Therefore, the amounts reported in the accompanying condensed consolidated interim financial statements with respect to the acquisition are provisional and are subject to change.
- ii. In January 2012, Mexichem acquired from Corporación Amati, S.A. de C.V. 100% of the shares of Fluorita de México S.A. de C.V. (FDM), located in the city of Múzquiz, Coahuila, Mexico. This acquisition provides access to the purest fluorite available in the world, and enables the Company to ensure the supply required for its UK operation. The mine has proven reserves in excess of 13,000,000 tons and annual extraction is 100,000 tons. This transaction had a value of \$75 million US dollars (US\$).
- iii. On May 31, 2011, Mexichem Fluor Japan, Ltd acquired from Showa Denko, K.K. its refrigeration gas plant located in Kawasaki, Japan. The plant began operations in November 2011 and has an annual production capacity of 5 thousand tons. This acquisition represents a significant step for Cadena Fluor in its strategy to accelerate its growth and positioning in the refrigeration mixes market, with the support of its UK production capacity. The total investment was US\$26 million, acquired through bank financing in Japanese yen.
- iv. In January 2011, Mexichem acquired, from Rockwood Specialties Group, Inc., the shares of the compound division that operates under the Alphagary name, located in the United States, Canada and the United Kingdom. As a result of this acquisition, the Company will consolidate its presence in the compound markets in which it operates and will combine the research and development potential and the innovative knowledge of Alphagary. The approximate value of this transaction is US\$322 million, financed mainly with the Company's own resources.

a. ***Increase and issuance of securitized certificates***

On March 15, 2012, Mexichem increased the amount borrowed under the second issuance of securitized certificates by \$2,000 million; these securitization certificates continue to mature on September 2, 2016 and bear interest at the Mexican Interbank Equilibrium Rate (TIIE) rate plus 60 basis points. On the same date, Mexichem completed the third issuance of securitized certificates for \$3,000 million, maturing on March 9, 2022 and bearing at a fixed rate of 8.12%. The interest on both issuances is paid every 28 days.

b. ***Dividend payable in kind to the Company's stockholders***

At the Stockholders' Ordinary and Extraordinary General Meetings on April 30, 2012 and May 18, 2012, respectively, the stockholders approved the payment of a dividend of up to \$1,800,000, payable from the balance of the Net Tax Income Account (CUFIN) of the Company. The dividend was payable, at the election of each stockholder, either in-kind by delivering one share for every 45 shares held by the respective stockholder, or in cash for \$1 per share held by the respective stockholder. To facilitate the payment of this dividend, the stockholders authorized a capital increase of up to 40,000,000 single series, ordinary, nominative shares with full voting rights. As a result, at the Stockholders' Meeting on May 18, 2012, the stockholders approved the issuance of 28,029,771 ordinary, normative single series, class II shares at a subscription price of \$45 for each new share, which such proceeds were used to pay the dividend to those stockholders who elected to receive the dividend in cash. The remaining 11,970,229 shares were issued as a payment of the dividend in-kind for those stockholders who elected to receive the dividend in shares.

3. **Basis of presentation and consolidation**

- a. ***Basis of presentation*** - The accompanying condensed consolidated interim financial statements have been prepared according to International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and were prepared on the historical cost basis, except for property, plant and equipment and certain financial instruments which are valued at fair value, as permitted by International Financial Reporting Standards ("IFRS"). The historical cost is usually based on the fair value of the payment received in exchange for assets.

The accompanying condensed consolidated interim financial statements as of June 30, 2012 and for the three and six months ended June 30, 2012 and 2011 have not been audited. In the opinion of Company management, all adjustments (consisting mainly of ordinary, recurring adjustments) necessary for a fair presentation of the accompanying condensed consolidated interim financial statements are included. The results of the periods are not necessarily indicative of the results for the full year. These unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company and their respective notes for the year ended December 31, 2011.

The accounting policies and methods of computation are consistent with the audited consolidated financial statements for the year ended December 31, 2011.

- b. ***Consolidated financial statements*** - The consolidated financial statements incorporate the financial statements of Mexichem, S.A.B. de C.V. and entities it controls (its subsidiaries). The Company's shareholding percentage in their capital stock at June 30, 2012 and December 31, 2011, is shown below. Significant intercompany balances and transactions have been eliminated in these consolidated financial statements.

Group	Country	% Ownership	
		2012	2011
Chlorine – Vinyl chain:			
Mexichem Derivados, S.A. de C.V.	Mexico	100	100
Mexichem Compuestos, S.A. de C.V.	Mexico	100	100
Mexichem Resinas Vinílicas, S.A. de C.V.	Mexico	100	100
Mexichem America, Inc.	USA	100	100

Group	Country	% Ownership	
		2012	2011
Alphagary Corporation	USA	100	100
Alphagary Limited	United Kingdom	100	100
Mexichem Resinas Colombia, S.A.S.	Colombia	100	100
C.I. Mexichem Compuestos Colombia, S.A.S.	Colombia	100	100
Cadena Fluor:			
Mexichem Fluor, S.A. de C.V.	Mexico	100	100
Fluorita de Mexico, S.A. de C.V.	Mexico	100	-
Mexichem Fluor Inc.	USA	100	100
Mexichem UK Limited	United Kingdom	100	100
Mexichem Fluor Japan Ltd.	Japan	100	100
Mexichem Fluor Taiwan Ltd.	Taiwan	100	100
Unión Minera del Sur, S.A. de C.V.	Mexico	100	100
Cadena Soluciones Integrales:			
Mexichem Amanco Holding, S.A. de C.V.	Mexico	100	100
Mexichem Soluciones Integrales, S.A. de C.V.	Mexico	100	100
Mexichem Guatemala, S.A.	Guatemala	100	100
Mexichem Honduras, S.A.	Honduras	100	100
Mexichem El Salvador, S.A.	El Salvador	100	100
Mexichem Nicaragua, S.A.	Nicaragua	100	100
Mexichem Costa Rica, S.A.	Costa Rica	100	100
Mexichem Panama, S.A.	Panama	100	100
Mexichem Colombia, S.A.S.	Colombia	100	100
Pavco de Venezuela, S.A.	Venezuela	100	100
Mexichem Ecuador, S.A.	Ecuador	95	95
Mexichem Peru, S.A.	Peru	100	100
Mexichem Argentina, S.A.	Argentina	100	100
Mexichem Brasil Industria de Transformação Plástica, Ltda.	Brazil	100	100
Wavin N.V.A. y subsidiarias	Holland	99.09	-

Equity in the results and changes in net worth of the subsidiaries purchased or sold during the year are included in the consolidated financial statements, as of or up to the date on which the transactions were performed

- c. **Cyclicality** - Due to the global chemical industry cyclicality, historically the international chemical market has experienced alternating periods of limited supply, which have caused prices and profit margins to increase, followed by expansion of production capacity, which has resulted in oversupply and reduced prices and profit margins. The Company establishes the prices for the products that sell with reference to international market prices and is particularly sensitive to economic cycles affecting the construction, infrastructure and agriculture industries. Through vertical integration, the Company tries to eliminate the cyclicality of the prices.
- d. **Explanation for translation into English** - The accompanying condensed consolidated interim financial statements have been translated from Spanish into English for use outside of Mexico. These condensed consolidated interim financial statements are presented on the basis of IAS 34. Certain accounting practices applied by the Company that conform with IAS 34 may not conform with accounting principles generally accepted in the country of use.

4. Summary of significant accounting policies

The accompanying consolidated interim financial statements comply with IFRS. Their preparation requires management to make certain estimates and use certain assumptions to value certain items contained in the financial statements and make the disclosures required therein. However, actual results may differ from these estimates. The Company's management, using its professional judgment, believes that the estimates made and assumptions used were adequate under the circumstances.

a. *Accounting changes -*

Beginning January 1, 2012, the Company adopted the following new IFRS:

- i. ***Amendments to Amendments to IAS 12 Deferred Tax-Recovery of Underlying Assets***, - The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40, *Investment Property*, are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The adoption of this standard did not have an effect on the Company's consolidated financial information as it does not carry any investment properties.
- ii. ***IAS 19 (as revised in 2011) Employee Benefits*** - The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan asset when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. The Company has early adopted these amendments to IAS 19, which resulted in additional employee benefit expense of \$34,582, recognized in the condensed consolidated interim statement of comprehensive income for the six months ended June 30, 2012.

5. Business combinations

- a. ***Business acquisitions*** - During 2012 and 2011, Mexichem acquired several businesses, which were recorded using the purchase method. The results of these businesses have been included in the accompanying condensed consolidated interim financial statements from the date of the acquisition. The most significant acquisitions described in detail in Note 2 are as follows:
 - i. In May 2012, Mexichem acquired 95.7% of the shares of Wavin, for approximate value of 526 million euros. The Company is currently in the process of determining the fair values of the acquired net assets, for which reason the amounts presented below with respect to the acquisition are provisional and are subject to change.
 - ii. In January 2012, Mexichem acquired from Corporación Amati, S.A. de C.V. 100% of the shares of FDM. This transaction had a value of US \$75,000,000. The Company is currently in the process of determining the fair values of the acquired net assets, for which reason the amounts presented below with respect to the acquisition are provisional and are subject to change.
 - iii. On January 7, 2011, Mexichem acquired, from Rockwood Specialties Group, Inc., the shares of the compound division that operates under the Alphagary. The approximate value of this transaction is US\$322 million, resulting in the recognition of intangible assets of US\$193 million and goodwill of US\$53 million.

With the aforementioned acquisitions, Mexichem continues its strategy to provide greater value with respect to its basic raw materials, thereby strengthening its position in the American continent and becoming a global company with operations in Europe and Asia.

b. ***Consideration transferred -***

	2012	Cash
Wavin		\$ 8,902,962
FDM		<u>682,789</u>
		<u>\$ 9,585,751</u>
	2011	Cash
Alphagary		<u>\$ 3,937,389</u> (i)

(i) The Company made an advance payment on December 31, 2010 for \$494,268.

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 expense (income)" in the condensed consolidated interim statements of comprehensive income.

c. ***Assets acquired and liabilities assumed at the date of acquisition -***

	2012	FDM	Wavin	Total
Assets:				
Cash and cash equivalents	\$	25,067	\$ 627,547	\$ 652,614
Accounts receivable		39,286	5,619,438	5,658,724
Inventories		33,440	3,407,202	3,440,642
Other current assets		6,606	277,232	283,838
Property, plant and equipment		153,601	5,508,028	5,661,629
Identified intangible assets		169,082	6,220,116	6,389,198
Investment in shares		-	365,469	365,469
Other non-current assets		25	-	25
Liabilities:				
Suppliers and other accounts payable		<u>(380,423)</u>	<u>(15,573,031)</u>	<u>(15,953,454)</u>
Total net assets	\$	<u>46,684</u>	<u>6,452,001</u>	<u>\$ 6,498,685</u>
	2011	Alphagary		
Assets:				
Cash and cash equivalents		\$ 42,136		
Accounts receivable		401,068		
Inventories		244,191		
Other current assets		33,768		
Property, plant and equipment		535,006		
Identified intangible assets		2,370,898		
Deferred income tax		53,024		
Liabilities:				
Suppliers and other accounts payable		<u>(388,275)</u>		
Total net assets		<u>\$ 3,291,816</u>		

d. ***Goodwill on acquisitions***

2012	Consideration transferred	Value of the acquired net assets	Goodwill
Wavin (i)	\$ 8,902,962	\$ 6,452,001	\$ 2,450,961
FDM	<u>\$ 682,789</u>	<u>\$ 46,684</u>	<u>\$ 636,105</u>
	<u>\$ 9,585,751</u>	<u>\$ 6,498,685</u>	<u>\$ 3,087,066</u>
2011	Consideration transferred	Value of the acquired net assets	Goodwill
Alphagary	<u>\$ 3,937,389</u>	<u>\$ 3,291,816</u>	<u>\$ 645,573</u>

(i) The Company is currently in the process of determining the fair values of the acquired net assets, for which reason the amount of goodwill is subject to change.

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 -***

	2012	2011
Consideration paid in cash	\$ 9,585,751	\$ 3,937,389
Less: balances of cash and cash equivalents acquired	<u>(652,614)</u>	<u>(42,136)</u>
Net	<u>\$ 8,933,137</u>	<u>\$ 3,895,253</u>

f. ***Supplementary financial information from the acquisition date (unaudited) -***

The following table presents the net sales and comprehensive income of Wavin and FDM from the acquisition date included in the condensed consolidated statement of comprehensive income for the six months ended June 30, 2012:

	Net sales	Comprehensive income
Wavin	\$ 3,998,656	\$ 127,261
FDM	\$ 178,107	\$ 67,324

g. ***Supplementary pro forma information (unaudited) -***

The following table presents the consolidated net sales and comprehensive income of Mexichem for the six months ended June 30, 2012 as if the acquisitions of Wavin and FDM had occurred as of January 1, 2012:

	Net sales	Comprehensive income
Six months ended June 30, 2012	\$ 36,991,403	\$ 2,386,069

6. Accounts receivable

	2012	2011
Customers	\$ 16,055,433	\$ 9,280,379
Less - Allowance for doubtful accounts	<u>(584,105)</u>	<u>(289,685)</u>
	15,471,328	8,990,694
Other	<u>813,921</u>	<u>1,587,820</u>
	<u>\$ 16,285,249</u>	<u>\$ 10,578,514</u>

7. Inventories

	2012	2011
Finished products	\$ 6,665,858	\$ 4,000,934
Raw materials	2,987,590	2,244,619
Goods in-transit	698,251	648,186
Spare parts	<u>411,504</u>	<u>277,307</u>
	10,763,203	7,171,046
Less - Allowance for obsolete and slow-moving inventory	<u>(668,568)</u>	<u>(513,369)</u>
	<u>\$ 10,094,635</u>	<u>\$ 6,657,677</u>

8. Derivative financial instruments

Financial instruments that were entered into during 2012 were as follows:

a. Exchange and interest rate swap

In April, the Company entered into a swap instrument with HSBC for the period from April 19, 2012 through March 9, 2022, for a notional amount of EUR 86,530,141 (approximately \$1,500,000).

In April, the Company entered into a fixed rate swap instrument with Morgan Stanley for the period from April 19, 2012 through March 9, 2022, for a notional amount of EUR 88,928,413 (approximately \$1,500,000).

In May, the Company entered into a fixed rate swap instrument with Morgan Stanley for the period from May 8, 2012 through September 2, 2016, for a notional amount of EUR 58,162,191 (approximately \$1,000,000).

In March, the Company entered into a fixed rate swap instrument with HSBC for the period from May 8, 2012 through September 2, 2016, for a notional amount of EUR 58,122,693 (approximately \$1,000,000).

As of June 30, 2012						
Derivative Instruments	Beginning date	Ending date	Notional amount	Interest rate paid /Exchange rate fixed	Interest rate /Exchange rate at the end	Fair value June 2012
Fixed rate swap (EUR/MXN XCY, euros per msp)	April 19, 2012	March 9, 2022	EUR86,530,141	8.12% / 17.335	4.39% / 16.832	\$ 72,773
Swap (10y EUR/MXN XCY, euros per pesos)	April 19, 2012	March 9, 2022	EUR88,928,413	8.12% / 16.8675	4.39% / 16.832	\$ 31,509
Fixed rate wwap (5y EUR/MXN XCY, euros per msp)	May 8, 2012	September 2, 2016	EUR58,162,191	5.37% / 17.1933	2.44% / 16.832	\$ 21,677
Fixed rate wwap (EUR/MXN XCY, euros per msp)	May 8, 2012	September 2, 2016	EUR58,122,639	5.37% / 17.2050	2.43% / 16.832	\$ 21,012

9. Property, plant and equipment

	2012	2011
Investment:		
Land	\$ 3,949,524	\$ 2,705,449
Buildings	11,169,487	7,082,204
Machinery and equipment	46,298,097	33,551,067
Furniture and fixtures	1,928,131	753,814
Vehicles	433,842	410,400
Construction in-progress	3,151,314	1,591,590
Total investment	66,930,395	46,094,524
Depreciation:		
Buildings	2,952,914	2,597,206
Machinery and equipment	34,207,805	19,748,463
Furniture and fixtures	625,406	628,895
Vehicles	187,820	174,067
Total accumulated depreciation	37,973,945	23,148,631
Net investment	\$ 28,956,450	\$ 22,945,893

During 2012, based on exploration and extraction studies, the Company identified reserves of 1,000,000 tons of sulfur available for extraction, which may further increase based on future exploration or extension of the Company's land concession. Accordingly, during the six months ended June 30, 2012, the Company reversed an impairment it had previous taken against its sulfur production plant for \$218,690.

10. Intangible assets

	Useful life	2012	2011
Non - compete agreements	5	\$ 834,066	\$ 824,777
Customer portfolio	15	1,751,786	1,554,106
Use of trademark	Indefinite	5,771,252	2,072,299
Intellectual property	10	1,944,031	1,490,075
Non solicitation	2	6,690	13,948
Others		1,385,698	-
		\$ 11,693,523	\$ 5,955,205

11. Bank loans and long-term debt

Consisted of the following:

	2012	2011
Summary of foreign currency loan agreements:		
JP Morgan Revolving credit line of US\$1,000 million, of which US\$600 million has been disbursed; borrowings bear quarterly interest at the London Interbank Offered Rate (Libor) plus 90 basis points. The principal is due in a single maturity on August 26, 2014.	\$ 8,028,000	\$ 3,905,328
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. Syndicated loan in different currencies equivalent to 378 million euros, bearing interest at different rates, principally the EURLIBOR rate plus 165 to 250 basis points. Principle is payable in a single payment upon maturity in April 2015.	6,364,469	-
Issuance of US\$350 million bond that bears semi-annual interest at a fixed 8.75% rate. Principal is repaid in one installment at maturity on November 6, 2019.	4,683,000	4,881,660
BBVA Houston Unsecured loans documented with promissory notes of US\$78 million and US\$62 million, which bear monthly interest at a rate of Libor plus 260 basis points. Principal is repaid quarterly with maturity in December 2014.	1,170,750	1,464,498
Banco Inbursa, S.A. Unsecured loans documented with promissory notes that bear monthly interest at the Libor rate plus 5%. Principal of US\$226.6 million was repaid at maturity on March 31, 2012.	-	3,160,686
Bancolombia, S.A. Unsecured loans documented with promissory notes of 90,750 million Colombian pesos, which bear quarterly interest at the Fixed Term Deposit rate (FTD) plus 550 basis points. Principal is paid quarterly with maturity on May 2017.	612,919	586,924
Mizuho Corporate Bank Unsecured loan documented with a promissory note of 2,700 billion yen that bears quarterly interest at a fixed rate of 2.17%. The principal is paid in 6 semiannual payments from June 2014.	452,480	489,199
Banco de Crédito, S.A. Promissory note of 35,000 million Colombian pesos, with semi-annual repayments, which bear quarterly interest at the FTD rate plus 5.1%, maturing on May 8, 2014.	262,412	251,282
Banco de Bogotá, S.A. and Bancolombia, S.A. Loans of US\$12.7 million, of which US\$8.9 incur interest at a variable rate and US\$3.8 at a fixed rate, documented with promissory notes that bear quarterly interest at different rates (Libor plus 0.80% to 1.90% and a fixed rate of 2.63% to 4.22%, respectively). Principal on these loans is paid from April 2010 through July 2013.	29,627	45,828

	2012	2011
Others	24,256	51,714
Loans in Mexican pesos:		
Securitization certificates of \$4,500 million that bear monthly interest at the TIIE rate plus 60 basis points. Principal matures on September 2, 2016.	4,500,000	2,500,000
Securitization certificate for the amount of \$3,000,000, which accrues monthly interest at a fixed rate of 8.12%. Principal will be settled through a single payment on March 9, 2022.	3,000,000	-
HSBC		
Unsecured loans of \$2,500 million documented with promissory notes, which bear quarterly interest at the TIIE rate plus 1.50 %. Principal is repaid quarterly beginning January 2013 and matures in October 2015.	2,500,000	2,500,000
Bancomext		
Loan which bear interest at the TIIE plus 0.825 rate. Principal is repaid semiannually starting on November 8, 2014 and matures on November 2019.	<u>1,850,150</u>	<u>1,000,000</u>
	33,478,063	20,837,119
Less: Current portion of bank loans and current portion of long-term debt	(1,608,340)	(3,792,465)
Less: Debt issue costs	<u>(265,160)</u>	<u>(208,644)</u>
	<u>\$ 31,604,563</u>	<u>\$ 16,836,010</u>

Long-term debt matures as follows as of June 30, 2012:

Payable during -	
2013	\$ 826,184
2014	9,729,699
2015	7,380,533
2016	4,965,418
2017 and thereafter	<u>8,702,729</u>
	<u>\$ 31,604,563</u>

At June 30, 2012, the Company's financing establishes certain restrictions, which have been complied with and are calculated based on consolidated financial statement figures for the Company, the most significant of which are as follows:

- Certain restrictions regarding the application of new liens.
- Allows payment of dividends of up to 10% of operating profit plus depreciation and amortization of the prior year.
- Maintain a consolidated interest hedge ratio of at least 3.0 to 1.0.

- d. Maintain an index of leverage on the profit before interest, taxes, depreciation and amortization not greater than 3.0 to 1.0.
- e. Insure and maintain property and equipment in good working condition.
- f. Comply with all applicable laws, rules, regulations and provisions.

12. Employee Benefits

As a result of the acquisition of Wavin, the Company is required to provide statutory benefits to employee employees in certain countries, such as unfunded service awards and other retirement benefit.

Additionally, Wavin has established defined benefit pension plans in the Netherlands, UK, Ireland and Norway.

Other pension arrangements consist of defined contribution plans, mainly in Germany, France and Italy.

The estimated quarterly cost for those benefits is approximately \$50,000.

13. Stockholders' equity

Paid-in capital

At June 30, 2012, common stock consists of 1,800,000,000 nominative, ordinary, no-par value, voting shares, which are fully paid. Fixed capital is represented by non-withdrawable Class I shares. Variable capital is represented by Class II shares, which may not exceed 10 times the minimum fixed capital. The number of shares at June 30, 2012, is as follows:

	Number of shares	Amount
Subscribed capital-		
Class I	308,178,735	\$ 406,567
Class II	<u>1,531,821,265</u>	<u>2,020,866</u>
	<u>1,840,000,000</u>	<u>\$ 2,427,433</u>

Basic earnings per share are equal to the diluted earnings per share because the Company does not have potential shares that may result in the dilution of earnings per share.

Earned capital

At the Stockholders' Ordinary and Extraordinary General Meetings on April 30, 2012 and May 18, 2012, respectively, the stockholders approved the payment of a dividend of up to \$1,800,000, payable from the Company's CUFIN account. The dividend was payable, at the election of each stockholder, either in-kind by delivering one share for every 45 shares held by the respective stockholder, or in cash for \$1 per share held by the respective stockholder. To facilitate the payment of this dividend, the stockholders authorized a capital increase of up to 40,000,000 single series, ordinary, nominative shares with full voting rights. As a result, at the Stockholders' Meeting on May 18, 2012, the stockholders approved the issuance of 28,029,771 ordinary, normative single series, class II shares at a subscription price of \$45 for each new share, which such proceeds were used to pay the dividend to those stockholders who elected to receive the dividend in cash. The remaining 11,970,229 shares were issued as a payment of the dividend in-kind for those stockholders who elected to receive the dividend in shares.

14. Transactions with related parties

The Company carried out transactions during the ordinary course of business with related parties. In addition, during the six months ended June 30, 2012, the Company received advisory services from its holding company Kaluz, S.A. de C.V., related to the negotiations for the securitized certificates and the business acquisitions of Wavin and FDM for \$156,607.

15. Income taxes

a. ISR

The income tax rates of ISR applicable in the countries where Wavin operates are a range of 10% to 34%, the most significant as follows:

	%
France	33
Germany	27
United Kingdom	25
Holland	25
Poland	19

16. Information by industry segment

Segment information is presented according to the production chains, which are grouped according to the vertical integration of their raw materials; the Company's operating decisions are made based on such segmentation for purposes of assigning resources and assessing the performance of each segment.

The Company's operating segments are composed of the Chlorine – Vinyl, Fluorine and Integral Solutions production chains. The Chlorine – Vinyl chain includes the production of chlorine, caustic soda, chlorinated derivatives, mainly used to purify water, and PVC resins and compounds used to manufacture tubes, connectors, and special materials for various industries; the Fluorine chain includes the extraction of fluorite, the production of hydrofluoric acid and cooling gases, which are used in the cement, steel, ceramic, glass, and automotive industries; the Integral Solutions chain includes the production of PVC and geo-synthetic tubes and connectors, which are used to handle and transport fluids, mainly water, in the construction and agricultural sectors.

Below is a summary of the most significant line items of the consolidated interim financial statements for each business operating chain:

	June 30, 2012				
	Vinyl - Chlorine	Fluorine	Integral solutions	Holding company	Eliminations
					Consolidated
Total assets	\$ 28,005,142	\$ 17,382,375	\$ 58,883,310	\$ 43,452,139	\$ 84,859,977
Net sales	\$ 13,417,467	\$ 6,456,475	\$ 14,137,577	\$ 171,349	\$ 31,149,090
Profit for the period	\$ 977,872	\$ 1,265,607	\$ 1,129,545	\$ 1,805,819	\$ 3,567,078

	June 30, 2011				
	Vinyl - Chlorine	Fluorine	Integral solutions	Holding company	Eliminations
					Consolidated
Total assets	\$ 26,168,136	\$ 14,878,879	\$ 24,145,824	\$ 29,803,490	\$ 55,349,291
Net sales	\$ 12,501,888	\$ 5,938,343	\$ 8,825,812	\$ 241,895	\$ 24,482,170
Profit for the period	\$ 1,107,543	\$ 1,188,353	\$ 979,065	\$ 382,325	\$ 2,570,896

17. Subsequent events

- a. On August 16, 2012, Mexichem reported that, in order to take advantage of the "shale gas" market in North America, on July 30, 2012, it executed a Memorandum of Understanding with Occidental Chemical Corporation ("OxyChem") to evaluate the creation of a joint venture to build an ethane-based "cracker" to produce approximately 500,000 tons of ethylene per year. OxyChem will utilize virtually all this ethylene at its industrial complex in Ingleside, Texas, to produce approximately 1,000,000 metric tons of vinyl chloride monomer (VCM) for sale to Mexichem under a long-term supply contract.

The feasibility study and basic engineering needed to build the ethane-based cracker are expected to be ready for final evaluation during the second quarter of 2013. If economically justifiable, the ethane-based cracker will begin operations in 2016, thereby allowing Mexichem to consolidate its Vinyl-Chloride chain by obtaining direct access to one of its main raw materials, ethylene, and maintaining its competitiveness with respect to the manufacture of PVC products. This transaction is subject to a series of conditions requiring additional approval, including the finalization of definitive agreements.

- b. On August 27, 2012 Mexichem announced to its shareholders and general investors community that it has begun all necessary steps to carry out a financing plan, consisting of a capital increase and additional debt for approximately US\$2,000 million in total, comprised by an estimated increase in capital stock of approximately US\$1,000 million and the issuance of long-term bonds for approximately US\$1,000.

In order to carry out its financing plan, the Company submitted a request to the National Securities and Banking Commission (CNBV for its acronym in Spanish) and the Mexican Stock Market (BMV), to carry out a primary public offering to subscribe shares between the investing community in Mexico as well as within other international markets.

The Company intends to use the resources from its financing plan to refinance existing liabilities, for working capital and other general corporate purposes.

With this financing plan, Mexichem seeks flexibility and to strengthen its financial structure, based on current market conditions and the position of the Company, which it anticipates will also enable it to continue with its strategic growth plans.

- c. On August 31, 2012, a call notice was issued for a General Extraordinary Shareholders' Meeting to take place on September 18, 2012, at which an increase in the variable capital of the Company will be proposed, through the issuance of unsubscribed shares for the general investing community, without the right of first refusal, through a primary public offering, in terms of the article 53 of the Mexican Securities Market Law and subject to the authorization of the CNBV.

The execution of the transactions referred to in subsections b. and c. above is subject to obtaining various regulatory approvals and determining feasibility based on existing market conditions. The securities contained in the global public offering may not be offered or sold to the public until the CNBV authorizes their offer based on the terms of the Securities Market Law.

18. New accounting pronouncements

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective, applicable as of 1 of January 1, 2013, unless stated otherwise:

- *IFRS 9 Financial Instruments*, early application is permitted. In August of 2011, the IASB issued a proposal for accounting rules entitled date of mandatory application of IFRS, which proposes to change the effective date of IFRS 9 from 1 January 2013 to January 1, 2015.
- *IFRS 10 Consolidated Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosure of Interests in Other Entities*
- *IFRS 13 Fair Value Measurement*
- *Amendments to IAS 1 Presentation of items of Other Comprehensive Income*, Effective for annual periods beginning on or after 1 July 2012.
- *IAS 27 Separate Financial Statements*
- *IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures*

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The Company is evaluating the impact the adoption of this standard may have on this consolidated financial information.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, SIC 13 and IAS 27 (as revised in 2011). The key requirements of these standards are described below:

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation-Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities-Non-Monetary Contributions by Ventures has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application provided that all of these five standards are applied early at the same time.

The Company anticipates that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and the application of these standards will not have significant impact on amounts reported in the consolidated financial statements.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instruments items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope. The Company is evaluating the impact of the application of this standard.

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

19. Financial statement issuance authorization

The issuance of the consolidated financial statements for the year ended December 31, 2011, was authorized at the Stockholders' General Meeting on March 29, 2012. The issuance of the condensed consolidated interim financial statements for the six month ended June 30, 2012, was authorized on August 31, 2012 by C.P.C. Miguel Ruiz Tapia, Chief Financial Officer. Consequently, the accompanying financial statements do not reflect events after this date.

* * * * *

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

Consolidated Financial Statements for
the Years Ended December 31, 2011,
2010 and 2009, and Independent
Auditors' Report Dated March 29, 2012

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

We have audited the accompanying consolidated financial statements of Mexichem, S.A.B. de C.V. and Subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2011, 2010 and 2009, and the consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Mexichem, S. A. B. de C. V. and Subsidiaries as of December 31, 2011, 2010 and 2009, and of their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards.

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

C. P. C. Luis Javier Fernández Barragán

March 29, 2012

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, 2011, 2010 and 2009
(Thousands of Mexican pesos)

	Notes	2011	2010	2009		Notes	2011	2010	2009
Current assets:					Current liabilities:				
Cash and cash equivalents	7	\$ 7,319,536	\$ 6,609,552	\$ 10,364,684	Bank loans and current portion of long-term debt	15	\$ 3,792,465	\$ 2,176,521	\$ 2,364,290
Investments in available-for sale securities		355,968	536,234	-	Suppliers		8,269,840	6,297,614	5,249,302
Accounts receivable, Net	8	10,578,514	7,804,710	5,963,776	Related parties	19	374,679	273,753	218,302
Related parties	19	71,826	21,145	39,687	Other accounts payable and accrued liabilities		2,604,212	2,332,423	1,132,970
Inventories, Net	9	6,657,677	4,466,417	3,073,296	Provisions		551,899	408,046	1,114,752
Prepaid expenses		172,302	135,495	237,332	Employee benefits	16	154,082	174,957	166,902
Assets classified as held for sale		-	186,366	72,129	Derivative financial instruments	11,12	138,161	36,687	160,322
Total current assets		25,155,823	19,759,919	19,750,904	Total current liabilities		15,885,338	11,700,001	10,406,840
Non-current assets:					Non-current liabilities:				
Property, plant and equipment, Net	13	22,945,893	20,950,624	18,439,693	Bank loans and long-term debt	15	16,836,010	15,662,682	13,896,977
Other assets, Net		349,983	302,660	488,215	Other liabilities		999,039	732,587	860,361
Investment in shares of associated companies		-	-	64,301	Deferred income taxes	21	2,671,234	2,852,884	2,679,089
Employee benefits	16	53,471	110,944	59,968	Derivative financial instruments	11,12	-	-	63,506
Intangible assets, Net	14	5,955,205	4,562,364	2,648,691	Total non-current liabilities		20,506,283	19,248,153	17,499,933
Deferred income taxes	21	577,113	598,290	382,225	Total liabilities		36,391,621	30,948,154	27,906,773
Goodwill		5,419,273	4,446,517	2,689,917	Stockholders' equity:				
Total non-current assets		35,300,938	30,971,399	24,773,010	Paid-in capital -				
Total assets		\$ 60,456,761	\$ 50,731,318	\$ 44,523,914	Nominal		2,374,661	2,374,661	2,353,106
					Additional paid-in capital		3,602,085	3,566,659	3,479,792
					Cumulative effect of restatement		193,120	193,120	193,120
					Earned capital -		6,169,866	6,134,440	6,026,018
					Retained earnings		12,435,935	10,452,916	7,056,033
					Other comprehensive income		4,599,493	2,226,865	2,612,737
					Reserve for reacquisition of shares		787,866	908,850	872,843
					Controlling interest		17,823,294	13,588,631	10,541,613
					Non-controlling interest		23,993,160	19,723,071	16,567,631
					Total stockholders' equity		71,980	60,093	49,510
					Total liabilities and stockholders' equity	17	24,065,140	19,783,164	16,617,141
							\$ 60,456,761	\$ 50,731,318	\$ 44,523,914

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 Comprehensive Income

For the years ended December 31, 2011, 2010 and 2009

(Thousands of Mexican pesos except shares and earnings (loss) per share expressed in pesos)

	Notes	2011	2010	2009
Continuing operations:				
Net sales		\$ 47,309,622	\$ 35,195,391	\$ 29,752,237
Cost of sales		<u>31,473,366</u>	<u>22,917,222</u>	<u>18,999,654</u>
		15,836,256	12,278,169	10,752,583
Net sales of finished goods purchased		1,737,738	1,276,258	894,806
Cost of sales		<u>1,660,578</u>	<u>1,215,343</u>	<u>860,391</u>
		77,160	60,915	34,415
Gross profit		15,913,416	12,339,084	10,786,998
Selling and development expenses		5,596,446	4,164,048	3,449,075
Administrative expenses		2,046,506	2,026,202	2,032,663
Depreciation and amortization		920,444	672,717	608,446
Other expenses (income)	20	67,274	(169,074)	295,456
Exchange gain		(2,449,913)	(1,127,893)	(946,573)
Exchange loss		3,740,200	780,954	849,677
Interest expense		1,381,664	1,254,677	861,846
Interest income		(119,206)	(105,004)	(112,036)
Monetary position loss		45,007	32,263	46,292
Tax on assets	4 z.	210,482	-	-
Equity in income of associated companies		<u>-</u>	<u>-</u>	<u>(12,230)</u>
Profit before income taxes		4,474,512	4,810,194	3,714,382
Income tax expense	21	<u>1,697,277</u>	<u>751,249</u>	<u>789,036</u>
Profit for the year from continuing operations		2,777,235	4,058,945	2,925,346
Discontinued operations:				
(Loss) gain from discontinued operations, Net	22	<u>(66,083)</u>	<u>(146,324)</u>	<u>43,960</u>
Consolidated profit for the year		2,711,152	3,912,621	2,969,306
Other comprehensive income (loss):				
Exchange differences on translating foreign operations		2,462,989	(575,573)	(39,426)
Net gain on cash flow hedging instruments		-	217,900	128,444
Net (loss) gain on available-for-sale financial assets		(121,981)	51,451	-
Income taxes on net gain on cash flow hedging instruments and net gain on available-for-sale financial assets		<u>35,374</u>	<u>(80,805)</u>	<u>(35,964)</u>
Total consolidated comprehensive income for the year		<u>\$ 5,087,534</u>	<u>\$ 3,525,594</u>	<u>\$ 3,022,360</u>

(Continued)

Total comprehensive income attributable to:			
Owners of the Company	\$ 5,075,647	\$ 3,515,011	\$ 3,005,500
Non-controlling interests	<u>11,887</u>	<u>10,583</u>	<u>16,860</u>
	<u>\$ 5,087,534</u>	<u>\$ 3,525,594</u>	<u>\$ 3,022,360</u>
Earnings (loss) per share:			
From continuing operations	<u>\$ 1.54</u>	<u>\$ 2.26</u>	<u>\$ 1.72</u>
From discontinued operations	<u>\$ (0.04)</u>	<u>\$ (0.08)</u>	<u>\$ 0.03</u>
Basic earnings per share	<u>\$ 1.50</u>	<u>\$ 2.18</u>	<u>\$ 1.75</u>
Weighted average common shares outstanding	<u>1,800,000,000</u>	<u>1,799,359,514</u>	<u>1,702,427,876</u>

See accompanying notes to consolidated financial statements.

(Concluded)

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, 2011, 2010 and 2009
(Thousands of Mexican pesos)

	Paid-in capital				Earned capital							Reserve for reacquisition of shares	Controlling interest	Non-controlling interest	Total stockholders' equity
	Common Stock		Additional paid-in capital	Cumulative effect of restatement	Retained earnings	Property, plant and equipment revaluation	Translation effects of foreign operations	Reserve for valuation of investments in available for sale securities	Reserve for valuation of Hedging financial instruments	Reserve for					
	Nominal	In trust													
Balances as of January 1, 2009	\$ 2,172,023	\$ (28,792)	\$ 1,380,457	\$ 193,120	\$ 5,098,367	\$ 2,805,913	\$ -	\$ -	\$ (245,010)	\$ 315,521	\$ 11,691,599	\$ 116,103	\$ 11,807,702		
Capital increase	202,638	-	2,055,282	-	-	-	-	-	-	-	2,257,920	-	2,257,920		
Dividends declared in cash	-	-	-	-	(396,000)	-	-	-	-	-	(396,000)	-	(396,000)		
Additional reserve for repurchase of shares	-	-	-	-	(600,000)	-	-	-	-	600,000	-	-	-		
Repurchase of shares	-	-	44,053	-	-	-	-	-	-	(42,678)	1,375	-	1,375		
Purchase of non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-		
Shares in trust	-	7,237	-	-	-	-	-	-	-	-	-	(83,453)	(83,453)		
Consolidated profit for the year	-	-	-	-	2,953,666	-	-	-	-	-	2,953,666	15,640	2,969,306		
Other comprehensive income of the year	-	-	-	-	-	-	(40,646)	-	92,480	-	51,834	1,220	53,054		
Balances as of December 31, 2009	2,374,661	(21,555)	3,479,792	193,120	7,056,033	2,805,913	(40,646)	-	(152,530)	872,843	16,567,631	49,510	16,617,141		
Dividends declared in cash	-	-	-	-	(504,000)	-	-	-	-	-	(504,000)	-	(504,000)		
Sale of shares	-	-	86,867	-	-	-	-	-	-	36,007	122,874	-	122,874		
Shares in trust	-	21,555	-	-	-	-	-	-	-	-	21,555	-	21,555		
Consolidated profit for the year	-	-	-	-	3,900,883	-	-	-	-	-	3,900,883	11,738	3,912,621		
Other comprehensive income (loss) of the year	-	-	-	-	-	-	(574,418)	36,016	152,530	-	(385,872)	(1,155)	(387,027)		
Balances as of December 31, 2010	2,374,661	-	3,566,659	193,120	10,452,916	2,805,913	(615,064)	36,016	-	908,850	19,723,071	60,093	19,783,164		
Dividends declared in cash	-	-	-	-	(720,000)	-	-	-	-	-	(720,000)	-	(720,000)		
Purchase - sale of shares	-	-	35,426	-	-	-	-	-	-	(120,984)	(85,558)	-	(85,558)		
Consolidated profit for the year	-	-	-	-	2,703,019	-	-	-	-	-	2,703,019	8,133	2,711,152		
Other comprehensive income (loss) of the year	-	-	-	-	-	-	2,459,235	(86,607)	-	-	2,372,628	3,754	2,376,382		
Balances as of December 31, 2011	\$ 2,374,661	\$ -	\$ 3,602,085	\$ 193,120	\$ 12,435,935	\$ 2,805,913	\$ 1,844,171	\$ (50,591)	\$ -	\$ 787,866	\$ 23,993,160	\$ 71,980	\$ 24,065,140		

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, 2011, 2010 and 2009
(Thousands of Mexican pesos)

	Notes	2011	2010	2009
Cash flows from operating activities:				
Profit before income taxes		\$ 4,474,512	\$ 4,810,194	\$ 3,714,382
Items related to investing activities:				
Net labor obligation cost (income)				
for the period	16	45,078	(2,962)	(407)
Depreciation and amortization	13,14	2,988,530	2,478,590	1,773,643
Gain on sale of fixed assets	20	(37,728)	(61,618)	92,837
Exchange (gain) loss		755,223	(346,939)	(96,896)
Impairment of property, machinery and equipment	13	305,239	461,005	69,000
Share of profits of associates		-	-	(12,230)
Items related to financing activities:				
Interest received		(119,206)	(105,004)	(112,036)
Interest expense		<u>1,381,664</u>	<u>1,254,677</u>	<u>861,846</u>
		9,793,312	8,487,943	6,290,139
Changes in working capital:				
(Increase) decrease in:				
Accounts receivable		(1,825,498)	303,031	(1,692)
Inventories		(2,011,545)	(752,286)	1,267,607
Other assets		(2,011,755)	(1,359,094)	(1,038,243)
Discontinued operations		(66,083)	(84,237)	43,960
Increase (decrease) in:				
Suppliers		967,194	297,645	(3,106,155)
Related parties		50,907	73,993	259,416
Other liabilities		595,048	215,308	245,269
Discontinued operations		-	(13,033)	227,432
Interest received		119,206	105,004	112,036
Derivative financial instruments		<u>50,883</u>	<u>(187,141)</u>	<u>(160,627)</u>
Net cash provided by operating activities		5,661,669	7,087,133	4,139,142
Cash flows from investing activities:				
Acquisition of machinery and equipment	13	(2,993,334)	(2,202,014)	(2,423,987)
Proceeds from sale of machinery and equipment		285,842	419,270	140,574
Investments in available-for sale securities		180,266	(536,234)	-
Intangible assets	14	-	(494,268)	-
Acquisition of subsidiaries, net of cash acquired	6	<u>(3,400,985)</u>	<u>(6,358,893)</u>	<u>(584,476)</u>
Net cash used in investing activities		(5,928,211)	(9,172,139)	(2,867,889)

(Continued)

	Notes	2011	2010	2009
Cash flows from financing activities:				
Borrowings		4,777,099	4,436,506	8,557,386
Loan repayments		(3,592,336)	(1,649,270)	(4,392,443)
Interest paid		(1,452,272)	(1,234,289)	(613,561)
Dividends paid		(503,012)	(394,774)	(303,264)
Capital increase		-	-	2,257,920
Acquisition of non-controlling interest		-	-	(83,453)
Purchase - sale of shares		<u>(85,558)</u>	<u>122,874</u>	<u>1,375</u>
Net cash provided by (used in) financing activities		(856,079)	1,281,047	5,423,960
Adjustment to cash flows due to exchange rate fluctuations		<u>1,832,605</u>	<u>(2,951,173)</u>	<u>(335,817)</u>
Net increase (decrease) in cash and cash equivalents		709,984	(3,755,132)	6,359,396
Cash and cash equivalents at beginning of year		<u>6,609,552</u>	<u>10,364,684</u>	<u>4,005,288</u>
Cash and cash equivalents at end of year	7	<u>\$ 7,319,536</u>	<u>\$ 6,609,552</u>	<u>\$ 10,364,684</u>

See accompanying notes to consolidated financial statements.

(Concluded)

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

Notes to Consolidated Financial Statements

As of and for the years ended December 31, 2011, 2010 and 2009
(Thousands of Mexican pesos)

1. Activities

Mexichem, S.A.B. de C.V. and subsidiaries (the Company or Mexichem), whose main address and place of business is disclosed in the introduction of the annual report, is an entity that holds the shares of a group of companies located in American continent, United Kingdom, Japan and Taiwan. The Company is engaged in the production and sale of chemicals and petrochemical products. The Company's main products are: chlorine, caustic soda, resins and compounds of polyvinyl chloride (PVC), extractions of fluorite, hydrofluoric acid and refrigerant gases, as well as fluid conduction systems, PVC connections and geo-synthetics. Currently, the strategic position of the Company focuses on the chemical sector through three productive chains: chlorine-vinyl, fluorine and integral solutions (mainly pipeline of PVC).

2. Significant events

a. *Purchase and construction of new plants -*

- i. On May 31, 2011, Mexichem Fluor Japan, Ltd acquired from Showa Denko, K.K. its refrigeration gas plant located in Kawasaki, Japan. The plant began operations in November 2011 and has an annual production capacity of 5 thousand tons. This acquisition represents a significant step for Cadena Fluor in its strategy to accelerate its growth and positioning in the refrigeration mixes market, with the support of its UK production capacity. The total investment was \$26 million US dollars (US\$), acquired through bank financing in Japanese yen.
- ii. In 2010 and 2009, three new Mexican plants were opened within the fluorine chain: In May 2010, the sulfur plant located in the southern portion of the state of Veracruz, with production capacity of 210,000 tons per year was opened. Sulphur is the raw material for the manufacture of hydrofluoric acid and the investment was approximately US\$42 million. In June of 2010, the hydrofluoric acid plant II located in the state of Tamaulipas, with production capacity of 30,000 tons per year, was opened. The investment was approximately US\$ 40 million. In September 2009, the aluminum fluoride plant with production capacity of 60,000 tons per year was opened. The investment was approximately US\$ 60 million. These investments were financed by the Company's own resources and bank debt.

b. *Acquisition of new business -* During 2011, 2010 and 2009, Mexichem acquired the businesses described below:

- i. On January 7, 2011, Mexichem acquired, from Rockwood Specialties Group, Inc., the shares of the compound division that operates under the Alphagary name, located in the United States, Canada and the United Kingdom. As a result of this acquisition, the Company will consolidate its presence in the compound markets in which it operates and will combine the research and development potential and the innovative knowledge of Alphagary. The approximate value of this transaction is US\$322 million, financed mainly with the Company's own resources.
- ii. In October of 2010, Mexichem acquired, from Cydsa, S. A. B. de C.V., 100% of the shares of Policyd, S. A. de C. V., and 100% of the shares of Plásticos Rex, S. A. de C. V., which are manufacturers of PVC resins and PVC pipes, respectively, for an investment of US\$204 million. The acquisition was paid with \$2,500 million borrowed from HSBC Bank.

- iii. In March 2010, the Company purchased the Chemical Division from Ineos Group, which comprised its fluorine operations in the United States, Canada, United Kingdom, Taiwan and Japan, for an investment of US\$354 million. The acquisition was made through the placement of an international bond for US\$350 million issued in 2009.
- iv. In January 2010, Mexichem acquired 73% of the shares of Plastisur, S.A., a Peruvian company, which increased its shareholding to 98%. As a result of this acquisition, Mexichem expects to become the leader of the Peruvian market in the manufacture of PVC pipe. This transaction had an approximate value of US\$15 million, financed mainly with the Company's own resources.
- v. In October 2009, the Company acquired the remaining 50% share capital of C.I. Geon polímeros, S.A., completing its step acquisition in this entity for US\$13.5 million, financed mainly with the Company's own resources.
- vi. In March 2009, a subsidiary of Mexichem acquired 100% of the shares of Tubos Flexibles, S.A. de C.V. a Mexican company, with more than 50 years in the market and four plants that produce and sell pipes and PVC connections, CPVC, polyethylene and polypropylene. The value of this transaction was approximately US\$28 million.

3. Basis of presentation

- a. **Basis of presentation** - The consolidated financial statements as of December 31, 2011, 2010 and 2009 and for the years then ended have been prepared in accordance with International Financial Reporting Standards (IFRS). The standards include provisions known as IFRS, IAS, IFRIC and SIC.
- b. **Basis of preparation** - The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The consolidated financial statements are prepared in legal local currency of the United States of Mexico and they are presented in thousands, except when stated otherwise.
- c. **Consolidated financial statements** - The consolidated financial statements incorporate the financial statements of Mexichem, S.A.B. de C.V. and entities it controls (its subsidiaries). The Company's shareholding percentage in their capital stock at December 31, is shown below. Significant intercompany balances and transactions have been eliminated in these consolidated financial statements.

Group	Country	% Ownership		
		2011	2010	2009
Chlorine – Vinyl chain:				
Mexichem Derivados, S.A. de C.V.	Mexico	100	100	100
Mexichem Compuestos, S.A. de C.V.	Mexico	100	100	100
Mexichem Resinas Vinílicas, S.A. de C.V.	Mexico	100	100	-
Mexichem America, Inc.	USA	100	100	-
Alphagary Corporation	USA	100	-	-
Alphagary Limited	USA	100	-	-
Mexichem Resinas Colombia, S.A.S.	Colombia	100	100	100
C.I. Mexichem Compuestos Colombia, S.A.S.	Colombia	100	100	100
Fluorine chain:				
Mexichem Fluor, S.A. de C.V.	Mexico	100	100	-
Mexichem Fluor Inc.	USA	100	100	-
Mexichem UK Limited	United Kingdom	100	100	-
Mexichem Fluor Japan Ltd.	Japan	100	100	100
Mexichem Fluor Taiwan Ltd.	Taiwan	100	100	100

Group	Country	% Ownership		
		2011	2010	2009
Integral Solutions chain:				
Mexichem Amanco Holding, S.A. de C.V.	Mexico	100	100	100
Mexichem Soluciones Integrales, S.A. de C.V.	Mexico	100	100	100
Mexichem Guatemala, S.A.	Guatemala	100	100	100
Mexichem Honduras, S.A.	Honduras	100	100	100
Mexichem El Salvador, S.A.	El Salvador	100	100	100
Mexichem Nicaragua, S.A.	Nicaragua	100	100	100
Mexichem Costa Rica, S.A.	Costa Rica	100	100	100
Mexichem Panamá, S.A.	Panama	100	100	100
Mexichem Colombia, S.A.S.	Colombia	100	100	100
Pavco de Venezuela, S.A.	Venezuela	100	100	100
Mexichem Ecuador, S.A.	Ecuador	95	95	95
Mexichem del Perú, S.A.	Peru	100	100	100
Mexichem Argentina, S.A.	Argentina	100	100	100
Mexichem Brasil Industria de Transformação Plastica. Ltda.	Brazil	100	100	100

Equity in the results and changes in net worth of the subsidiaries purchased or sold during the year are included in the consolidated financial statements, as of or up to the date on which the transactions were performed.

- d. ***Explanation 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 Company that conform with IFRS may not conform with accounting principles generally accepted in the country of use.

4. Summary of significant accounting policies

The accompanying consolidated financial statements comply with IFRS. Their preparation requires management to make certain estimates and use certain assumptions to value certain items contained in the financial statements and make the disclosures required therein. However, actual results may differ from these estimates. The Company's management, using its professional judgment, believes that the estimates made and assumptions used were adequate under the circumstances. The significant accounting policies of the Company are as follows:

a. ***Accounting changes*** -

Beginning January 1, 2011, the Company adopted the International Accounting Standard (IAS) 24, *Related Party Disclosures* (as revised in 2009). IAS 24 has been revised to expand the definition of a related party. The adoptions of the revisions to this standard did not affect the related parties with whom the Company transacts as disclosed prior years, see Note 19.

Beginning January 1, 2011, the Company adopted the following new IFRS with no material effect on the consolidated financial statements:

- i. ***Amendments to IFRS 3 Business Combinations*** - As part of improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2, *Share-based Payment*, at the acquisition date ('market-based measure').

- ii. ***Amendments to IAS 32 Classification of Rights Issues*** - The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro-rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.
 - iii. ***Amendments to IFRIC (International Financial Reporting Interpretation Committee) 14 Prepayments of a Minimum Funding Requirement*** - IFRIC 14 addresses when refunds or reductions in future contributions should be considered as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions.
 - iv. ***IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*** - The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issuance of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognized in profit or loss.
 - v. ***Improvements to IFRS issued in 2010*** - Except for the amendments to IFRS 3, the application of improvements to IFRSs issued in 2010 did not have any material effect on amounts reported in the consolidated financial statements.
- b. ***Reclassifications*** - The consolidated financial statements as of and for the years ended December 31, 2010 and 2009 have been reclassified with respect to certain headings to conform to the presentation used in 2011, the most important of which is (i) the presentation in the consolidated statements of financial position of other accounts receivable for \$249,803 in 2010 and \$63,664 in 2009, mainly related to the recoverable balance of income tax, which was previously presented under prepaid expenses, and (ii) the separate presentation in the statement of comprehensive income of depreciation and amortization for 2010 and 2009, for \$672,717 and \$608,446, respectively which was previously presented under administrative expenses. The cash flow statements incorporated new concepts within the adjustments to net income to ensure a better understanding, such as exchange gain for \$346,939 and \$96,896 in 2010 and 2009, respectively, net labor obligation cost (income) for \$2,962 and \$407, in 2010 and 2009, respectively, and the impairment of property, plant and equipment for \$461,005 in 2010.
- c. ***Recognition of the effects of inflation*** - The Company 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%. In 2011, 2010 and 2009, Mexichem recognized the effects of inflation in its Venezuelan operations.
- d. ***Foreign currencies*** - The individual financial statements of each subsidiary of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each subsidiary are expressed in Mexican pesos, which is the presentation currency for the consolidated financial statements. The financial statements of subsidiaries are converted to Mexican pesos based on the following methodology:

Foreign operations whose functional currency is 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, as well as revenues, costs and expenses. Translation effects are recorded in other comprehensive income (loss). Exchange rate differences resulting from translating the results of foreign operations 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 balance sheet, using the price index of the country of origin of the functional currency.

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 in the period in which they arise except for exchange differences on foreign currency borrowings 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 borrowings.

- e. **Cash and cash equivalents** - Consist mainly of bank deposits in checking accounts and short-term investments, highly liquid and easily convertible into cash. Cash is stated at nominal value and cash equivalents are measured at fair value.
- f. **Investments in available-for sale securities** - Correspond to investments in publicly traded companies, which are stated at fair value; any unrealized gains or losses, are recorded as a component of other comprehensive income (loss).
- g. **Inventories** - Inventories are stated at the lower of cost and net realizable value (estimated selling price less all estimated costs of completion necessary to make the sale). Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, valued on an average cost 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 sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Non-current assets (and disposal groups) classified as held for sale are presented in the consolidated statement of financial position as current assets according to the plan for their realization and are measured at the lower of their previous carrying amount and fair value less costs of sale.
- i. **Property, plant and equipment** - are initially recorded at acquisition cost. Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets, which are reviewed at each year end together with residual values. The effect of any change in estimate accounted is recognized on a prospective basis.

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

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

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

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

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

Properties that are in the process of construction for purposes of production are recorded at cost less any impairment loss recognized. Cost includes professional fees and, in the case of qualifying assets, the costs of borrowing capitalized in accordance with the accounting policy of the Company. The depreciation of these assets is initiated when assets are ready for their planned use.

- 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. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as other accounts payable and accrued liabilities.

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 Company's general policy on borrowing 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. **Borrowing costs** - Borrowing 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 borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.
- l. **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.

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

Government grants whose primary condition is that the Company 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.

- n. **Goodwill** - The goodwill arising in a business combination is recognized as an asset to the date that the control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the fair value of the acquiree's identifiable net assets of the acquired entity exceeds the sum of the consideration transferred, the amount of the excess is recognized immediately in the consolidated statement of comprehensive income as a bargain purchase gain.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are 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 on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

- o. **Impairment of tangible and intangible assets other than goodwill** - The Company 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Intangible assets having an indefinite useful life are tested for impairment at least annually or sooner if an indication that the asset may have been impaired exists.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, only to the extent the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

- p. **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, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 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 Company of an acquiree'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.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company 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 Company 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 event that the purchase consideration for the acquisition includes any asset or liability arising from a contingent consideration agreement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, in accordance with the corresponding IFRS, through profit or loss. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (the date when the Company 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.

- q. **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.
- r. **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 as 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

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit and 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; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company 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; or
- 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 Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms 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 expenses (income)' line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in Note 11.

Held-to-maturity investments

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

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.

Available-for-sale financial assets

Listed shares held by the Company 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 11. 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 Company's right to receive the dividends is established.

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

Loans and accounts receivables

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

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or,
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

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 Company'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.

Except for the equity instruments available-for-sale, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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.

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 either held for trading or it is designated as at fair value through profit and loss.

A financial liability is classified as held for trading if:

- It has been acquired 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 Company 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 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 Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms 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 expense (income)” line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in Note 11.

Other financial liabilities

Financial liabilities and equity instruments issued by the Company are classified as debt and equity instruments and in accordance with the substance of the contractual agreement.

Other financial liabilities, including loans, are initially recognized at fair value, net of transactions costs, and are subsequently valued at amortized cost using the effective interest rate method and interest expenses are recognized on an effective yield basis.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire.

- s. ***Derivative financial instruments*** - Due to the Company’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 Company’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 resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company 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).

A derivative with a positive fair value is recognized as a financial asset while a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The Company 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 Company 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. 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 or cash flows of the item being hedged. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 11 sets out details of the fair values of the derivative instruments used for hedging purposes.

Cash flow hedges

The Company 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. 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 expenses (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 Company 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 Company 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 expense (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 on the disposal of the foreign operation.

Embedded derivatives

The Company 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. Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit and loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realized or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

The Company has no fair value hedges, hedges of net investment in a foreign operation or embedded derivatives as of the periods reported.

- t. **Provisions** - Provisions are recognized for obligations that result from a past event, that are probable to result in the use of economic resources and that can be reasonably estimated. Such provisions are recorded at net present values when the effect of the discount is significant.

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.

- u. **Restructuring** - The Company 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 that it will carry out the restructuring 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 Company.
- v. **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*.
- w. **Statutory employee profit sharing (PTU)** - Certain subsidiaries of Mexichem are subject to the payment of PTU arising from legal provision, which is recorded in the results of the year in which it is incurred and presented under operating cost and expenses. For the years ended December 31 2011, 2010 and 2009, PTU was \$123,570, \$187,269 and \$218,643, respectively.
- x. **Reserve for reacquisition of shares** - Purchases and sales of shares are recorded directly in the reserve for reacquisition of shares at their acquisition cost. Any profit or loss generated is recorded in additional paid-in capital.
- y. **Income taxes** - Income tax expense represents the sum of current income tax and deferred income tax. The income tax currently payable is based on taxable income, which differs from the profit reported in the consolidated statements of comprehensive income, due to items of income or expense that are taxable or deductible in years other than the current as well as for items that are never taxable or deductible. The liability of the Company for current tax is calculated using tax rates enacted or substantially enacted at the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are not recorded if the realization of certain benefits is not probable. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Mexichem has authorization to prepare its income tax returns on a consolidated basis, which includes the proportional tax applicable to the taxable profits or tax losses of its Mexican subsidiaries. The provisions for taxes of foreign subsidiaries are determined based on the taxable profit of each individual company.

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss whether in other comprehensive income or directly in stockholders' equity. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

- z. **Tax on assets** - During 2011, the Colombian tax authorities established a new tax on assets, which is due and payable on a one-time basis and must be settled in four equal annual payments as of 2011.
- aa. **Cost for direct employee benefits and retirement** - The costs of direct benefits and 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 reporting period. The actuarial gains and losses are recognized in results based on the estimated working life of employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

- bb. **Share-based payments** - On February 28, 2011, the Company established an options plan for “Phantom” shares, which consists of granting the equivalent of a performance bonus if the eligible officers complete three years of service in the Company. The cost for the year was \$5,874 and is recognized based on the probability that the officers will remain at the Company upon maturity. The estimated fair value for each share option granted under the Phantom plan is \$5.489, which was determined by applying the binomial options valuation method. Elements entered into the model were the share price of \$43.50 at the date the plan was announced, the strike price of \$44.69, expected volatility of 3%, the lack of expected dividends, the three-year term of the contract and a risk-free interest rate of 5.17%. To calculate the effects, it was assumed that the employees would exercise the options after the vesting period, resulting in a fair value of \$49.59.
- cc. **Revenue recognition** - Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, and other similar discounts.

Sale of goods

Revenues from the sale of goods are recognized at the time Company has transferred to the buyer the significant risks and rewards of the goods, the amount of revenue can be measured reliably, it is probable the Company will receive the economic benefits associated with the transaction, the amount of costs incurred or to be incurred can be measured reliably, and the Company does not retain continuing involvement in the ownership of the goods nor does it retain effective control over the goods.

Income from dividends and interest income

Income from dividends from investments is recognized once the shareholders has the right to receive this payment has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably).

Interest income is recognized as it accrues and there is the likelihood that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

- dd. **Earnings per share** - (i) Basic earnings per ordinary share from continuing operations is calculated by dividing the profit or loss attributable to owners (controlling interest) by the weighted average number of ordinary outstanding shares during the year; (ii) basic earnings (losses) per ordinary share from discontinued operations is calculated by dividing the net income from discontinued operations by the weighted average number of ordinary shares outstanding during the year.

5. Critical accounting judgments and key sources of estimation uncertainty

In the application of accounting policies, the administration of the Company is required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities. The estimates and associated assumptions are based on experience and other factors that are considered as relevant. Actual results could differ from estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the review period and future periods if the revision affects both the current period and subsequent periods.

Critical accounting judgments and key sources of uncertainty when determining estimates included in the consolidated financial statements, and which could have a significant risk adjustment to the carrying value of assets and liabilities during the next financial period are as follows:

- a. The Company reviews the estimated useful life of property, plant and equipment at the end of each annual period. Based on a detailed analysis the Company's management makes 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 Company 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 Company to determine the future cash flows for its cash-generating units and an appropriate discount rate to calculate their present value. The Company forecasts its cash flows based on income projections using market assumptions, determination of prices and volumes of production and sale.
- c. The Company uses estimates to determine allowance for obsolete inventories and allowance for doubtful accounts. Factors that the Company 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 Company 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 Company periodically assesses the estimates of its mineral reserves (fluorite and salt), which represent the Company's estimate of the remaining amount not extracted 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 Company updates the estimate for mineral reserves at the beginning of each year.
- e. The Company 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 its legal advisors.

6. ***Business combinations***

- a. ***Business acquisitions*** - During 2011, 2010 and 2009, Mexichem acquired several businesses, which were recorded using the purchase 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 are as follows:
 - i. On January 7, 2011, Mexichem acquired, from Rockwood Specialties Group, Inc., the shares of the compound division that operates under the Alphagary name, located in the United States, Canada and the United Kingdom. As a result of this acquisition, the Company will consolidate its presence in the compound markets in which it operates and will combine the research and development potential and the innovative knowledge of Alphagary. The approximate value of this transaction is US\$322 million, resulting in the recognition of intangible assets of US\$193 million and goodwill of US\$53 million. This acquisition represents Mexichem's entrance into the American market with new technologies and higher value-added products.
 - ii. In October of 2010, Mexichem acquired, from Cydsa, S. A. B. de C.V., 100% of the shares of Policyd, S. A. de C. V., (manufacturer of PVC resins) and 100% of the shares of Plásticos Rex, S. A. de C. V., (manufacturer of PVC pipes). This agreement contemplated, as part of the consideration, the Santa Clara chlorine-soda plant. This transaction had an approximate value of US\$204 million, resulting in the recognition of intangible assets of US\$18 million and goodwill for US\$ 97 million. Policyd and Plásticos Rex, both Mexican companies, have two and five plants, respectively. These acquisitions represent an opportunity to address competition through synergies and operational efficiencies throughout the productive chain of PVC.

- iii. In March 2010, Mexichem acquired, from Ineos Group, its refrigerant division consisting of 100% of the shares of Mexichem Fluor Japan Ltd. and Mexichem Fluor Canada Inc. and 100% of the assets of the division, located in United States and United Kingdom, with which the Company was able to create Mexichem Fluor Inc. and Mexichem Fluor UK Limited. As a result of this acquisition, the Company expects to become a world leader in the chemical fluorine segment, especially with respect to the production of refrigerant gases. This transaction had a value of US\$354 million, resulting in the recognition of intangible assets of US\$124 million and a bargain purchase gain on the acquisition of US\$48 million.
- iv. In January 2010, Mexichem acquired 73% of the shares of Plastisur, S.A., a Peruvian company, which increased its shareholding to 98%. As a result of this acquisition, Mexichem expects to become the leader of the Peruvian market in the manufacture of PVC pipe. This transaction had an approximate value of US\$15 million, resulting in the recognition of goodwill for US\$10 million.
- v. In October 2009, the Company acquired the remaining 50% share capital of C.I. Geon Polímeros, S.A., completing its step acquisition in this entity. The payment of the first acquisition was made on July 3, 2007 for US\$6.6 million, after which the Company acquired 50% of the shares of the capital stock of the entity, resulting in acquiring significant influence in the entity. With the second payment made in October 2009, the Company acquired the remaining 50% and thus obtained control of 100% of the entity's share capital. The total amount of the purchase consideration paid in 2009 amounts to US\$13.5 million.
- vi. In March 2009, a subsidiary of Mexichem acquired 100% of the shares of Tubos Flexibles, S.A. de C.V. a Mexican company, with more than 50 years in the market and four plants that produce and sell pipes and PVC connections, CPVC, polyethylene and polypropylene. The value of this transaction was approximately \$403 million and resulted in the recognition of intangible assets for \$141 million.

With the aforementioned acquisitions, Mexichem continues its strategy to provide greater value with respect to its basic raw materials, thereby strengthening its position in the American continent and becoming a global company with operations in Europe and Asia.

b. ***Consideration transferred -***

2011	Cash		
Alphagary	\$ 3,937,389 (i)		
2010	Cash	Payment in kind	Total
Ineos Fluor	\$ 4,415,871	\$ -	\$ 4,415,871
Policyd, S.A. de C.V.	1,101,190	599,461	1,700,651
Plásticos Rex, S.A. de C.V.	843,526	-	843,526
Plastisur, S.A.	<u>183,824</u>	<u>-</u>	<u>183,824</u>
Total	<u>\$ 6,544,411</u>	<u>\$ 599,461</u>	<u>\$ 7,143,872</u>
2009	Cash		
Tubos Flexibles, S.A. de C.V.	\$ 402,600		
C.I. Geon Polímeros, S.A. (i)	<u>209,778 (ii)</u>		
Total	<u>\$ 612,378</u>		

- (i) The Company made an advance payment on December 31, 2010 by \$494,268.
- (ii) Includes US\$6.6 million which was paid in 2007 (see subparagraph a.v).

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 expense (income)" in the consolidated statements of comprehensive income.

c. *Assets acquired and liabilities assumed at the date of acquisition*

	2011	Alphagary				
Assets:						
Cash and cash equivalents	\$	42,136				
Accounts receivable		401,068				
Inventories		244,191				
Other current assets		33,768				
Property, plant and equipment		535,006				
Identified intangible assets		2,370,898				
Deferred income tax		53,024				
Liabilities:						
Suppliers and other accounts payable		(388,275)				
Total net assets	\$	<u>3,291,816</u>				
	2010	Plastisur	Ineos Fluor	Polycol	Plasticos Rex	Total
Assets:						
Cash and cash equivalents	\$	8,447	\$ 45,768	\$ 91,444	\$ 39,859	\$ 185,518
Accounts receivable		15,107	818,348	531,849	388,387	1,753,691
Inventories		11,252	457,136	76,144	96,303	640,835
Other current assets		7,073	5,434	43,801	178,960	235,268
Property, plant and equipment		21,780	2,992,745	853,188	282,632	4,150,345
Identified intangible assets		-	1,545,534	-	224,737	1,770,271
Liabilities:						
Suppliers and other accounts payable		(8,409)	(650,871)	(598,894)	(717,312)	(1,975,486)
Deferred income tax		(26)	(197,022)	(101,987)	51,372	(247,663)
Total net assets	\$	<u>55,224</u>	<u>\$ 5,017,072</u>	<u>\$ 895,545</u>	<u>\$ 544,938</u>	<u>\$ 6,512,779</u>
	2009	Tubos Flexibles	CI Geon Polimeros	Total		
Assets:						
Cash and cash equivalents	\$	716	\$ 27,186	\$ 27,902		
Accounts receivable		161,722	132,407	294,129		
Inventories		65,756	65,100	130,856		
Other current assets		21,343	71,254	92,597		
Property, plant and equipment		491,584	47,989	539,573		
Identified intangible assets		140,960	-	140,960		
Liabilities:						
Accounts payable to suppliers and other accounts payable		(430,794)	(138,916)	(569,710)		
Deferred income tax		(48,687)	-	(48,687)		
Total net assets	\$	<u>402,600</u>	<u>\$ 205,020</u>	<u>\$ 607,620</u>		

d. *Goodwill on acquisitions*

	2011		Value of the acquired net assets	Goodwill	
Alphagary		Consideration transferred	<u>\$ 3,937,389</u>	<u>\$ 645,573</u>	
	2010		Value of the acquired net assets	Goodwill	Bargain purchase gain
Ineos Fluor		Consideration transferred			
Polcyd, S.A. de C.V.	\$ 4,415,871		\$ 5,017,072	\$ -	\$ 601,201
Plásticos Rex, S.A. de C.V.	1,700,651		895,545	805,106	-
Plastisur, S.A.	843,526		544,938	298,588	-
	<u>183,824</u>		<u>55,224</u>	<u>128,600</u>	<u>-</u>
	<u>\$ 7,143,872</u>		<u>\$ 6,512,779</u>	<u>\$ 1,232,294</u>	<u>\$ 601,201</u>
	2009		Value of the acquired net assets	Goodwill	
Tubos Flexibles, S.A. de C.V.	\$ 402,600		\$ 402,600	\$ -	
C.I. Geon Polimeros, S.A.	<u>209,778</u>		<u>205,020</u>	<u>4,758</u>	
	<u>\$ 612,378</u>		<u>\$ 607,620</u>	<u>\$ 4,758</u>	

The resulting bargain purchase gain has been recognized as income in the period, within "other expense (income)" in the consolidated statements of comprehensive income.

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 -*

	2011	2010	2009
Consideration paid in cash	\$ 3,937,389	\$ 6,544,411	\$ 612,378
Less: balances of cash and cash equivalents acquired	<u>(42,136)</u>	<u>(185,518)</u>	<u>(27,902)</u>
Net	<u>\$ 3,895,253</u>	<u>\$ 6,358,893</u>	<u>\$ 584,476</u>

f. ***Effect of acquisitions in the financial situation of Mexichem -***

The following details condensed consolidated pro forma financial information (unaudited) of Mexichem as if the aforementioned acquisitions had occurred on January 1, 2009. This pro forma information does not necessarily represent the actual figures that would have been achieved had the acquisitions have been made on such date.

Condensed statements of financial position	2011	2010	2009
		(Unaudited figures)	(Unaudited figures)
Cash and cash equivalents	\$ 7,319,536	\$ 3,301,875	\$ 2,477,011
Accounts receivable, Net	10,578,514	7,953,625	8,356,313
Related parties	71,826	21,145	39,687
Inventories, Net	6,657,677	4,710,608	4,005,132
Other current assets	528,270	1,119,013	273,852
Property, plant and equipment, Net	22,945,893	21,485,630	22,915,893
Intangible assets, Net	5,955,205	6,414,542	7,076,097
Deferred income taxes	577,113	598,290	382,225
Goodwill	5,419,273	5,017,986	4,607,181
Other assets, Net	<u>403,454</u>	<u>413,605</u>	<u>600,772</u>
Total assets	<u>\$ 60,456,761</u>	<u>\$ 51,036,319</u>	<u>\$ 50,734,163</u>
Bank loans	\$ 3,792,465	\$ 2,176,521	\$ 2,367,872
Suppliers	8,269,840	6,547,420	6,352,867
Related parties	374,679	273,091	218,302
Other accounts payable, provisions and accrued liabilities	3,448,354	3,088,892	3,508,891
Bank loans and long-term debt	16,836,010	15,662,682	15,830,356
Non-current other liabilities	999,039	732,586	2,773,329
Deferred income taxes	<u>2,671,234</u>	<u>2,771,963</u>	<u>3,044,357</u>
Total liabilities	36,391,621	31,253,155	34,095,974
Stockholders' equity	<u>24,065,140</u>	<u>19,783,164</u>	<u>16,638,189</u>
Total liabilities and stockholders' equity	<u>\$ 60,456,761</u>	<u>\$ 51,036,319</u>	<u>\$ 50,734,163</u>
Condensed statements of comprehensive income	2011	2010	2010
		(Unaudited figures)	(Unaudited figures)
Net sales	\$ 47,309,622	\$ 42,787,037	\$ 40,956,909
Cost of sales	(31,473,366)	(29,096,460)	(27,895,318)
Other operating expenses, Net	(8,553,510)	(7,206,936)	(7,800,189)
Exchange gain	(1,290,287)	342,989	95,107
Interest expense, Net	(1,262,458)	(1,177,976)	(1,838,670)
Monetary position loss	(45,007)	(32,263)	(46,292)
Tax on assets	(210,482)	-	-
Equity in income of associated companies	-	-	24,308
Income taxes	<u>(1,697,277)</u>	<u>(876,956)</u>	<u>(627,627)</u>

**Condensed statements of
comprehensive income**

	2011	2010 (Unaudited figures)	2010 (Unaudited figures)
Income from continuing operations	2,777,235	4,739,435	2,868,228
Discontinued operations	(66,083)	(146,324)	
Noncontrolling interest	<u>-</u>	<u>-</u>	<u>(15,640)</u>
Consolidated net income	2,711,152	4,593,111	2,896,549
Other comprehensive income (loss):			
Exchange differences on translating foreign operations	2,462,989	(575,573)	(39,426)
Net gain on cash flow hedging instruments	-	217,900	128,444
Net (loss) gain on available-for-sale financial assets	(121,981)	51,451	-
Income taxes on net gain on cash flow hedging instruments and net gain on available-for-sale financial assets	<u>35,374</u>	<u>(80,805)</u>	<u>(35,964)</u>
Total consolidated comprehensive income for the year	<u>\$ 5,087,534</u>	<u>\$ 4,206,084</u>	<u>\$ 2,949,603</u>

7. Cash and cash equivalents

	2011	2010	2009
Cash	\$ 2,862,728	\$ 2,610,959	\$ 1,093,424
Cash equivalents:			
Bank paper	257,989	1,304,001	6,619,651
Commercial paper	57,116	1,243,146	-
Securities (US dollars)	2,545,825	752,977	1,291,591
Government paper	1,050,200	7,660	503,186
Bank deposit certificates	485,902	421,987	444,487
Time deposits (US dollars)	39,475	61,909	210,361
Other investments	<u>20,301</u>	<u>206,913</u>	<u>201,984</u>
	<u>\$ 7,319,536</u>	<u>\$ 6,609,552</u>	<u>\$ 10,364,684</u>

8. Accounts receivable

	2011	2010	2009
Customers	\$ 9,280,379	\$ 7,125,981	\$ 5,619,256
Less - Allowance for doubtful accounts	<u>(289,685)</u>	<u>(359,503)</u>	<u>(212,389)</u>
	8,990,694	6,766,478	5,406,867
Other	<u>1,587,820</u>	<u>1,038,232</u>	<u>556,909</u>
	<u>\$ 10,578,514</u>	<u>\$ 7,804,710</u>	<u>\$ 5,963,776</u>

9. Inventories

	2011	2010	2009
Finished products	\$ 4,000,934	\$ 2,639,181	\$ 1,792,940
Raw materials	2,244,619	1,372,703	1,141,046
Goods in-transit	648,186	603,042	346,606
Spare parts	<u>277,307</u>	<u>235,438</u>	<u>143,805</u>
	7,171,046	4,850,364	3,424,397
Less - Allowance for obsolete and slow-moving inventory	<u>(513,369)</u>	<u>(383,947)</u>	<u>(351,101)</u>
	<u>\$ 6,657,677</u>	<u>\$ 4,466,417</u>	<u>\$ 3,073,296</u>

10. Risk management

The Company has exposure to market risks, operating risks and financial risks arising from the use of financial instruments that involve 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 Company manages its capital to ensure that it will continue as a going concern, while it maximizes returns to its shareholders through the optimization of the balances of debt and equity. The Company is not exposed to any externally imposed capital requirements.

The Company's management reviews, on monthly basis, its net debt position and its cost of debt and their relationship with EBITDA (earnings before interest (including exchange rate fluctuations), taxes, depreciation, amortization, equity in income of associated companies and monetary position). EBITDA is presented as part of the Company's financial projections that form part of its business plan presented to the Board of Directors and shareholders of the Company. The Company has a policy to maintain a ratio of debt, net of cash and cash equivalents, of not more than two times EBITDA.

The ratio of net debt to EBITDA for 2011, 2010 and 2009 is as follows:

	2011	2010	2009
Net debt with financial institutions	12,952,971	10,693,417	5,896,583
EBITDA	<u>10,271,276</u>	<u>8,123,781</u>	<u>6,175,001</u>
Ratio of net debt to EBITDA	<u>1.26</u>	<u>1.32</u>	<u>0.95</u>
EBITDA	<u>10,271,276</u>	<u>8,123,781</u>	<u>6,175,001</u>
Interest on debt	<u>1,381,664</u>	<u>1,254,677</u>	<u>861,846</u>
Interest coverage rate	<u>7.43</u>	<u>6.47</u>	<u>7.16</u>

- b. **Interest rate risk management** - The Company is mainly exposed to interest rate risks because it has entered into debt at variable rates. The risk is managed by the Company 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 Company'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 Company's exposures to interest-rate risk are mainly related to changes in the Mexican Interbank Equilibrium Rate (TIIE) and the London Interbank Offered Rate (Libor) with respect to the Company's financial liabilities. The Company 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 the outstanding balance during the entire year. The Company internally reports to the Board of Directors about its interest rate risks.

If the TIIE and Libor interest rates had had an increase of 100 basis points in each reporting period and all the other variables had remained constant, profit before income taxes for the year 2011, 2010 and 2009 would have decreased by \$98.02, \$88.46 and \$99.47 million approximately, respectively. This is mainly attributable to the exposure of the Company to Libor and TIIE interest rates on the Company's long-term loans.

- c. **Credit risk management** - Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss for the Company, 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 Company sells products to customers in different economic environments primarily in Mexico, South America, Europe and United States of America, which that demonstrate their economic solvency. The total accounts receivable from all segments of business are comprised of more than 20,000 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 Company. The Company periodically evaluates the financial condition of its customers and purchases collection insurance for export sales, while domestic sales generally require a guarantee. The Company 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 Company, which has established appropriate policies for the control of such risk through the monitoring of working capital, allowing management of the Company's short-, medium-, and long-term funding requirements. The Company maintains cash reserves and available lines of 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 Company's financial assets and financial liabilities, based on contractual repayment periods. The table has been designed based on undiscounted projected cash flows of financial assets and liabilities based on the date on which the Company 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 Company is required to make payment.

	As of December 31, 2011	Weighted average effective interest rate	Between 1 and 3 years					Total
			3 months	6 months	1 year	More than 3 years		
Bank loans		5.45%	\$ 4,162,124	\$ 297,321	\$ 306,779	\$ 10,501,885	\$ 25,780,480	
Suppliers			7,433,935	814,886	21,019	-	8,269,840	
Other accounts payable and others			2,539,349	246,949	744,492	999,039	4,529,829	
Derivative financial instruments (Net cash flow)			40,728	40,728	56,705	-	138,161	
Total			<u>14,176,136</u>	<u>1,399,884</u>	<u>1,128,995</u>	<u>11,500,924</u>	<u>38,718,310</u>	
Cash and cash equivalents			7,319,536	-	-	-	7,319,536	
Investments in available-for sale securities			355,968	-	-	-	355,968	
Trade accounts receivable and others			<u>9,382,783</u>	<u>471,670</u>	<u>795,887</u>	-	<u>10,650,340</u>	
Total			<u>17,058,287</u>	<u>471,670</u>	<u>795,887</u>	-	<u>18,325,844</u>	
Net			<u>\$ 2,882,151</u>	<u>\$ (928,214)</u>	<u>\$ (333,108)</u>	<u>\$ (11,500,924)</u>	<u>\$ (20,392,466)</u>	

	As of December 31, 2010	Weighted average effective interest rate	Between 1 and 3 years					Total
			3 months	6 months	1 year	More than 3 years		
Bank loans		5.92%	\$ 1,408,571	\$ 157,458	\$ 1,602,147	\$ 12,183,499	\$ 21,810,585	
Suppliers			5,028,772	1,178,541	90,301	-	6,297,614	
Other accounts payable and others			2,703,875	244,419	65,928	723,336	3,737,558	
Derivative financial instruments (Net cash flow)			9,171	9,172	18,344	-	36,687	
Total			<u>9,150,389</u>	<u>1,589,590</u>	<u>1,776,720</u>	<u>12,906,835</u>	<u>31,882,444</u>	
Cash and cash equivalents			6,609,552	-	-	-	6,609,552	
Investments in available-for sale securities			536,234	-	-	-	536,234	
Trade accounts receivable and others			<u>6,546,560</u>	<u>1,279,295</u>	-	-	<u>7,825,855</u>	
Total			<u>13,692,346</u>	<u>1,279,295</u>	-	-	<u>14,971,641</u>	
Net			<u>\$ 4,541,957</u>	<u>\$ (310,295)</u>	<u>\$ (1,776,720)</u>	<u>\$ (6,458,910)</u>	<u>\$ (16,910,803)</u>	

	As of December 31, 2009	Weighted average effective interest rate	Between 2 and 3 years					Total
			3 months	6 months	1 year	More than 3 years		
Bank loans		6.16%	\$ 1,276,139	\$ 53,335	\$ 1,034,816	\$ 6,701,485	\$ 16,261,267	
Accounts payable to suppliers			3,383,041	658,066	1,208,195	-	5,249,302	
Other accounts payable and others			1,979,599	323,222	163,203	860,361	3,326,385	
Derivative financial instruments (Net cash flow)			41,518	44,153	74,651	63,506	223,828	
Total			<u>6,680,297</u>	<u>1,078,776</u>	<u>2,480,865</u>	<u>7,625,352</u>	<u>25,060,782</u>	
Cash and cash equivalents			10,364,684	-	-	-	10,364,684	
Trade accounts receivable and others			<u>4,603,906</u>	<u>1,399,557</u>	-	-	<u>6,003,463</u>	
Total			<u>14,968,590</u>	<u>1,399,557</u>	-	-	<u>16,368,147</u>	
Net			<u>\$ 8,288,293</u>	<u>\$ 320,781</u>	<u>\$ (2,480,865)</u>	<u>\$ (7,625,352)</u>	<u>\$ (8,692,635)</u>	

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 Company expects to meet its obligations with the cash flows from operations and resources received from the maturity of financial assets. In addition, the Company has access to a line of revolving credit with a balance not executed of \$720 million.

- e. **Foreign exchange risk management** - The Company 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 (figures in thousands):

	Liabilities			Assets		
	2011	2010	2009	2011	2010	2009
US dollars	1,537,766	1,380,870	1,262,097	699,038	612,262	854,448
Colombian peso (COP)	575,255,225	223,070,457	197,548,178	1,107,170,405	202,373,099	105,183,498
Brazilian real (Real)	244,807	249,061	262,152	318,906	291,982	265,078

- 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 Company where the loan is denominated in a currency other than the Mexican peso. 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 Mexican peso against the foreign currency in question:

	2011	2010	2009
US\$	(1,169,822)	(951,536) (ii)	(532,390) (ii)
COP	381,888 (i)	(13,389) (ii)	(59,035) (ii)
Real	55,096	31,896 (i)	2,196 (i)

- (i) The increase is mainly attributable to the fact that the Company has a net asset position, whereby accounts receivable is greater than accounts payable in the currencies of Brazil and Colombia (in 2011) at the end of the period being reported.
- (ii) The decrease is mainly attributable to the fact that the Company has a net liability position, whereby accounts payable exceed accounts receivable in the currencies of the USA and Colombia (in 2010 and 2009) at the end of the period being reported.

Sensitivity analyses are not representative of the inherent foreign exchange risk, given that they are performed based on year end amounts and exchange rates, which may not necessarily reflect the exposure during the year.

11. Fair value of financial instruments

The fair value of financial instruments presented below has been determined by the Company using information available in the markets or other valuation techniques that use assumptions that are based on market conditions existing at each balance 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 Company 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 following table provides an analysis of 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.

- 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 Company considers that the carrying amount of cash and cash equivalents, accounts receivable and accounts payable from third parties and related parties and the current portion of bank loans approximate their fair values because they have short-term maturities. The Company'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 Company 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 Company'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. The investments in available-for sale securities, in publicly traded companies, are stated at fair value, using quoted prices.

The carrying amounts of financial instruments by category and their related fair values at December 31, 2011, 2010 and 2009 are as follows:

	December 31, 2011		December 31, 2010		December 31, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:						
Cash and cash equivalents	\$ 7,319,536	\$ 7,319,536	\$ 6,609,552	\$ 6,609,552	\$ 10,364,684	\$ 10,364,684
Loans and accounts receivable:						
Customers and other current assets	10,650,340	10,650,340	7,825,855	7,825,855	6,003,463	6,003,463
Accounts payable	(12,799,669)	(12,799,669)	(10,044,423)	(10,044,423)	(8,491,413)	(8,491,413)
Bank loans and current portion of long-term debt	(20,628,475)	(20,973,649)	(17,839,203)	(17,798,404)	(16,261,267)	(16,481,077)
Available-for-sale instruments:						
Bank paper	166,007	166,007	107,310	107,310	-	-
Shares	189,961	189,961	428,924	428,924	-	-
Derivatives not designated as hedging instruments:						
Forward (USDMXN FX)	(122,176)	(122,176)	-	-	-	-
Interest rate swap	(692)	(692)	(4,485)	(4,485)	-	-
Exchange rate and interest rate swap	(15,293)	(15,293)	(32,202)	(32,202)	-	-
Natural gas swap at a fixed price	-	-	-	-	-	(217,900)
Interest rate swap	-	-	-	-	-	(5,928)
Total	\$ (15,240,461)	\$ (15,585,635)	\$ (12,948,672)	\$ (12,907,873)	\$ (8,608,361)	\$ (8,828,171)
December 31, 2011						
	Fair value	Level 1	Level 2			
Cash and cash equivalents	\$ 7,319,536	\$ 7,319,536	\$ -			
Available-for-sale instruments:						
Bank paper	166,007	166,007	-			
Shares (i)	189,961	189,961	-			
Derivatives not designated as hedging instruments:						
Forward (USDMXN FX)	(122,176)	-	(122,176)			
Interest rate swap	(692)	-	(692)			
Exchange rate and interest rate swap	(15,293)	-	(15,293)			
Total	\$ 7,537,343	\$ 7,675,504	\$ (138,161)			

(i) The effect of valuation of investments in available-for-sale securities that were purchased during 2011 was \$(86,607), which was recorded in other comprehensive income.

The fair values shown at December 31, 2011 do not differ from carrying values, except bank loans, 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.

12. Derivative financial instruments

a. European "call" option

On November 16, 2011 Mexichem contracted a European "call" option which establishes a ceiling or hedge when the barrier the exchange rate of Mexican pesos to U.S. dollars exceeds \$17.70, related to the Company's US \$100 million of debt, in which case it will have the right to recover any difference above the strike price from the financial agent. As it is a European option, it can only be exercised upon maturity (August 13, 2014), on which date the market exchange rate is compared against the strike price, and it is determined whether or not there is a recovery for the Company.

The contract establishes a knockout option at the level of \$23 Mexican pesos per US dollar, whereby the hedge is terminated if that level is exceeded. This part of the operation represents an option sold by the Company where it is exposed to the risk under that scenario with favorable effects for the financial agent, its effective date is January 2, 2014.

For the purchase (a ceiling at \$17.70) and sale of an option (knock-out at \$23), a net premium of US \$2,150,000 was paid involving both options, which is classified under the heading of other assets. It is not considered possible that the Company would have to make any additional payment upon maturity. As it is a net disbursement effect (premium paid), it is not considered to be a net premium sold or subscribed, and enables the Company to designate that derivative as an instrument in a hedge relationship.

b. Exchange rate forward

In August 2011 Forwards (USDMXN FX) were contracted with Morgan Stanley effective from September 30, 2011 to September 28, 2012, for a notional amount of US \$130 million, with monthly maturities of US \$10 million. The average exchange rate agreed is \$12.59 Mexican pesos per US dollar.

c. Derivatives linked to gas price (swaps and options).

In December 2010, the Company canceled, prior to its maturity in June 2011, a natural gas hedge, which resulted in the decrease of a liability of \$104,880 and the reclassification of the accumulated effect in other comprehensive income to profit of \$92,949.

At the end of 2009, the fair value of the natural gas hedge was a liability of \$217,900, recorded against other comprehensive income in an amount of \$152,530, net of income tax.

d. Interest rate derivative

In June 2010, the Company entered into an exchange rate and interest rate swap with Morgan Stanley with a notional amount of US \$62 million (EUR 48,062 million). This hedge protects the debt owed to BBVA Houston, guaranteeing an exchange rate of 1.29 US dollars per euro and a 3-month Libor rate plus 2.60%.

In May 2008, an interest rate swap with a notional amount of US\$25 million was entered into to change the interest payment profile of a portion of the US\$635 million debt with Citibank, N.A. With this swap, the Company receives quarterly interest at the Libor rate plus 0.875 and pays a fixed rate of 4.03%.

Although the transaction in 2011, 2010 and 2009 represent hedges from an economic standpoint, for accounting purposes, they were classified as held for trading. The fair values of the instruments at December 31, 2011, 2010 and 2009 amounted to \$138,161, \$36,687 and \$5,928, respectively. Fluctuations in their fair value were recognized in results within interest expense.

Derivative Instruments	2011				
	Beginning date	Ending date	Notional amount	Interest rate paid /Exchange rate fixed	Interest rate end /Exchange rate at the
Forward (USDMXN FX)	Sep 30, 2011	Sep 28, 2012	US\$130,000,000	\$12.59	\$13.94
Swap that sets the interest rate	May 28, 2008	August 28, 2012	US\$ 25,000,000	Libor + .875	4.03%
Swap that fixes the interest rate and exchange rate	June 21, 2011	December 20, 2014	US\$ 62,000,000	Libor + 2.60	Euro libor + 2.37
					<u>\$ (138,161)</u>

Derivative Instruments	2010				
	Beginning date	Ending date	Notional amount	Interest rate paid	Interest rate at the end
Swap that sets the interest rate	May 28, 2008	August 28, 2012	US\$ 25,000,000	Libor + 875	4.03%
Swap that fixes the interest rate and exchange rate	June 21, 2011	December 20, 2014	US\$ 62,000,000	Libor + 2.60	Euro libor + 2.37
					<u>\$ (32,202)</u>
					<u>\$ (36,687)</u>

Derivative Instruments	2009				
	Beginning date	Ending date	Notional amount	Interest rate paid	Price/rate fixed
Natural gas hedge at a fixed price	July 01, 2008	June 30, 2011	6,884,800 MMBTU	-	10.89
Swap that sets the interest rate	May 28, 2008	August 28, 2012	US\$ 25,000,000	Libor + 875	4.03%
					<u>\$ (223,828)</u>

13. Property, plant and equipment

	Balances as of December 31, 2010		Acquisitions through business combinations		Fixed asset sales		Transferred from property, plant and equipment		Impairment effect		Translation effect		Balances as of December 31, 2011	
		Additions												
Investment:	\$ 2,441,689	\$ 77,877	\$ 93,063	\$ (55,563)	\$ 679	\$ -	\$ 147,704	\$ 2,705,449					\$ 2,705,449	
Land	5,787,255	6,591	179,031	(186,985)	510,301	-	786,011	7,082,204					7,082,204	
Buildings	27,305,767	156,862	293,866	(206,274)	2,050,819	(305,239)	4,255,266	33,551,067					33,551,067	
Machinery and equipment	676,144	16,392	8,674	(14,689)	48,880	-	18,413	753,814					753,814	
Furniture and fixtures	314,898	21,255	1,145	(20,010)	60,029	-	33,083	410,400					410,400	
Vehicles	1,047,554	2,714,357	5,042	(103,802)	(2,670,708)	-	599,147	1,591,590					1,591,590	
Construction in-progress	37,573,307	2,993,334	580,821	(587,323)	-	(305,239)	5,839,624	46,094,524					46,094,524	
Total investment														
Depreciation:														
Buildings	2,138,289	136,513	18,442	(66,255)	-	-	370,217	2,597,206					2,597,206	
Machinery and equipment	13,760,774	1,928,603	19,835	(242,724)	-	-	4,281,975	19,748,463					19,748,463	
Furniture and fixtures	560,402	54,620	6,910	(13,097)	-	-	20,060	628,895					628,895	
Vehicles	163,218	17,139	628	(17,133)	-	-	10,215	174,067					174,067	
Total accumulated depreciation	16,622,683	2,136,875	45,815	(339,209)	-	-	4,682,467	23,148,631					23,148,631	
Net investment	<u>\$ 20,950,624</u>	<u>\$ 856,459</u>	<u>\$ 535,006</u>	<u>\$ (248,114)</u>	<u>\$ -</u>	<u>\$ (305,239)</u>	<u>\$ 1,157,157</u>	<u>\$ 22,945,893</u>					<u>\$ 22,945,893</u>	

	Balances as of December 31, 2009		Acquisitions through business combinations		Fixed asset sales		Transferred from property, plant and equipment		Impairment effect		Translation effect		Balances as of December 31, 2010	
		Additions												
Investment:	\$ 2,244,406	\$ 154,083	\$ 315,659	\$ (124,643)	\$ -	\$ -	\$ (147,816)	\$ 2,441,689					\$ 2,441,689	
Land	5,837,925	-	434,754	(354,795)	129,919	-	(260,548)	5,787,255					5,787,255	
Buildings	23,479,028	852,332	3,308,845	(604,471)	1,107,263	(461,005)	(376,225)	27,305,767					27,305,767	
Machinery and equipment	554,238	18,419	13,760	(23,123)	25,845	-	87,005	676,144					676,144	
Furniture and fixtures	179,246	142,044	3,714	(26,978)	14,091	-	2,781	314,898					314,898	
Vehicles	1,434,423	1,035,136	73,613	(201,424)	(1,277,118)	-	(17,076)	1,047,554					1,047,554	
Construction in-progress	33,729,266	2,202,014	4,150,345	(1,335,434)	-	(461,005)	(711,879)	37,573,307					37,573,307	
Total investment														

	Balances as of December 31, 2009	Additions	Acquisitions through business combinations	Fixed asset sales	Transferred from property, plant and equipment	Impairment effect	Translation effect	Balances as of December 31, 2010
Depreciation:								
Buildings	2,397,768	501,124	-	(103,904)	-	-	(656,699)	2,138,289
Machinery and equipment	13,174,320	1,160,995	-	(774,207)	-	-	199,666	13,760,774
Furniture and fixtures	399,561	69,146	-	(18,040)	-	-	109,735	560,402
Vehicles	134,512	25,513	-	(20,013)	-	-	23,206	163,218
Total accumulated depreciation	16,106,161	1,756,778	-	(916,164)	-	-	(324,092)	16,622,683
Fixed assets available- for- sale	816,588	58,614	-	(757,974)	-	-	-	-
Net investment	<u>\$ 18,439,693</u>	<u>\$ 386,622</u>	<u>\$ 4,150,345</u>	<u>\$ (1,177,244)</u>	<u>\$ -</u>	<u>\$ (461,005)</u>	<u>\$ (387,787)</u>	<u>\$ 20,950,624</u>

	As of January 1, 2009	Additions	Acquisitions through business combinations	Fixed asset sales	Transferred from property, plant and equipment	Impairment effect	Translation effect	Balances as of December 31, 2009
Investment:								
Land	\$ 1,937,922	\$ 67,303	\$ 186,712	\$ (35,102)	\$ 39,569	\$ -	\$ 48,002	\$ 2,244,406
Buildings	5,453,507	72,857	103,171	(56,170)	189,141	-	75,419	5,837,925
Machinery and equipment	21,286,328	337,888	247,009	(175,941)	1,336,684	-	447,060	23,479,028
Furniture and fixtures	651,779	1,861	1,076	(89,018)	44,597	-	(56,057)	554,238
Vehicles	192,670	2,834	1,605	(22,195)	3,545	-	787	179,246
Construction in-progress	1,541,714	1,941,244	-	(423,489)	(1,613,536)	-	(11,510)	1,434,423
Total investment	31,063,920	2,423,987	539,573	(801,915)	-	-	503,701	33,729,266
Depreciation:								
Buildings	2,174,820	201,065	-	(1,027)	-	-	22,911	2,397,769
Machinery and equipment	12,365,080	1,010,201	-	(451,564)	-	-	250,603	13,174,320
Furniture and fixtures	472,957	80,686	-	(92,814)	-	-	(61,268)	399,561
Vehicles	134,149	18,799	-	(16,685)	-	-	(1,752)	134,511
Total accumulated depreciation	15,147,006	1,310,751	-	(562,090)	-	-	210,494	16,106,161
Fixed assets available- for- sale	907,988	91,400	-	-	-	-	-	816,588
Net investment	<u>\$ 16,824,902</u>	<u>\$ 1,021,836</u>	<u>\$ 539,573</u>	<u>\$ (239,825)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 293,207</u>	<u>\$ 18,439,693</u>

14. Intangible assets

	Useful life	2011	2010	2009
Non - compete agreements	5	\$ 824,777	\$ 1,224,049	\$ 452,922
Customer portfolio	15	1,554,106	348,397	385,249
Use of trademark	Indefinite	2,072,299	2,125,228	1,810,520
Intellectual property	10	1,490,075	864,690	-
Non solicitation	2	13,948	-	-
		<u>\$ 5,955,205</u>	<u>\$ 4,562,364</u>	<u>\$ 2,648,691</u>

Cost	Non- complete agreement	Customer portfolio	Use of trademark	Intellectual property	Non solicitation	Total
Balances as of January 1, 2009	\$ 1,122,092	\$ 580,661	\$ 1,669,884	\$ -	\$ -	\$ 3,372,637
Acquisitions through business combinations	39,653	-	140,960	-	-	180,613
Effect of foreign currency exchange differences	-	-	(324)	-	-	(324)
Balances as of December 31, 2009	\$ 1,161,745	\$ 580,661	\$ 1,810,520	\$ -	\$ -	\$ 3,552,926
Acquisitions through business combinations	610,736	-	224,735	934,800	-	1,770,271
Intangible advance of business acquisition	494,268	-	-	-	-	494,268
Other acquisitions	-	-	78,913	-	-	78,913
Effect of foreign currency exchange differences	-	-	11,060	-	-	11,060
Balances as of December 31, 2010	2,266,749	580,661	2,125,228	934,800	-	5,907,438
Acquisitions through business combinations	494,268	1,133,314	-	718,865	24,451	2,370,898
Intangible application advance of business acquisition	(494,268)	-	-	-	-	(494,268)
Other acquisitions	-	43,623	-	-	-	43,623
Effect of foreign currency exchange differences	-	164,324	8,762	-	3,444	176,530
Balances as of December 31, 2011	\$ 2,266,749	\$ 1,921,922	\$ 2,133,990	\$ 1,653,665	\$ 27,895	\$ 8,004,221

Accumulated amortization	Non- complete agreement	Customer portfolio	Use of trademark	Intellectual property	Non solicitation	Total
Balances as of January 1, 2009	\$ 480,269	\$ 156,887	\$ -	\$ -	\$ -	\$ 637,156
Amortization	228,554	38,525	-	-	-	267,079
Balances as of December 31, 2009	\$ 708,823	\$ 195,412	\$ -	\$ -	\$ -	\$ 904,235
Amortization	333,877	36,852	-	70,110	-	440,839
Balances as of December 31, 2010	1,042,700	232,264	-	70,110	-	1,345,074
Amortization	399,272	135,552	61,691	93,480	13,947	703,942
Balances as of December 31, 2011	1,441,972	367,816	61,691	163,590	13,947	2,049,016
Net assets at December 31, 2011	\$ 824,777	\$ 1,554,106	\$ 2,072,299	\$ 1,490,075	\$ 13,948	\$ 5,955,205

15. Bank loans and long-term debt

As of December 31, consisted of the following:

	2011	2010	2009
Summary of foreign currency loan agreements:			
Issuance of US\$350 million bond that bears semi-annual interest at a fixed 8.75% rate. Principal is repaid in one installment at maturity on November 6, 2019.	\$ 4,881,660	\$ 4,333,595	\$ 4,573,065
JP Morgan Revolving credit line of US\$1,000 million, of which \$280 million has been disbursed; borrowings bear quarterly interest at Libor plus 0.90%. The principal is due in a single maturity on August 26, 2014.	3,905,328	-	-
BBVA Houston Unsecured loans documented with promissory notes of US\$78 million and US\$62 million, which bear monthly interest at a rate of Libor plus 2.60 %. Principal is repaid quarterly with maturity in December 2014.	1,464,498	1,733,438	-
Banco Inbursa, S.A. Unsecured loans documented with promissory notes that bear monthly interest at the Libor rate plus 5%. Principal of US\$226.6 million is to be repaid on March 31, 2012.	3,160,686	2,805,835	2,960,882
Bancolombia, S.A. Unsecured loans documented with promissory notes of 90,750 million Colombian pesos, which bear quarterly interest at the Fixed Term Deposit rate (FTD) rate plus 5.5%. Principal is paid quarterly with maturity on May 2017.	586,924	567,662	-
Colpatria, Citibank, Bancolombia and Banco de Bogotá Unsecured loans documented with promissory notes of 108,900 million Colombian pesos. Principal on these loans was prepaid in 2010.	-	-	580,038
Mizuho Corporate Bank Unsecured loan documented with a promissory note of 2,700 billion yen that bears quarterly interest at a fixed rate of 2.17%. The principal is paid in 6 semiannual payments from June 2014.	489,199	-	-

	2011	2010	2009
Banco de Crédito, S.A. Promissory note of 35,000 million Colombian pesos, with semi-annual repayments, which bear quarterly interest at the FTD rate plus 5.1%, maturing on May 8, 2014.	251,282	226,418	223,706
Banco de Bogotá, S.A. and Bancolombia, S.A. Loans of US\$12.7 million, of which US\$8.9 incur interest at a variable rate and US\$3.8 at a fixed rate, documented with promissory notes that bear quarterly interest at different rates (Libor plus 0.80% to 1.90% and a fixed rate of 2.63% to 4.22%, respectively). Principal on these loans is settled from April 2010 through July 2013.	45,828	53,949	98,927
Citibank, N.A. Syndicated loan for an original amount of US\$635 million with promissory notes that incur interest at the Libor rate plus 0.875%, payable quarterly, due on August 22, 2012. Principal will be settled through semiannual payments of US\$60.7 million. The remaining balance was prepaid on August 2011.	-	2,932,399	4,762,521
Banco Mercantil and Banco de Venezuela Unsecured loans of 80 million Venezuelan bolivars documented with promissory notes, which bear monthly interest at rates of 12.50% through 13.75%. Principal is settled at maturity in January, March, and November 2011.	-	186,894	-
Banco Mercantil and Banco de Venezuela Unsecured loans documented with promissory notes of 40 and 20 million Venezuelan bolivars, which bear monthly interest at 15% and 14.25%, respectively. Principal was settled in one lump sum at maturity in January and March 2010, respectively.	-	-	364,630
Bradesco, Banco Itaú, Daimler, Unibanco, among others Unsecured loans of 32.8 million Brazilian reales documented with several promissory notes that bear monthly interest at different fixed rates of 9.04% through 19%. Principal on these loans is settled on different dates from February 2010 through December 2015. During 2011 outstanding balances were prepaid.	-	44,586	90,050
Others	51,714	30,334	193,123

Loans in Mexican pesos:

	2011	2010	2009
Securitization certificates of \$2,500 million that bear monthly interest at the TIIE rate plus 0.60% basis points. Principal matures on September 2, 2016.	2,500,000	-	-
Securitization certificates of \$2,500 million that bear monthly interest at the TIIE rate plus 2.44% basis points. Principal matures on September 29, 2014. On July 2011 the outstanding balance was prepaid.	-	2,500,000	2,500,000
HSBC			
Unsecured loans of \$2,500 million documented with promissory notes, which bear quarterly interest at the TIIE rate plus 1.50 %. Principal is repaid quarterly beginning January 2013 and matures in October 2015.	2,500,000	2,500,000	-
Bancomext			
Loan for \$1,000 million which bear interest at the TIIE plus 0.825 rate. Principal is repaid semiannually starting on November 8, 2014 and matures on November 2019.	<u>1,000,000</u> 20,837,119	<u>-</u> 17,915,110	<u>-</u> 16,346,942
Less: Current portion of bank loans and current portion of long-term debt	(3,792,465)	(2,176,521)	(2,364,290)
Less: Debt issue costs	<u>(208,644)</u>	<u>(75,907)</u>	<u>(85,675)</u>
	<u>\$ 16,836,010</u>	<u>\$ 15,662,682</u>	<u>\$ 13,896,977</u>

Long-term debt matures as follows as of December 31, 2011:

Payable during -	
2013	\$ 1,598,137
2014	5,320,993
2015	1,228,968
2016	3,272,108
Thereafter	<u>5,415,804</u>
	<u>\$ 16,836,010</u>

At December 31, 2011, the Company's financing establishes certain restrictions, which have been complied with and are calculated based on consolidated financial statement figures for the Company, the most significant of which are as follows:

- Certain restrictions regarding the application of new liens.
- Allows payment of dividends of up to 10% of operating profit plus depreciation and amortization of the prior year.

- c. Maintain a consolidated interest hedge ratio at least 3.0 to 1.0.
- d. Maintain an index of leverage on the profit before interest, taxes, depreciation and amortization not greater than 3.0 to 1.0.
- e. Insure and maintain property and equipment in good working condition.
- f. Comply with all applicable laws, rules, regulations and provisions.

16. Employee benefits

The labor obligations liability is derived from a pension plan and seniority premiums in most of the Company's subsidiaries and it is calculated by independent actuaries using the projected unit credit method. The amount included in the consolidated statements of financial position arising from the obligation of the Company with respect to its defined benefit plans is as follows:

	2011	2010	2009
Vested benefit obligation	\$ 159,183	\$ 219,201	\$ 70,965
Nonvested benefit obligation	234,056	177,172	263,067
Fund assets	<u>(363,856)</u>	<u>(429,309)</u>	<u>(394,000)</u>
Underfunded (overfunded) status	29,383	(32,936)	(59,968)
Unrecognized actuarial gains	<u>(82,854)</u>	<u>(78,008)</u>	<u>-</u>
Net projected asset	<u>\$ (53,471)</u>	<u>\$ (110,944)</u>	<u>\$ (59,968)</u>

The net periodic cost (gain) consists of:

	2011	2010	2009
Labor cost	\$ 18,758	\$ 12,373	\$ 12,918
Financial cost	25,046	22,651	20,073
Return on fund assets	(32,593)	(37,986)	(33,398)
Effect of reduction and early termination of employees	953	-	-
Effect of reduction and extinction of obligations	<u>32,914</u>	<u>-</u>	<u>-</u>
Net cost (gain) for the year	<u>\$ 45,078</u>	<u>\$ (2,962)</u>	<u>\$ (407)</u>

The rates used in actuarial calculations are as follows:

	2011 %	2010 %	2009 %
Yield on plan assets	8.00	9.25	10.25
Interest rate	8.25	8.25	9.00
Salary increase	4.50	3.50	4.50

Changes in present value of the defined benefit obligation:

	2011	2010	2009
Present value of the defined benefit obligation as of January 1	\$ 396,373	\$ 334,032	\$ 284,931
Service cost	18,758	12,373	12,918
Interest cost	25,046	22,651	20,073
Actuarial loss on the obligation	51,984	67,251	57,196
Benefits paid	(98,922)	(36,708)	(38,503)
Business acquisitions	-	(3,226)	(2,583)
Present value of the defined benefit obligation as of December 31	<u>\$ 393,239</u>	<u>\$ 396,373</u>	<u>\$ 334,032</u>

The benefits paid to key management personnel (and/or relevant managers) of the Company were as follows:

	2011	2010	2009
Direct benefits	\$ 27,513	\$ 25,259	\$ 69,353
Defined benefit plans	11,288	8,061	31,116

17. Stockholders' equity

Paid-in capital

During a Stockholders' Ordinary General Meeting held on August 29, 2009, the stockholders approved an increase in variable common stock of \$202,638 and a share issuance premium of \$2,055,282, with the issuance of up to 153,600,000 common, nominative, single series, class II, no-par-value shares representative of the variable portion of common stock.

At December 31, 2011, 2010 and 2009, common stock consists of 1,800,000,000 nominative, ordinary, no-par value, voting shares, which are fully paid. Fixed capital is represented by non-withdrawable Class I shares. Variable capital is represented by Class II shares, which may not exceed 10 times the minimum fixed capital. The number of shares as of December 31, is as follows:

	Number of shares			Amount		
	2011	2010	2009	2011	2010	2009
Subscribed capital -						
Class I	308,178,735	308,178,735	308,178,735	\$ 406,567	\$ 406,567	\$ 406,567
Class II	<u>1,491,821,265</u>	<u>1,491,821,265</u>	<u>1,491,821,265</u>	<u>1,968,094</u>	<u>1,968,094</u>	<u>1,968,094</u>
	1,800,000,000	1,800,000,000	1,800,000,000	2,374,661	2,374,661	2,374,661
Less- Shares in trust	-	-	(844,597)	-	-	(21,555)
	<u>1,800,000,000</u>	<u>1,800,000,000</u>	<u>1,799,155,403</u>	<u>\$ 2,374,661</u>	<u>\$ 2,374,661</u>	<u>\$ 2,353,106</u>

Basic earnings per share are equal to the diluted earnings per share because the Company does not have potential shares that may result in the dilution of earnings per share.

Allowance for reacquisition of shares

During a Stockholders' General Meeting held on April 29, 2011, the stockholders confirmed the allowance for the acquisition of the Company's own shares of \$1,000,000 as the maximum amount of resources that the Company would assign to purchase its own shares or credit instruments representing such shares. Any gain or loss generated is recorded in the share subscription premium. As of December 31, 2011, 2010 and 2009, the allowance balance is \$787,866, \$908,850 and \$872,843, respectively. As of December 31, 2011, 2010 and 2009 the Company has 4,856,100, 2,217,800 and 5,463,400 of its own issued shares, respectively.

Earned capital

During the Stockholders' Ordinary General Meeting held on November 23, 2011, the stockholders declared dividends of \$720,000, against the net tax income account (CUFIN), equal to 0.40 cents per share. These dividends will be distributed in four payments during 2012.

During the Stockholders' Ordinary General Meeting held on November 17, 2010, the stockholders declared dividends of \$504,000, against the net tax income account (CUFIN), equal to 0.28 cents per share. These dividends will be distributed in four payments during 2011.

A Stockholders' Ordinary General Meeting held on December 3, 2009, the stockholders approved the declaration of dividends for \$396,000, applied against CUFIN, equivalent to 0.22 cents per share; this dividend was settled in four payments during 2010.

Stockholders' equity, except for restated paid-in capital and tax retained earnings will be subject to income tax payable by the Company 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, 2011, 2010 and 2009, the legal reserve was \$363,272, \$336,904 and \$190,292, respectively.

18. Foreign currency balances and transactions

At December 31, the assets and liabilities denominated in foreign currency other than the functional currencies of each reported unit converted to U.S. dollars, are as follows:

	2011	Thousands of U.S. dollars 2010	2009
Current assets	<u>699,038</u>	<u>612,262</u>	<u>854,448</u>
Liabilities -			
Current	<u>(810,316)</u>	<u>(574,952)</u>	<u>(437,058)</u>
Long-term	<u>(727,450)</u>	<u>(805,918)</u>	<u>(825,039)</u>
Total	<u>(1,537,766)</u>	<u>(1,380,870)</u>	<u>(1,262,097)</u>
Net monetary liability position	<u>(838,728)</u>	<u>(768,608)</u>	<u>(407,649)</u>

The principal transactions carried out by the Mexican companies in foreign currency, excluding purchases of machinery and equipment, are:

	2011	Thousands of U.S. dollars 2010	2009
Sales	2,178,066	1,411,130	988,667
Interest income	2,257	2,908	945
Interest expense	(64,837)	(65,751)	(33,450)
Purchases	<u>(1,638,209)</u>	<u>(1,038,103)</u>	<u>(602,277)</u>
Net	<u>477,277</u>	<u>310,184</u>	<u>353,885</u>

The prices of the main products of the Company are based on conditions in the international market.

Exchange rates in effect at the dates of the consolidated statements of financial position and at the date of issuance of these consolidated financial statements were as follows (respective currency per US\$1.00):

	2011	2010	2009
Argentina	4.30	3.98	3.80
Brazil	1.87	1.67	1.74
Colombia	1,942.70	1,913.98	2,044.23
Mexico	13.94	12.38	13.06
United Kingdom	0.65	0.65	-
Ecuador, El Salvador, United States and Panama	1.00	1.00	1.00

Exchange rates as of December 31, of the functional currency (the local currency) of the countries where the Company's subsidiaries are located in relation to the reporting currency (Mexican peso) are listed below (Mexican pesos per one currency unit):

	2011	2010	2009
Colombia	139.28	154.58	156.45
Ecuador, El Salvador, United States and Panama	13.94	12.38	13.06

19. Balances and transactions with related parties

Balances due from and to related parties are as follows:

	2011	2010	2009
Due from related parties:			
Pochteca Materias Primas, S.A de C.V.	\$ 62,747	\$ 15,628	\$ 35,556
Elementia, S.A. de C.V.	4,909	-	-
Controladora GEK, S.A. de C.V.	1,550	-	-
Eternit Colombiana, S.A.	678	3,913	2,914
Other	<u>1,942</u>	<u>1,604</u>	<u>1,217</u>
	<u>\$ 71,826</u>	<u>\$ 21,145</u>	<u>\$ 39,687</u>
Due to related parties:			
Kaluz, S.A. de C.V.	\$ 365,744	\$ 262,444	\$ 212,533
Plaza Azcapotzalco, S.A. de C.V.	8,380	5,754	4,607
Aerokaluz, S.A. de C.V.	-	4,947	-
Other	<u>555</u>	<u>608</u>	<u>1,162</u>
	<u>\$ 374,679</u>	<u>\$ 273,753</u>	<u>\$ 218,302</u>

The Company carried out the following transactions with related parties:

	2011	2010	2009
Revenues from -			
Sales	\$ 71,414	\$ 52,401	\$ 224,470
Administrative services	45,073	9,714	12,401
Interest	<u>8,878</u>	<u>8,505</u>	<u>13,919</u>
	<u>\$ 125,365</u>	<u>\$ 70,620</u>	<u>\$ 250,790</u>
Expenses from -			
Administrative services	\$ 261,703	\$ 244,045	\$ 198,000
Donations	15,625	17,277	13,800
Purchases	13,198	7,671	55,000
Other	<u>6,748</u>	<u>10,527</u>	<u>15,421</u>
	<u>\$ 297,274</u>	<u>\$ 279,520</u>	<u>\$ 282,221</u>

20. Other expenses (income)

	2011	2010	2009
Expenses:			
Impairment of fixed assets	\$ 305,239	\$ 461,005	\$ -
Donations	15,625	21,359	18,360
Expenses related to acquisitions	8,475	100,376	15,638
Loss on insurance claim	-	90,685	-
Loss on sale of fixed assets	-	-	96,122
Impairment of goodwill	-	-	69,000
Others	-	-	144,912
	<u>329,339</u>	<u>673,425</u>	<u>344,032</u>
Income:			
Gain on business acquisitions	-	(601,201)	-
Gain for early cancellation of swap	-	(96,646)	-
Tax recovered	(78,738)	(24,752)	-
Gain on insurance claim	(48,399)	-	-
Gain on sale of fixed assets	(37,728)	(61,618)	(3,285)
Gain on sale of waste materials	(9,377)	(26,497)	(45,291)
Others	(87,823)	(31,785)	-
	<u>(262,065)</u>	<u>(842,499)</u>	<u>(48,576)</u>
Other expenses (income)	<u>\$ 67,274</u>	<u>\$ (169,074)</u>	<u>\$ 295,456</u>

21. Income taxes

In Mexico, the Company is subject to regular income tax (ISR) and the business flat tax (IETU).

ISR is based on taxable income, which differs from profit or loss reported in the consolidated statements of comprehensive income statement due to items of income or expense line that are taxable or deductible in years other than the current year as well as for items that are never taxable or deductible. The Company'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 Company and its subsidiaries operate.

The ISR rate is 28% in 2009, and it is 30% from 2010 through 2012. In 2013 reduces to 29% and 28% from 2014. The Company pays ISR, together with its Mexican subsidiaries on a consolidated basis from 1982.

IETU - Both revenues and deductions and certain tax liabilities are determined based on the cash flows of each year and recorded a rate of 17.5% and it was 17% in 2009. IETU is individually incurred by the holding company and its Mexican subsidiaries.

In Mexico, income tax incurred will be the higher of ISR and IETU.

a. Income tax -

The income tax rates applicable in 2011 in the countries where the Company operates are as follows:

	%		%
Argentina	35	Honduras	30
Brazil	34	Japan	42
Colombia	33	Mexico	30
Costa Rica	30	United Kingdom	28
Canada	32	Nicaragua	30
Ecuador	24	Panama	30
El Salvador	25	Peru	30
United States	34	Taiwan	17
Guatemala	31	Venezuela	34

b. ***IETU -***

Based on its financial projections, the Company determined that it will mainly pay ISR; therefore, only deferred ISR was recognized. In 2011, 2010 and 2009, neither the Company nor its Mexican subsidiaries incurred IETU.

c. ***Asset Tax -***

In certain countries where Mexichem operates, such as Guatemala, Nicaragua, Argentina, Colombia and Peru, asset tax is payable, although it is generally only paid on the amount by which it exceeds income tax of the year. However, asset tax can be credited against income tax and is calculated according to the local laws of each country by applying a certain percentage against net assets.

d. ***Deferred taxes -***

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

	2011	2010	2009
Property, plant and equipment	\$ 3,281,828	\$ 3,111,915	\$ 2,994,445
Inventories	(168,425)	(61,757)	41,399
Accrued liabilities which will be deductible when paid	(661,592)	(469,785)	(453,585)
Tax loss carryforwards	(545,840)	(680,995)	(399,004)
Derivative financial instruments	-	-	(64,681)
Employee profit sharing	(105,984)	(42,759)	(51,407)
Intangible assets	120,877	262,915	130,442
Others	<u>173,257</u>	<u>135,060</u>	<u>99,255</u>
	2,094,121	2,254,594	2,296,864
Deferred tax asset	<u>577,113</u>	<u>598,290</u>	<u>382,225</u>
Deferred tax liability	<u>\$ 2,671,234</u>	<u>\$ 2,852,884</u>	<u>\$ 2,679,089</u>

e. ***A reconciliation of beginning and ending amount of the deferred tax liability is as follows -***

	2011	2010	2009
Beginning balance	\$ 2,254,594	\$ 2,296,864	\$ 2,201,254
Income tax provision applied to results	48,416	(464,767)	(190,733)
Effect of assets and liabilities of acquired companies	(53,024)	247,663	48,687
Effect of foreign currency conversion	(120,491)	94,029	201,692
Effect from derivative financial instruments	<u>(35,374)</u>	<u>80,805</u>	<u>35,964</u>
Ending balance	<u>\$ 2,094,121</u>	<u>\$ 2,254,594</u>	<u>\$ 2,296,864</u>

f. *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:

	2011	%	2010	%	2009	%
Profit before income taxes	\$ 4,474,512	37.93	\$ 4,810,194	15.62	\$ 3,714,382	21.00
Permanent items that modified the tax base:						
Accrueable annual adjustment for inflation	384,620	2.73	378,267	2.36	301,608	2.35
Non-accrueable income	(152,548)	(1.08)	(419,004)	(2.61)	(117,091)	(0.91)
Non deductible items and tax on assets	505,333	3.59	203,349	1.27	386,359	3.02
Tax gain on sale of shares	-	0.00	8,760	0.05	(535,308)	(4.18)
Recognition (reserve) of tax losses	201,755	1.43	(1,163,895)	(7.26)	(1,044,304)	(8.16)
Effect of changes in tax rate	11,344	0.08	(117,489)	(0.73)	12,675	0.10
Fixed asset and other tax incentives	(108,619)	(0.77)	(480,782)	(3.00)	(14,371)	(0.11)
Tax consolidation effects	-	0.00	(114,036)	(0.71)	114,036	0.89
Gain on acquisition of businesses	-	0.00	(601,201)	(3.75)	-	0.00
Others	127,175	0.77	-	0.00	-	0.00
Total permanent items	969,060	6.75	(2,306,031)	(14.38)	(896,396)	(7.00)
Base profit for income taxes	\$ 5,443,572	31.18	\$ 2,504,163	30.00	\$ 2,817,986	28.00
Current income tax	\$ 1,648,861		\$ 1,216,016		\$ 979,769	
Deferred income tax	48,416		(464,767)		(190,733)	
Total tax	\$ 1,697,277		\$ 751,249		\$ 789,036	
Effective rate	37.93%		15.62%		21.00%	
Average legal rate	31.18%		30.00%		28.00%	

The benefits of tax loss carryforwards, restated for inflation as permitted by tax law in certain countries, and recoverable asset tax 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, 2011 are as follows:

Year of Expiration	Tax Loss Carryforwards	Recoverable Asset Tax
2012	\$ 25,106	\$ -
2013	13,752	1,373
2014	14,268	1,520
2015	32,671	2,190
2016	6,500	2,650
2017	-	2,971
2018	-	3,515
2019	-	3,361
2020	-	4,435
2021	-	5,858
Without expiration	2,784,051	-
	\$ 2,876,348	\$ 27,873

In Brazil and Peru, tax losses are not restated for inflation and do not expire; they may be applied without exceeding 30% and 50%, respectively, of the taxed profits for the year.

22. Discontinued operations

During 2011, 2010 and 2009, the Company decided to discontinue the operation of Dripsa, S.A. and Amanco Chile, S.A., which was part of the integral solutions chain and they operated in Argentina and Chile.

Below is a summary of the financial information related to discontinued operations:

Discontinued operations	2011	2010	2009
Income	\$ 6,540	\$ 70,769	\$ 198,064
Costs and expenses	(9,025)	(138,905)	(84,043)
Interest expense	(185)	(2,152)	(1,242)
Exchange fluctuation	(390)	(3,110)	(1,896)
Impairment of investment in shares and other expenses	(63,023)	(72,926)	(13,253)
Income taxes	-	-	(31,720)
Equity in subsidiaries	-	-	(21,950)
Net loss from discontinued operations	<u>\$ (66,083)</u>	<u>\$ (146,324)</u>	<u>\$ 43,960</u>

23. Commitments

- a. As of December 31, 2011, the Company has contractual commitments for capital leases related to machinery and equipment and operating leases for real estate in the amount of \$151,565.

Maturities of contractual commitments expressed in Mexican pesos at December 31, 2011, are as follows:

Years	
2012	\$ 62,123
2013	33,340
2014	22,464
2015	31,489
2016 and thereafter	<u>2,149</u>
	<u>\$ 151,565</u>

Rental expenses were \$41,284, \$34,532 and \$144,771 for the years ended December 31, 2011, 2010 and 2009, respectively.

- b. Derived from the purchase of Plásticos Rex, S.A. de C.V., the Company was committed to sell PVC plants, located in Monterrey, Los Mochis and Mérida. During 2011, the sale of the assets classified as held for sale was made, generating a loss of \$32,345.

24. Contingencies

The Company is involved in commercial, tax and labor lawsuits, which have arisen during the normal course of business and are common in the industry in which the companies operate. The estimated amount of these lawsuits as of December 31, 2011 is \$579,101, for which a liability has been recorded for the amount of \$194,909, which is included in other long-term liabilities in the consolidated statements of financial position. With regard to potential exposure of \$384,192, in the opinion of the Company's internal and external legal counsel, the possibility that these contingencies will result in an unfavorable outcome to the Company is less than probable, but greater than remote. In any case, the Company considers that these lawsuits will not have an adverse material effect on its consolidated financial position.

25. Information by industry segment

Segment information is presented according to the production chains, which are grouped according to the vertical integration of their raw materials; the Company's operating decisions are made based on such segmentation for purposes of assigning resources and assessing the performance of each segment.

The Company's operating segments are composed of the Chlorine – Vinyl, Fluorine and Integral Solutions production chains. The Chlorine – Vinyl chain includes the production of chlorine, caustic soda, chlorinated derivatives, mainly used to purify water, and PVC resins and compounds used to manufacture tubes, connectors, and special materials for various industries; the Fluorine chain includes the extraction of fluorite, the production of hydrofluoric acid and cooling gases, which are used in the cement, steel, ceramic, glass, and automotive industries; the Integral Solutions chain includes the production of PVC and geo-synthetic tubes and connectors, which are used to handle and transport fluids, mainly water, in the construction and agricultural sectors.

Below is a summary of the most significant line items of the consolidated financial statements for each business operating chain:

	December 31, 2011					
	Vinyl - Chlorine	Fluorine	Integral solutions	Holding company	Eliminations	Consolidated
Net sales	\$ 23,015,520	\$ 10,852,773	\$ 18,770,775	\$ 492,541	\$ (5,821,987)	\$ 47,309,622
Cost of sales	18,593,069	5,661,487	12,274,646	-	(5,055,836)	31,473,366
	4,422,451	5,191,286	6,496,129	492,541	766,151	15,836,256
Net sales of finished goods purchased	1,737,738	-	-	-	-	1,737,738
Cost of sales	1,660,578	-	-	-	-	1,660,578
	77,160	-	-	-	-	77,160
Gross profit	4,499,611	5,191,286	6,496,129	492,541	766,151	15,913,416
Operating expenses, Net	2,334,835	2,502,434	4,156,669	38,074	(401,342)	8,630,670
Exchange loss, Net	150,678	7,589	176,770	955,250	-	1,290,287
Interest expense	267,055	205,689	450,236	911,577	(452,893)	1,381,664
Interest income	(143,115)	(2,530)	(69,022)	(357,432)	452,893	(119,206)
Monetary position loss	-	-	45,007	-	-	45,007
Tax on assets	127,061	-	83,421	-	-	210,482
Income from dividends	(854,722)	(301,717)	(526,152)	(1,851,848)	3,534,439	-
Profit before income taxes	2,617,819	2,779,821	2,179,200	796,920	(3,899,248)	4,474,512
Income taxes	567,420	870,452	627,091	(367,686)	-	1,697,277
Loss from discontinued operations	-	-	66,083	-	-	66,083
Consolidated profit of the year	\$ 2,050,399	\$ 1,909,369	\$ 1,486,026	\$ 1,164,606	\$ (3,899,248)	\$ 2,711,152

	December 31, 2010					
	Vinyl - Chlorine	Fluorine	Integral solutions	Holding company	Eliminations	Consolidated
Net sales	\$ 15,533,023	\$ 6,926,653	\$ 16,294,383	\$ 1,597,759	\$ (5,156,427)	\$ 35,195,391
Cost of sales	12,536,986	3,701,874	10,554,434	-	(3,876,072)	22,917,222
	2,996,037	3,224,779	5,739,949	1,597,759	(1,280,355)	12,278,161
Net sales of finished goods purchased	1,276,258	-	-	-	-	1,276,258
Cost of sales	1,215,343	-	-	-	-	1,215,343
	60,915	-	-	-	-	60,915
Gross profit	3,056,952	3,224,779	5,739,949	1,597,759	(1,280,355)	12,339,084
Operating expenses, Net	1,778,316	1,431,355	3,733,611	1,070,182	(1,319,571)	6,693,893
Exchange gain, Net	(29,094)	(2,543)	(145,240)	(170,062)	-	(346,939)
Interest expense	167,240	181,387	403,480	762,588	(260,018)	1,254,677
Interest income	(17,167)	(1,652)	(75,385)	(270,818)	260,018	(105,004)
Monetary position loss	-	-	32,263	-	-	32,263
Income from dividends	8,420	(4,583)	(115,399)	(575,145)	686,707	-
Profit before income taxes	1,149,237	1,620,815	1,906,619	781,014	(647,491)	4,810,194
Income taxes	122,015	283,319	266,032	66,958	12,925	751,249
Loss from discontinued operations	-	-	136,564	-	9,760	146,324
Consolidated profit of the year	\$ 1,027,222	\$ 1,337,496	\$ 1,504,023	\$ 714,056	\$ (670,176)	\$ 3,912,621

	December 31, 2009					
	Vinyl - Chlorine	Fluorine	Transformed products	Holding company	Eliminations	Consolidated
Net sales	\$ 14,695,932	\$ 2,531,336	\$ 14,947,274	\$ 861,612	\$ (3,283,917)	\$ 29,752,237
Cost of sales	11,001,453	1,325,911	9,688,198	(1,479)	(3,014,429)	18,999,654
	3,694,479	1,205,425	5,259,076	863,091	(269,488)	10,752,583
Net sales of finished goods purchased	894,806	-	-	-	-	894,806
Cost of sales	860,391	-	-	-	-	860,391
	34,415					34,415
Gross profit	3,728,894	1,205,425	5,259,076	863,091	(269,488)	10,786,998
Operating expenses, Net	1,883,889	248,572	3,829,639	447,530	(23,990)	6,385,640
Exchange gain (loss), Net	(36,389)	(43,174)	412,095	(429,428)	-	(96,896)
Interest expense	300,832	(27,503)	359,364	384,676	(155,523)	861,846
Interest income	(19,980)	(5,102)	(141,279)	(114,388)	168,713	(112,036)
Monetary position loss	-	-	46,292	-	-	46,292
Equity in income of associated companies	(9,463)	-	(2,767)	-	-	(12,230)
Profit before income taxes	1,610,005	1,032,632	755,732	574,701	(258,688)	3,714,382
Income taxes	594,287	305,521	(286,366)	108,996	66,598	789,036
(Gain) loss discontinued operations	(75,576)	-	45,088	-	(13,472)	(43,960)
Consolidated profit	\$ 1,091,294	\$ 727,111	\$ 997,010	\$ 465,705	\$ (311,814)	\$ 2,969,306

	December 31, 2011					
	Vinyl - Chlorine	Fluorine	Integral solutions	Holding company	Eliminations	Consolidated
Current assets:						
Cash and cash equivalents	\$ 1,913,361	\$ 1,094,873	\$ 1,643,783	\$ 3,023,487	\$ -	\$ 7,675,504
Accounts receivable, Net	3,222,101	2,539,913	4,462,102	354,398	-	10,578,514
Other current assets	7,785,521	2,515,659	3,344,871	7,873,405	(14,617,651)	6,901,805
Total current assets	12,920,983	6,150,445	9,450,756	11,251,290	(14,617,651)	25,155,823
Property, plant and equipment, Net	8,030,441	6,755,759	8,163,287	719	(4,313)	22,945,893
Other assets, Net	7,115,359	3,051,649	5,083,868	22,364,926	(25,260,757)	12,355,045
Total assets	\$ 28,066,783	\$ 15,957,853	\$ 22,697,911	\$ 33,616,935	\$ (39,882,721)	\$ 60,456,761
Current liabilities:						
Bank loans and current portion of long-term debt	\$ 561,638	\$ 487,226	\$ 539,880	\$ 2,203,721	\$ -	\$ 3,792,465
Suppliers	6,093,164	850,073	1,315,199	11,404	-	8,269,840
Other current liabilities	3,051,282	4,684,522	6,388,107	4,316,774	(14,617,652)	3,823,033
Total current liabilities	9,706,084	6,021,821	8,243,186	6,531,899	(14,617,652)	15,885,338
Bank loans and long-term debt	1,955,046	1,463,573	1,336,923	12,080,468	-	16,836,010
Other non-current liabilities	1,614,943	1,267,373	1,029,134	(237,775)	(3,402)	3,670,273
Total liabilities	\$ 13,276,073	\$ 8,752,767	\$ 10,609,243	\$ 18,374,592	\$ (14,621,054)	\$ 36,391,621

December 31, 2010						
	Vinyl - Chlorine	Fluorine	Integral solutions	Holding company	Eliminations	Consolidated
Current assets:						
Cash and cash equivalents	\$ 1,528,494	\$ 1,509,463	\$ 1,648,479	\$ 2,459,350	\$ -	\$ 7,145,786
Accounts receivable, Net	2,843,192	1,589,111	3,690,855	(318,448)	-	7,804,710
Other current assets	4,854,313	2,506,665	4,209,974	6,281,886	(13,043,415)	4,809,423
Total current assets	9,225,999	5,605,239	9,549,308	8,422,788	(13,043,415)	19,759,919
Property, plant and equipment, Net	7,323,818	6,430,171	7,199,670	1,281	(4,316)	20,950,624
Other assets, Net	4,035,250	1,639,945	4,640,424	21,109,549	(21,404,393)	10,020,775
Total assets	<u>\$ 20,585,067</u>	<u>\$ 13,675,355</u>	<u>\$ 21,389,402</u>	<u>\$ 29,533,618</u>	<u>\$ (34,452,124)</u>	<u>\$ 50,731,318</u>
Current liabilities:						
Bank loans and current portion of long-term debt	\$ 331,515	\$ 895,466	\$ 368,976	\$ 580,564	\$ -	\$ 2,176,521
Suppliers	3,929,216	646,388	1,591,598	130,412	-	6,297,614
Other current liabilities	1,693,814	4,001,445	5,994,452	4,169,111	(12,632,956)	3,225,866
Total current liabilities	5,954,545	5,543,299	7,955,026	4,880,087	(12,632,956)	11,700,001
Bank loans and long-term debt	2,752,107	1,760,454	1,855,560	9,294,561	-	15,662,682
Other non-current liabilities	1,727,379	1,193,062	1,007,673	(271,429)	(71,214)	3,585,471
Total liabilities	<u>\$ 10,434,031</u>	<u>\$ 8,496,815</u>	<u>\$ 10,818,259</u>	<u>\$ 13,903,219</u>	<u>\$ (12,704,170)</u>	<u>\$ 30,948,154</u>

December 31, 2009						
	Vinyl - Chlorine	Fluorine	Transformed products	Holding company	Eliminations	Consolidated
Current assets:						
Cash and cash equivalents	\$ 1,165,654	\$ 102,616	\$ 1,408,533	\$ 7,687,881	\$ -	\$ 10,364,684
Accounts receivable, Net	2,427,676	839,774	2,879,257	(190,131)	7,200	5,963,776
Other current assets	3,586,454	928,582	3,455,010	3,128,402	(7,676,004)	3,422,444
Total current assets	7,179,784	1,870,972	7,742,800	10,626,152	(7,668,804)	19,750,904
Property, plant and equipment, Net	7,344,598	3,584,851	7,512,717	1,843	(4,316)	18,439,693
Other assets, Net	3,298,000	119,438	2,109,679	17,112,430	(16,306,230)	6,333,317
Total assets	<u>\$ 17,822,382</u>	<u>\$ 5,575,261</u>	<u>\$ 17,365,196</u>	<u>\$ 27,740,435</u>	<u>\$ (23,979,350)</u>	<u>\$ 44,523,914</u>
Current liabilities:						
Bank loans and current portion of long-term debt	\$ 440,672	\$ 488,519	\$ 822,636	\$ 612,647	\$ (184)	\$ 2,364,290
Accounts payable to suppliers	3,370,752	106,726	1,668,631	103,193	-	5,249,302
Other current liabilities	2,371,825	1,458,749	3,429,261	3,086,479	(7,553,066)	2,793,248
Total current liabilities	6,183,249	2,053,994	5,920,528	3,802,319	(7,553,250)	10,406,840
Bank loans and long-term debt	1,491,268	977,039	1,151,577	10,277,093	-	13,896,977
Other non-current liabilities	1,720,987	857,351	1,251,320	(158,088)	(68,614)	3,602,956
Total liabilities	<u>\$ 9,395,504</u>	<u>\$ 3,888,384</u>	<u>\$ 8,323,425</u>	<u>\$ 13,921,324</u>	<u>\$ (7,621,864)</u>	<u>\$ 27,906,773</u>

Below is the financial information classified by geographical area:

Country	Net sales from external customers			Property, plant and equipment, net		
	2011	2010	2009	2011	2010	2009
Mexico	\$17,406,014	\$13,503,280	\$12,616,924	\$ 9,715,543	\$ 9,537,715	\$ 9,286,146
Brazil	7,207,299	6,771,059	5,526,044	2,434,808	2,280,885	2,300,974
Colombia	6,522,316	5,794,461	5,309,201	3,956,343	3,832,482	3,958,646
United States	5,980,375	2,776,745	1,590,920	1,726,343	1,400,262	5,291
United Kingdom	3,559,026	1,482,216	-	1,554,758	1,152,277	-
Central America	1,978,063	1,621,209	1,632,811	1,046,599	891,220	950,681
Japon	1,708,413	933,477	-	637,654	312,521	-
Ecuador	1,420,014	1,165,684	1,175,957	672,094	562,892	528,295
Venezuela	1,073,259	572,045	1,358,637	304,361	221,933	601,528
Peru	1,071,901	991,436	612,477	660,277	550,763	516,544
Argentina	678,246	543,440	583,103	207,468	200,658	255,288
Others	442,434	316,597	240,969	29,645	7,016	36,300
Total	<u>\$49,047,360</u>	<u>\$36,471,649</u>	<u>\$30,647,043</u>	<u>\$22,945,893</u>	<u>\$20,950,624</u>	<u>\$18,439,693</u>

26. Subsequent events

- On January 26, 2012 Mexichem acquired from Corporación Amati, S.A. de C.V. the shares of Fluorita de México S.A. de C.V., located in the town of Muzquiz, Coahuila; this acquisition will provide access to the purest fluorite in the world, thus guaranteeing the supply of its UK operation. The mine has reserves in excess of 13 million tons, and its annual extraction is 100 thousand tons. This transaction had a value of US \$75 million, which was paid with the Company's own resources.
- On February 8, 2012 Mexichem and Wavin N.V. ("Wavin") reached agreement for the public cash offering made by Mexichem for all the Wavin shares issued and outstanding at a price of €10.50 for each of the common shares of Wavin ("the Offering"). The Offering values 100% of the Wavin shares issued and outstanding at approximately €531 million. At the date of issuance of the consolidated financial statements, Mexichem holds 22.28% of the shares outstanding.
- On March 15, 2012 Mexichem extended the second issue of "MEXCHEM 11" securitized certificates for the amount of \$2,000 million, maturing on September 2, 2016, and paying the TIIE rate plus 0.60; on the same date it completed the third issue of "MEXCHEM 12" securitized certificates for the amount of \$3,000 million, maturing on March 9, 2022, and paying interest at the fixed rate of 8.12%. The interest on both issues is paid every 28 days.

27. New accounting pronouncements

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective, applicable as of 1 of January 1, 2013, unless stated otherwise:

- *IFRS 9 "Financial Instruments"*, early application is permitted. In August of 2011, the IASB issued a proposal for accounting rules entitled date of mandatory application of IFRS, which proposes to change the effective date of IFRS 9 from 1 January 2013 to January 1, 2015.
- *IFRS 10 Consolidated Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosure of Interests in Other Entities*
- *IFRS 13 Fair Value Measurement*
- *Amendments to IAS 1 Presentation of items of Other Comprehensive Income*, Effective for annual periods beginning on or after 1 July 2012.
- *Amendments to IAS 12 Deferred Tax-Recovery of Underlying Assets*, Effective for annual periods beginning on or after 1 January 2012.

- *IAS 19 (as revised in 2011) Employee Benefits*
- *IAS 27 Separate Financial Statements*
- *IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures*

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The Company is evaluating the impact the adoption of this standard may have on this consolidated financial information.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, SIC 13 and IAS 27 (as revised in 2011). The key requirements of these standards are described below:

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation-Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities-Non-Monetary Contributions by Ventures has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application provided that all of these five standards are applied early at the same time.

The Company anticipates that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and the application of these standards will not have significant impact on amounts reported in the consolidated financial statements.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instruments items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope. The Company is evaluating the impact of the application of this standard.

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012. The Company believes that will not have effect the entry into force of this standard which the Company do not have investment properties.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan asset when they occur, and hence eliminate the “corridor approach” permitted under the previous version of IAS19 and accelerate the recognition of past service costs.

The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The Company will adopt the amendments for the annual period beginning 1 January 2012 and the implementation of these amendments will result in an expense in the consolidated statement of comprehensive income of \$34,582 in the amounts reported for the Company defined benefit plans in 2012.

28. Financial statement issuance authorization

The issuance of the consolidated financial statements for the years ended December 31, 2010 and 2009 were authorized at the Stockholders’ General Meeting on April 29, 2011 and April 1, 2010, respectively. The issuance of the consolidated financial statements for the year ended December 31, 2011, was authorized on March 29, 2012 by C.P.C. Miguel Ruiz Tapia, Chief Financial Officer; consequently these do not reflect events after this date and are subject to the approval of the Company’s Audit Committee and the Board of Directors and the Stockholders’ Ordinary General Meeting, where they may be modified based on provisions set forth in the Mexican General Corporate Law.

* * * * *

consolidated balance sheet

As at 31 December (€ x 1,000)	NOTE	2011	2010
Assets			
Property, plant & equipment	17	326,545	344,267
Intangible assets	18	484,234	488,129
Investments in associates	19	21,583	21,072
Other financial non-current assets	20	1,751	884
Deferred tax assets	21	8,910	9,586
Total non-current assets		843,023	863,938
Inventories	22	153,242	171,938
Trade and other receivables	23	269,424	266,494
Income tax receivable		1,997	2,462
Cash and cash equivalents	24	76,633	55,748
Assets classified as held-for-sale	6	2,888	314
Total current assets		504,184	496,956
Total assets		1,347,207	1,360,894
Equity			
Issued capital		20,313	20,313
Share premium		422,847	422,847
Reserves		(26,012)	(13,786)
Retained earnings		156,032	141,384
Total equity attributable to equity holders of the Company	25	573,180	570,758
Non-controlling interest		7,735	8,188
Total equity		580,915	578,946
Liabilities			
Interest-bearing loans and borrowings	26	287,532	295,357
Employee benefits	27	12,919	13,647
Provisions	29	11,390	17,470
Deferred tax liabilities	21	87,082	101,161
Other non-current liabilities	30	11,942	7,161
Total non-current liabilities		410,865	434,796
Bank overdrafts	26	16,952	16,498
Employee benefits	27	580	519
Provisions	29	8,525	8,832
Income tax payable		4,974	4,721
Trade and other payables	31	324,094	316,582
Liabilities classified as held-for-sale	6	302	–
Total current liabilities		355,427	347,152
Total liabilities		766,292	781,948
Total equity and liabilities		1,347,207	1,360,894

The notes on page 103 to 153 are an integral part of these consolidated financial statements.

consolidated income statement

For the year ended 31 December (€ x 1,000)

	NOTE	2011			2010		
		RECURRING	NON-RECURRING*	TOTAL	RECURRING	NON-RECURRING*	TOTAL
Total revenue	8	1,327,060	–	1,327,060	1,231,252	–	1,231,252
Cost of sales		(1,038,442)	(781)	(1,039,223)	(938,959)	(1,117)	(940,076)
Gross profit (loss)		288,618	(781)	287,837	292,293	(1,117)	291,176
Other operating income	9	6,442	2,106	8,548	3,296	1,261	4,557
Selling and distribution expenses		(146,228)	(1,197)	(147,425)	(142,050)	(3,016)	(145,066)
Administrative expenses		(90,337)	(3,554)	(93,891)	(90,075)	(2,457)	(92,532)
Research and development expenses		(7,985)	(3)	(7,988)	(7,961)	(28)	(7,989)
Other operating expenses	10	(9,209)	(2,338)	(11,547)	(11,180)	(1,023)	(12,203)
Result from operating activities		41,301	(5,767)	35,534	44,323	(6,380)	37,943
Finance income		3,328	–	3,328	1,725	–	1,725
Finance expense		(31,561)	–	(31,561)	(35,864)	–	(35,864)
Net finance costs	13	(28,233)	–	(28,233)	(34,139)	–	(34,139)
Share in profit of associates	19	2,439	–	2,439	2,196	–	2,196
Result on sale of subsidiaries		–	2,046	2,046	–	–	–
Profit (loss) before income tax		15,507	(3,721)	11,786	12,380	(6,380)	6,000
Income tax benefit (expense)	15	(4,773)	11,014	6,241	(3,516)	4,616	1,100
Profit (loss) for the period		10,734	7,293	18,027	8,864	(1,764)	7,100
Attributable to:							
Equity holders of the Company		9,596	7,537	17,133	7,564	(1,739)	5,825
Non-controlling interest		1,138	(244)	894	1,300	(25)	1,275
Profit (loss) for the period		10,734	7,239	18,027	8,864	(1,764)	7,100

* For the definition of non-recurring items made to paragraph (aa) of the Significant accounting policies.

For details on the non-recurring items reference is made to note 14 of the Group Financial Statements.

Basic earnings per share

(€ x 1)	NOTE	2011	2010
Basic earnings per share (weighted average)	16	0.34	0.11
Diluted earnings per share (weighted average)	16	0.34	0.11

The notes on page 103 to 153 are an integral part of these consolidated financial statements.

consolidated statement of comprehensive income

For the year ended 31 December (€ x 1,000)	NOTE	2011	2010
Profit for the period		18,027	7,100
Other comprehensive income			
Exchange rate differences on translating foreign operations		(15,192)	12,231
Fair value changes cash flow hedges	13	584	2,014
Income tax relating to components of other comprehensive income	15	(111)	(485)
Other comprehensive income (expense) for the period, net of income tax		(14,719)	13,760
Total comprehensive income (expense) for the period		3,308	20,860
Attributable to:			
Equity holders of the Company		3,387	19,349
Non-controlling interest		(79)	1,511
Total comprehensive income (expense) for the period		3,308	20,860

The notes on page 103 to 153 are an integral part of these consolidated financial statements.

consolidated statement of changes in equity

As at 31 December (€ x 1,000)	NOTE	ISSUED CAPITAL	SHARE PREMIUM	LEGAL AND STATUTORY RESERVE	TRANSLA- TION RESERVE	HEDGING RESERVE	RETAINED EARNINGS	TOTAL	NON-CON- TROLLING INTEREST	TOTAL EQUITY
Balance at 1 January 2010		20,313	422,847	9,454	(24,720)	(10,705)	134,464	551,653	6,964	558,617
Profit (loss) for the period		–	–	2,196	–	–	3,629	5,825	1,275	7,100
Other comprehensive income										
Exchange rate differences on translating foreign operations		–	–	–	12,041	(46)	–	11,995	236	12,231
Fair value changes cash flow hedges, net of tax	30,31	–	–	–	–	1,529	–	1,529	–	1,529
Reclassification		–	–	(460)	–	–	460	–	–	–
Total comprehensive income (expense) for the period		–	–	1,736	12,041	1,483	4,089	19,349	1,511	20,860
Contributions by and distributions to owners										
Treasury shares purchased		–	–	–	–	–	(777)	(777)	–	(777)
Treasury shares issued		–	–	–	–	–	351	351	–	351
Long term incentive plan	28	–	–	–	–	–	182	182	–	182
Dividends declared to non-controlling interest		–	–	–	–	–	–	–	(489)	(489)
Dividends received from associates		–	–	(3,075)	–	–	3,075	–	–	–
Non-controlling interest on acquisitions	7	–	–	–	–	–	–	–	202	202
Transactions with owners, recorded directly in equity		–	–	(3,075)	–	–	2,831	(244)	(287)	(531)
Balance at 31 December 2010		20,313	422,847	8,115	(12,679)	(9,222)	141,384	570,758	8,188	578,946
Balance at 1 January 2011		20,313	422,847	8,115	(12,679)	(9,222)	141,384	570,758	8,188	578,946
Profit (loss) for the period		–	–	2,439	–	–	14,694	17,133	894	18,027
Other comprehensive income										
Exchange rate differences on translating foreign operations		–	–	–	(14,210)	(9)	–	(14,219)	(973)	(15,192)
Fair value changes cash flow hedges, net of tax	30,31	–	–	–	–	473	–	473	–	473
Reclassification		–	–	1,388	–	–	(1,388)	–	–	–
Total comprehensive income (expense) for the period		–	–	3,827	(14,210)	464	13,306	3,387	(79)	3,308
Contributions by and distributions to owners										
Treasury shares purchased		–	–	–	–	–	(1,549)	(1,549)	–	(1,549)
Treasury shares issued		–	–	–	–	–	332	332	–	332
Long term incentive plan	28	–	–	–	–	–	252	252	–	252
Dividends declared to non-controlling interest		–	–	–	–	–	–	–	(478)	(478)
Dividends received from associates		–	–	(2,307)	–	–	2,307	–	–	–
Non-controlling interest on acquisitions	7	–	–	–	–	–	–	–	104	104
Transactions with owners, recorded directly in equity		–	–	(2,307)	–	–	1,342	(965)	(374)	(1,339)
Balance at 31 December 2011		20,313	422,847	9,635	(26,889)	(8,758)	156,032	573,180	7,735	580,915

The notes on page 103 to 153 are an integral part of these consolidated financial statements.

consolidated statement of cash flows

For the year ended 31 December (€ x 1,000)	NOTE	2011	2010
Profit for the period		18,027	7,100
Adjustments to reconcile to cash flow from operating activities			
Depreciation, amortisation and impairment	17,18	58,994	60,026
Long Term Incentive Plan	28	252	182
Capitalised withholding tax		(4,126)	–
Net finance costs	13	28,233	34,139
Result on sale of property, plant and equipment and intangible fixed assets	9,10	(1,886)	(655)
Share in profit of associates	19	(2,439)	(2,196)
Result on sale of subsidiaries	7	(2,046)	–
Income tax expense (benefit)	15	(6,241)	(1,100)
Operating profit before changes in working capital and provisions		88,768	97,496
Changes in other receivables and other payables		2,525	(6,191)
Changes in working capital		10,954	(33,962)
Changes in provisions and employee benefits		(1,159)	1,934
Cash generated from operations		101,088	59,277
Interest paid		(27,896)	(29,802)
Income taxes paid		(5,348)	(3,057)
Net cash from operating activities		67,844	26,418
Investments in property, plant & equipment paid		(40,220)	(36,022)
Investments in intangible assets paid		(11,268)	(7,168)
Proceeds from sold property, plant and equipment and intangible assets		1,322	5,622
Dividends received from associates		2,307	3,075
Proceeds from sale of subsidiaries		16,889	–
Acquisitions of consolidated companies, net of cash acquired		(5,254)	142
Net cash used in investing activities		(36,224)	(34,351)
Treasury shares purchased		(1,549)	(777)
Treasury shares issued		332	351
New / (repayment of) interest-bearing loans and borrowings		(10,597)	4,094
Use / (repayment) of credit facility		3,377	–
Dividends paid to shareholders of non-controlling interest		(478)	(489)
Net cash from (used in) financing activities		(8,915)	3,179
Net increase (decrease) of cash and cash equivalents		22,705	(4,754)
Cash and cash equivalents at 1 January	24	55,748	58,626
Effect of exchange rate fluctuations on cash held		(1,820)	1,876
Cash and cash equivalents at 31 December	24	76,633	55,748

The notes on page 103 to 153 are an integral part of these consolidated financial statements.

notes to the group financial statements

1. General information

Wavin N.V. (the Company) is domiciled in Zwolle, the Netherlands. The consolidated financial statements of the Company for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates covering the period 1 January 2011 up to and including 31 December 2011. There have been some changes to the Group structure in 2011 compared to 2010. In 2011 the Company acquired the PE Water business for below ground applications from KWH Pipe Sverige AG in Sweden and divested Kulker SAS in France and Euroceramic in the Netherlands and Germany. In addition the Group decided to cease its activities in Spain. For details of the Group we refer to the list of participations on page 165 of the annual report. The Group is primarily involved in the production and sales of plastic pipe systems and solutions.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and also comply with the financial reporting requirements included in section 9 of Book 2 of the Dutch Civil Code, as far as applicable.

The Company presents a condensed income statement in the Company Financial Statements, using the facility of Article 402, Book 2, of the Dutch Civil Code.

The financial statements were authorised by the Management Board and Supervisory Board on 28 February 2012 and are subject to approval by the General Meeting of Shareholders on 25 April 2012.

(b) Basis of measurement

The consolidated financial statements are prepared on the basis of historical cost except for the following assets and liabilities that are stated at their fair value:

- Derivative financial instruments;
- Investments held for trading;

The methods used to measure fair values are discussed in note 3.

(c) Functional and presentation currency

The consolidated and company financial statements are presented in Euro, which is the Company's functional currency. The amounts are rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect amounts reported in the financial statements.

The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements are described in the following notes and applicable accounting policies:

Note 7	Business combinations / acquisition of subsidiaries
Note 15	Utilisation of tax losses
Note 18	Key assumptions used in discounted cash flow projections
Note 18	Recoverability of capitalised development costs
Note 27	Measurement of defined benefit obligations
Note 29 and 34	Provisions and contingencies

3. Significant accounting policies

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration a de facto control model in which the ability in practice to control another entity exists and no other party has the power to govern.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

Determining the fair values requires significant judgements on future cash flows to be generated.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees and other professional and consulting fees are expensed as incurred.

Acquisitions between 1 January 2004 and 1 January 2010

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of cost of the acquisition over the Group's interest in the recognised amount (generally at fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When excess fair value was negative, a bargain purchase gain was recognised immediately in the income statement. Transaction costs that the group incurred in connection with the business combinations were capitalised as part of the cost of acquisition.

Acquisitions prior to 1 January 2004

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework.

Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net asset of the subsidiary.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. The share of third parties in the result and equity of the consolidated subsidiaries are reported separately.

(iii) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is

recognised in the income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for in accordance with the equity method or as an available for sale financial asset depending on the level of influence retained.

See page 165 for the outline of the company's principal direct and indirect participations.

(iv) **Investments in associates**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds 20-50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associates, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(v) **Transactions eliminated on consolidation**

Intragroup balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised net gains after tax arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the associate. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate.

(b) **Changes in accounting policies, presentation and estimation**

The accounting policies, presentation and estimations applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ending 31 December 2010.

The amendments to standards and interpretations which are effective for the year 2011, have no impact on the financial statements of Wavin.

(c) **Foreign currency**

(i) **Foreign currency transactions**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. The functional currency of foreign entities is the currency of the primary economic environment in which the entity operates, which is generally the local currency. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate prevailing at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) **Foreign operations**

The assets and liabilities of foreign operations are translated to Euro at foreign exchange rates prevailing at the balance sheet date. The differences due to the conversion at beginning and final rates as related to the equity of the foreign participations are processed directly in the reserves as a separate component of equity. The revenues and expenses of foreign operations are translated to Euro at established average exchange rates which approximate the rates at the date of the transactions. The difference between the conversion of proceeds and costs at the established average exchange rates and the exchange rates prevailing at the end of the year is also processed directly in the reserves as a separate component of equity. Upon disposal of foreign operations these cumulative translation adjustments are recognised in the income statement.

Foreign currency translation differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the income statement as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes only part of its investment in an associate that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the income statement.

The following exchange rates, for the significant countries in which the Group operates, were used in preparing these financial statements:

	2011 31 DECEMBER	2010 31 DECEMBER	2011 AVERAGE	2010 AVERAGE
Pound Sterling	0.8353	0.8608	0.8666	0.8577
Polish Zloty	4.4580	3.9750	4.1154	3.9921
Danish Krone	7.4342	7.4535	7.4500	7.4463
Norwegian Krone	7.7540	7.8000	7.7903	7.9997
Czech Koruna	25.7870	25.0610	24.5637	25.2133
Turkish Lira	2.4432	2.0694	2.3335	1.9949
Hungarian Forint	314.5800	277.9500	278.9087	274.9866
US Dollar	1.2939	1.3362	1.3908	1.3262

(iii) Hedge of a net investment in foreign operation

In case the Group applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operation and the Groups functional currency, foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in foreign operation are recognised in other comprehensive income to the extent that the hedge is effective and are presented in the translation reserve within equity. To the extent that the hedge is ineffective, such differences are recognised in the income statement. Upon disposal, the relevant exchange differences in the translation reserve are released to the income statement as part of the gain or loss on disposal.

In respect of all foreign operations, translation differences that arose before 1 January 2004, the date of the transition to IFRS, are presented as a separate component of equity.

(d) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings as well as trade and other liabilities.

Non-derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Wavin is operating a notional cash pool system for cash management of group companies. The positive and negative positions under the cash pool system are netted. As a consequence the finance income and finance expense related to this system are also presented on a net basis.

Accounting for financial income and expense is disclosed in accounting policy (ab).

Held-to-maturity investments

If the Group has the ability and intent to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities are classified at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in the income statement when incurred.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents and trade and other receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3 (f)) and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less impairment losses.

(ii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Generally the Group enters into hedge contracts in order to minimise the effects of foreign currency and interest rate fluctuations in the income statement (for further details we refer to note 4).

Derivatives that can be used are interest rate swaps, fx-forward contracts, fx-swaps and fx-options. Transactions are entered with a limited number of counterparties with sound credit ratings. Foreign currency and interest rate hedging operations are governed according to the treasury policy which is approved and monitored by the Management Board. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value and changes therein are accounted as described below. The fair value of forward exchange contracts are, if available, their quoted market price at the balance sheet date. For the fair value calculation of interest rate swaps we refer to note 3 (ah)(ii).

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Hedge of net investment in foreign operation

Where a foreign currency liability hedges a net investment in a foreign operation, foreign exchange differences arising on translation of the liability are recognised net of tax directly in equity when net investment hedge accounting is applied. The ineffective portion is recognised immediately in the income statement.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction of equity, net of tax.

Repurchase of share capital

When share capital recognised is repurchased the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction of equity, net of tax. Repurchased shares are classified as treasury shares unless decided otherwise. When treasury shares are sold or re-issued, the amount received is recognised as an increase in equity. Transactions related to treasury shares are included in retained earnings.

(e) Property, plant & equipment

(i) Owned assets

All items of property, plant & equipment are stated at cost less cost reducing subsidies received from the government (see note 3 (s)), accumulated depreciation (see section (iv) Depreciation) and impairment losses (see note 3 (f)). Costs include expenditures that are directly attributable to the acquisition of the asset, including capitalised borrowing costs for qualifying assets.

Assets that are being constructed or developed for future use are classified under property, plant & equipment in progress and stated at cost until construction or development is completed. Assets which have been ordered but for which no invoices have been received yet, are disclosed under capital commitments.

Where an item of property, plant & equipment comprises major components that have different useful lives, they are accounted for as separate items of property, plant & equipment. The cost of replacing a component of an item of property, plant & equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. Where possible the carrying amount of the replaced component is derecognised. Day to day maintenance costs of property, plant & equipment are expensed in the period in which they occur.

Gains and losses on the sale of property, plant & equipment are included in the income statement as other income. If there is an indication that an asset may be impaired, the recoverable amount of the asset is estimated. If the carrying value exceeds the recoverable amount, an impairment charge is recognised in the income statement.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Other leases are operating leases which are not recognised in the balance sheet and are recognised in the income statement on a straight-line basis over the term of the lease.

(iii) Subsequent expenditure

The cost of replacing part of an item of property, plant & equipment is capitalised as a separate asset when it is probable that the future economic benefits embodied within the part will flow to the Group and its costs can be measured reliably. The carrying amount of the replaced part is derecognised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant & equipment. All other expenditure is recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant & equipment, and major components that are accounted for separately. Land is not depreciated as it is deemed to have an indefinite life. Assets under construction are not depreciated. The rates for depreciation are:

Surfaces	10 %
Buildings	2.5 %
Installations and production machinery	5 to 15 %
Heads, cones, moulds	10 to 12.5 %
Transport equipment	20 %
Computer hardware	20 to 33.33 %
Office equipment/furniture	10 %

The residual value, useful lives and depreciation methods are reassessed annually.

(f) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition we refer to note 3 (a).

Goodwill is stated at cost less accumulated impairment charges (see note 3 (l)). Goodwill is not amortised but tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

(ii) Brand names

The Group carries assets in the balance sheet for the major brands such as 'Wavin', 'Hep₂O', 'Chemidro' and 'Pilsa'. Internally generated brands are not capitalised. The fair value of an acquired brand name is estimated using generally accepted valuation methods such as the relief from royalty method. Brand names have an indefinite life as there are no material legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of these intangibles.

Furthermore:

- the Group has the ability to transfer the brand name to new product groups;
- the Group supports the main brands through spending on marketing across the business and through investments in promotional support. The brands are expected to be in longstanding and profitable market sectors;
- the likelihood that market-based factors could reduce a brand's life is relatively remote because of the size, diversification and market share of the brands in question;
- the Group owns the trademark for all brands valued on the balance sheet and renews these for nominal cost at regular intervals. The Group has never experienced problems with such renewals.

(iii) Customer relations

Acquired customer relations and distribution networks are calculated based on the Group's valuation methodology, which is based on cash flow projections of value-added products taking into account an attrition rate for the acquired customers. We have excluded the revenue generated by the sale of commoditised products, since for these products the competition is based on price and having excellent customer relationships hardly has any impact. Acquired customer relations and distribution networks are stated at fair value at acquisition date less accumulated amortisation (see below) and impairment losses (see note 3 (l)).

(iv) Other assets from business combinations

The previously unrecognised assets in an acquired company such as order portfolios are recognised at the fair value on acquisition date. These other intangible assets acquired through business combinations are amortised over their individual useful life of which the range is one to five years.

(v) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. These are capitalised only if development costs can be measured reliably and the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour, an appropriate part of overhead costs and capitalised borrowing costs for qualifying projects. Other development expenditure is recognised in the income statement when incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see note 3 (l)).

(vi) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see note 3 (l)). Expenditure on internally generated goodwill, patents, brands, etc. is recognised in the income statement as an expense when incurred.

(vii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

(viii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of intangible assets. Intangible assets other than goodwill and brand names are amortised from the date they are available for use.

The annual amortisation rates are:

Customer relations and distribution networks	4 to 10%
Other assets from business combinations	20 to 50%
Licenses	20%
Capitalised development costs	20%
Software	20 to 33.33%

Brand names are an indissoluble part of the Company on a going concern principle. The Company is continuously investing in its brand names to maintain its competitive position and therefore the value of the brand names. Due to this infinite character the brand names are not amortised but tested for impairment annually.

(g) Other non-current investments

The other non-current investments mainly comprise long term credit facilities extended to customers and associates, other investments and guarantees deposited, after providing for doubtful debts.

(h) Deferred tax assets

Long term tax assets resulting from temporary differences between financial statements and fiscal valuations are capitalised as deferred tax assets as long as it is probable they will result in a future cash inflow. If a Group company is not expecting to pay profit taxes for the coming years due to negative results, the deferred tax asset is not recognised. Tax losses carried forward for compensation with future profits that will probably materialise in the foreseeable future are also included under deferred tax assets.

(i) Other current investments

Investments in debt and equity securities held by the Group are classified as being held for trading and are stated at fair value, with any resultant gain or loss being recognised in the income statement.

(j) Inventories

Inventories are stated at the lower of cost (see note 3 (x)) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of the business, less the estimated selling costs. The cost of inventories is based on the first-in first-out principle and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing it to their existing location. Costs for self-manufactured inventories and work in progress include an appropriate share of overhead costs based on normal operating capacity.

(k) Trade and other receivables

Trade receivables, receivables from associates, prepaid expenses and accrued income are recognised initially at fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less impairment losses (see note 3 (l)). Discounted drafts with recourse are accounted for as debtors with the corresponding liability in interest-bearing loans and borrowings.

(l) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each balance sheet date to determine whether there is objective evidence that it should be impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset. All individual significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment. If any such indication exists, the asset's recoverable amount is estimated. Losses are recognised in the income statement and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment to decrease, the decrease in impairment loss is reversed through the income statement.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets other than other current investments (see note 3 (i)), inventories (see note 3 (j)) and deferred tax assets (see note 3 (h)) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit (CGU) exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. The CGUs do not exceed the level of operating segments as used for the segment reporting. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

(iii) Calculation of recoverable amount

The recoverable amount of other non-current investments is calculated as the net present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Assets with a short duration are not discounted.

The recoverable amount of other assets is the greater of the fair value less cost to sell and value in use. In assessing the value in use, the estimated cash flows are discounted to their net present value using an average pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. For the purpose of impairment testing, goodwill is allocated to the CGU or group of CGUs which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The Group's corporate assets are allocated to the CGUs. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

(iv) Reversals of impairment

An impairment loss of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the impairment loss has decreased or no longer exists. An impairment loss in respect of a non-current asset is reversed if the subsequent increase in recoverable amount can be related to an event occurring after the impairment loss was recognised. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Assets classified as held-for-sale

Non-current assets, or disposal groups comprising assets and/or liabilities, that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. Immediately before classification as held-for-sale the assets are re-measured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying amount or fair value less cost to sell and are no longer depreciated. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on re-measurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant & equipment once classified as held-for-sale are not amortised or depreciated. In addition, equity accounting of associates ceases once classified as held-for-sale.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash in bank accounts and call deposits with original maturities of three months or less. All amounts are readily available.

(o) Equity

Retained earnings / appropriation of profit

The net profit for the year under review is added to the retained earnings taking into account the required movements in legal reserves. Dividends are discretionary at the option of the shareholders. Dividends are recognised as a liability in the period in which they are declared.

The Group can only declare dividends in so far as the equity exceeds the amount of the paid-up capital increased by the reserves that must be legally maintained and taking into account the restrictions agreed under our Forward Start Facility to distribute cash dividends.

(p) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value net of transaction costs incurred, with any difference between initial carrying amount and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Subsequent to initial recognition the interest-bearing loans and borrowings are measured at amortised cost using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan and are amortised using the effective interest method during the period of the borrowings.

(q) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in the income statement when they are due.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available to the Group.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefits are discounted to determine the present value after which the fair value of the plan assets is deducted. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the obligations. The calculations are made by qualified actuaries using the projected unit credit method.

Actuarial gains and losses that arise in calculating our obligation in respect of a plan, are recognised to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 percent of the greater of the present value of the defined benefit obligations or the fair value of plan assets. That portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan.

When the benefits of a plan are improved the portion of the increased benefit relating to the past service by employees is recognised as an expense in the income statement on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised actuarial losses and past service costs and the present value of the economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of the economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

(iii) Other non-current employee benefits

This relates to non-current legal or constructive obligations as incorporated in (collective) labour agreements, company regulations, etc. (such as jubilee allowances, long term incentives, allowances for non-current service, medical, sickness and disability, etc.). These obligations are provided for on an actuarial basis. The method is equal to the actuarial calculation for defined benefit plans with the exception that actuarial results are charged as costs without using a corridor and all past service costs are recognised immediately in the income statement without any transitional option.

(iv) Current employee benefits

Current employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(r) Share-based payment transactions

To senior management (including the Management Board) a share-based payment award is granted. This equity-settled share plan is based on certain performance conditions.

The grant date fair value of share-based payment awards is recognised as a personnel expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. The costs of the share plan for senior management are recognised evenly over the vesting period.

At each balance sheet date the Group assesses its estimates of the number of share and option rights that are expected to vest. The amount recognised as an expense is adjusted, when necessary, to reflect the number of awards for which the non-market performance and service conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and performance conditions at the vesting date.

(s) Government grants

An unconditional government grant is recognised in the income statement when receipt of the grant is virtually certain. Other government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are recognised. For grants that compensate the Group for the costs of an asset we refer to note 3(e).

(t) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Warranties

For products or services sold, a provision is recognised based on actual claims received and on historical data regarding warranty costs, which were not provided for on an individual claims basis. The product liability insurance cover is taken into account when determining the provision. Claims honoured are charged against the provision.

(ii) Restructuring

A provision for restructuring is recognised when a formal restructuring plan is approved and the restructuring has either commenced or has been announced publicly.

(iii) Tax

A tax provision is recognised when tax exposures are identified within the Group.

(iv) Others

The other provisions mainly consist of provisions for the obligation to take back returnable packaging, quarry restorations and for environmental commitments. A provision for site restoration is recognised when there is a legal or constructive obligation to reduce or solve pollution of land, air, water etc. All environmental provisions are based on expert reports.

(u) Deferred tax liabilities

Long term tax liabilities resulting from temporary differences between financial statements and fiscal valuations per fiscal entity are recognised as deferred tax liability as long as they are expected to result in a cash outflow. No deferred tax liabilities are taken into account when it is probable that no profit taxes will be paid due to available losses carried forward.

(v) Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition, trade and other payables are measured at amortised cost using the effective interest method.

(w) Revenue

Revenue is derived from the goods and services sold and delivered during the year net of rebates and discounts and net of sales tax. Revenue from the sales of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to a third party, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. The timing of the transfer of risks and rewards depends on the individual delivery conditions. For the revenue of sales of goods these conditions are generally met at the time the product is delivered to the customer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue at the same time the sales are recognised.

(x) Cost of sales

Cost of sales comprises the manufacturing costs of the goods sold and delivered, and any inventory write downs to lower net realisable value. Manufacturing costs include items as:

- the costs of raw materials and supplies, energy, packaging and other materials;
- depreciation and the costs of maintenance of the assets used in production;
- salaries, wages and social charges for the personnel involved in manufacturing.

(y) Research and development expenses

Research and other not capitalised development expenses are charged to income as incurred. Amortisation of capitalised development costs is charged on a straight-line basis over the estimated useful life.

(z) Expenses

Operating expenses (sales, distribution and administrative) are charged to income as incurred. Payments made under operational lease contracts are recognised in the income statement on a straight-line basis over the term of the lease.

(aa) Non-recurring income and expense

Non-recurring income and non-recurring expenses are significant one-off income and expenses out of the ordinary course of business which result from e.g. restructuring of activities, sale of assets, sale of associates, impairment charges, costs related to acquisitions which cannot be capitalised, liquidation losses and the effects of the adjustment of income tax rates. Non-recurring income and non-recurring expenses are reported separately to give a better reflection of the operating performance of the Group for the periods concerned.

(ab) Finance income and expense

Finance income comprises interest income on funds invested, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains as well as gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues, using the effective interest method.

Finance expense comprises interest expense on borrowings, amortisation of fees relating to the arrangement of borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets and losses on hedging instruments that are recognised in the income statement. Borrowing costs are recognised in the income statement using the effective interest method. As the actual positive and negative positions under the notional cash pool system are netted, the related finance income and expense are netted as well.

Foreign currency gains and losses arising from a group of similar transactions are reported on a net basis. Such gains and losses are, however, reported separately if they are material.

(ac) Income tax expense

Income tax is accounted for in accordance with the tax regulations of the country of domicile concerned.

Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates valid at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax recognised is based on the expected realisation or settlement of the carrying amount of assets and liabilities using tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates that have been enacted on the balance sheet date. The tax rates used are based on the laws that have been enacted or substantially enacted at the reporting date. No provision for deferred tax liabilities is made when it is not probable that profit taxes will be paid due to available losses carried forward.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The accruals for tax liabilities are adequate for all open tax years based on the Group's assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(ad) Discontinued operations

A discontinued operation is a clearly distinguishable component of the Group's business that is abandoned or terminated pursuant to a single plan, and which represents a separate major line of business or geographic area of operations.

(ae) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potential dilutive ordinary shares, which comprise matching shares and performance options granted to eligible employees.

(af) Cash flow statement

The cash flow statement is prepared using the indirect method. Changes in the balance sheet items that have not resulted in cash flows such as translation differences, fair value changes, equity-settled share-based payments and other non-cash items, have been eliminated for the purpose of preparing this statement. Assets and liabilities acquired as part of a business combination are included in investing activities (net of cash acquired). Dividends paid to ordinary shareholders are included in financing activities. Dividends received are classified as investing activities. Interest paid is included in operating activities. Drawings and repayments under the revolving credit facility in which the turnover is quick and the maturities are short, are included on a netted basis.

(ag) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products within a particular economic environment (geographic segment), or providing related products (business segment), which is subject to risks and rewards that are different from those of other segments. The operating segment's performance is assessed and operating and financial results are reviewed regularly by the Management Board to take decisions about resources to be allocated to the segment. For each operating segment reliable financial information is available.

The Group's format for segment reporting is based on geographic segments. In addition the Company assesses the revenue of business segments.

(ah) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Business combinations

In business combinations identifiable assets and liabilities, and contingent liabilities are recognised at their fair values at acquisition date.

Determining the fair values requires significant judgements on future cash flows to be generated.

The fair value of brand names, distribution networks and customer relations, patents and trademarks acquired in a business combination is estimated using generally accepted valuation methods. The fair value of property, plant & equipment recognised as a result of a business combination is based on estimated market values.

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of the business less the estimated costs of completion and cost to sell as well as a reasonable profit margin based on the effort required to complete and sell the inventories.

The fair values of these assets are provisional estimates based on best information available at the time of determining those values. If within a timeframe of 12 months after acquisition, it can be demonstrated that new information provides better evidence about the fair value of any asset or (contingent) liability at acquisition date, the estimates are adjusted.

(ii) Financial instruments

The fair value of forward exchange contracts is based on their quoted market price, if available.

The fair value of interest rate swaps is estimated by discounting the difference between cash flows resulting from the contractual interest rates of both legs of the transaction, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The fair value of non-derivative financial instruments, which is determined for disclosure purposes, is calculated based on the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iii) Share-based payment transactions

The fair value of employee stock options is measured using a binomial tree valuation methodology. The fair value of granted matching shares is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments, expected dividends and the risk-free interest rate. Service and non-market performance conditions related to the grant are not taken into account determining the fair value.

(iv) Pensions and other post-retirement benefits

Retirement benefits represent obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets. Retirement benefit accounting is intended to reflect the recognition of future benefit costs over the employee's approximate service period, based on terms of the plans and the investment and funding decisions made by the Company. The accounting requires management to make assumptions regarding variables such as discount rate, rate of compensation increase, return on assets, mortality rates and future healthcare costs. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic costs incurred. For details on key assumptions and policies we refer to note 27.

(ai) New standards and interpretations not yet implemented

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these consolidated financial statements.

None of these is expected to have a material effect on the consolidated financial statements of the Group, except for:

- Amendment IAS 19 Employee Benefits, which is expected to become mandatory for the Group's 2013 consolidated financial statements could change the recognition in the income statement and measurement of result of operating activities. In addition actuarial gains and losses have to be recognised in Other Comprehensive Income. A first high level assessment shows that this amendment will have a material impact on the reported result of operating activities, EBITDA, reported comprehensive income and the valuation of the employee benefit obligation. A detailed investigation is currently performed. The Group will decide in 2012 whether it will early adopt this standard or not.
- IFRS 9 Financial Instruments, which is expected to become mandatory for the Group's 2015 consolidated financial statements and could change the classification and measurement of financial assets and liabilities. The Group does not plan to adopt this standard early and the extent of the impact has not been determined yet.
- Amendment IAS 1 presentation, which is expected to become mandatory for the Groups 2013 consolidated financial statements. The Group does not plan to adopt this standard early and the extent of the impact has not been determined yet.
- IFRS 13 Fair value measurement, which is expected to become mandatory for the Groups 2014 consolidated financial statements. The Group does not plan to adopt this standard early and the extent of the impact has not been determined yet.

4. Financial risk management

Overview

Wavin is exposed to internal and external risks and uncertainties that may affect its business, financial results or operational performance. To mitigate these risks, the Company has defined policies and guidelines that are followed throughout the organisation. These policies and guidelines are translated into internal risk management and control systems aimed at the adequate and effective control of these identified exposures. The Company regularly reviews the control systems to assess their adequacy. We feel that these policies and systems contribute to a more effective and transparent organisation.

The Management Board has the overall responsibility for the Group's risk management framework. The Audit Committee oversees and reviews the adequacy of the risk management framework in relation to the risks faced by the Group and its procedures to control and to monitor compliance with the Group's risk management policies. We refer to page 50 of the annual report for a description of major risk factors such as strategic, operational and financial risks.

This note covers the Group's policies and procedures for controlling credit risk, liquidity risk and currency risk.

Capital structure

The policy of Wavin is to deploy an efficient capital structure that maintains investor, creditor and market confidence and supports future development of the business. The Management Board monitors the debt to equity ratio and return on capital employed closely.

Periodically the Management Board evaluates the need to purchase own shares on the market. Primarily the shares are intended to be used for issuing shares for the Group's Long Term Incentive Plan (see note 28). The Group does not have a defined share buy-back plan. Buy and sell decisions are made on a specific transaction basis by the Management Board after approval by the Supervisory Board.

Wavin has set clear targets for its level of borrowings in relation to results (leverage) and interest cost (interest coverage). Tight control of working capital management resulted in a decrease of working capital mainly as a result of lower inventory levels despite increased raw material prices. Spending on investments increased by € 8.3 million to € 51.5 million in 2011. This increase was balanced by the proceeds from divestment of two subsidiaries amounting to € 16.9 million. In addition the Group acquired assets through a business combination for an amount of € 5.3 million. As a result of decreasing working capital needs net debt decreased by € 28.2 million compared to last year, ending on € 227.9 million (31 December 2010: € 256.1 million).

The Company is largely financed through a € 475 million forward start facility which started in October 2011 with a maturity date of April 2013. The facility consists of a term loan and revolving facilities. This facility has been extended and amended in January 2012. The amended Forward Start Facility amounts to € 440 million and will mature in April 2015. The amended and extended facility provides Wavin with sufficient headroom and flexibility to respond to uncertain market conditions and offers a solid base to execute the Wavin 2015 strategic program (for further details we refer to note 38).

The Company operated well within the bank covenants. Per 31 December 2011 our leverage ratio was 2.4, well below the allowed ratio of 3.0. Over the year our interest coverage ratio was 4.2 compared to a minimum agreed ratio of 2.8. Both ratios were measured on a quarterly basis in 2011. For quantitative details regarding debt covenants we refer to note 26. Wavin expects even in continuing challenging trading conditions to be compliant with the covenants.

Financial risks

Credit risks

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's trade receivables.

Trade and other receivables

The Group's exposure to credit risk is influenced by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and the country in which customers operate, has an influence on credit risk. Approximately 33% (2010: 28%) of the Group's revenue is attributable to sales transactions with the ten largest customers. At balance sheet date there were no significant concentrations of credit risk on customer level nor geographically.

The Company realises approximately 28% (2010: 27%) of its sales in emerging economies where payment terms are generally longer than in Western Europe and availability of information on the financial history of customers is often limited, which makes it more difficult for us to accurately assess the associated credit risk.

Any credit losses we may suffer as a result of these risks or as a result of credit losses from any significant customer could adversely affect our business, results of operations and financial condition. Sales might be affected by fast changing economic, regulatory, social and political environments. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. At year end, the maximum credit risk exposure amounted to € 327.1 million (2010: € 322.4 million).

The Group has strict policies regarding credit and payment terms which are closely monitored at local and corporate level. Credit limits are established for most of the customers. These limits are periodically reviewed. Transactions with customers that fail to meet the Group's credit policy are intensively monitored. This risk assessment could result in a (temporary) situation that these customers may only transact with the Group on a prepayment basis. In the Netherlands, Belgium, Ireland, Poland and France our credit risks are partly insured. In France and Belgium we have a non-recourse factoring facility of € 25.0 million in total of which € 21.2 million was used as per December 2011.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main component of this allowance is a specific loss component that relates to individually significant exposures. In specific cases a collective loss component is established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on the historical data of payment statistics for similar financial assets. Trade receivables amounted to € 252.5 million in 2011 which is in line with last year despite higher sales to emerging markets where payment terms are longer than in mature markets.

Allowance for impairment

The credit risk from trade receivables is measured and analysed on a local level, mainly by aging analyses. Credit insurance covers are taken into account when establishing the allowance for impairment. The aging of the trade receivables and (the allocation of the) allowance for impairment at the reporting date were as follows:

(€ x 1,000)	2011		2010	
	GROSS	IMPAIRMENT	GROSS	IMPAIRMENT
Not past due	195,790	1,822	190,524	833
Past due 0 – 30 days	25,686	577	27,572	831
Past due 31 – 90 days	11,610	1,056	12,249	987
Past due 91 – 180 days	4,313	260	6,471	641
Past due 180 – 360 days	4,576	1,233	5,537	1,774
More than 1 year	10,564	7,417	9,959	7,562
Total trade receivables	252,539	12,365	252,312	12,628

The share of overdue trade receivables decreased compared to last year. At balance sheet date 22% of trade receivables was overdue against 24% last year. Impairment charges for doubtful debts amounted to € 3.0 million, € 0.3 million below last year.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

(€ x 1,000)	2011	2010
Balance at 1 January	12,628	11,234
Acquisitions/divestments	(254)	–
Charged to income statement	4,806	4,333
Released to income statement	(1,840)	(1,020)
Utilisation	(2,467)	(2,095)
Effect of movements in exchange rates	(508)	176
Book value at 31 December	12,365	12,628

Investments

The Group limits its exposure to credit risk by only investing in liquid securities. Transactions involving derivative financial instruments are with counterparties that have high credit ratings (minimum at investment grade) and with whom we have a signed netting agreement. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Liquidity risks

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Cash flow generation and sufficient access to capital markets is secured to finance long term growth, capital expenditures, seasonal working capital requirements, expected operational expenses and to service financial obligations. The Company is largely financed through a € 475 million forward start facility which started in October 2011 with a maturity date of April 2013. The facilities consist of a term loan and revolving facilities. This facility has been extended and amended in January 2012. The amended syndicated facility amounts to € 440 million and will mature in April 2015. The amended and extended facility provides Wavin with sufficient headroom and flexibility to respond to uncertain market conditions and offers a solid base to execute the Wavin 2015 strategic program (for further details we refer to note 38). Wavin expects even in continuing challenging trading conditions to be compliant with the covenants. In case Wavin cannot meet the target ratio's defined for the leverage ratio and interest coverage ratio the facility might, if so requested by the majority of the lenders, be cancelled at once and borrowings under the facility may become due and payable immediately. The covenant calculations per year end and per half year are assessed by our external auditor. Per year end the external auditor used the audited figures as basis for their assessment.

In addition to the Forward Start Facility, Wavin has several committed and uncommitted facilities available.

Financing strategies are regularly reviewed to secure sufficient access to capital markets and optimise costs of borrowings. The Group uses a system of cash flow forecasting per operating company in assessing cash flow requirements. A notional cash pool system for financing and netting daily operational activities of local companies is in place to secure effective and efficient allocation of financial resources.

The exposure of the financial liabilities is limited by the availability of the financial assets of the Group for an amount of € 76.6 million (2010: € 55.7 million) in cash and cash equivalents.

Currency risks

Wavin operates in different countries and uses the Euro as its reporting currency. Revenues and expenses are translated to Euro at the average exchange rate for the applicable period for inclusion in the consolidated financial statements. The business generates substantial revenues, expenses and liabilities in jurisdictions outside the Euro zone. In 2011, approximately 60% (2010: 59%) of revenue was denominated in currencies other than the Euro. Consequently the translation risk of non-Euro results to the Euro is the most significant currency risk. Currency fluctuations of especially the Pound Sterling, the Polish Zloty, the Hungarian Forint, the Turkish Lira, the Norwegian and Swedish Krone, the Czech Koruna and the US Dollar could materially affect the consolidated Group results. Translation risks of non-Euro equity positions in the Group are not hedged but the translation risk is minimised to the extent possible by using natural hedges. The translation risk of strategically held minority participations is not hedged. In respect of other minority participations and other monetary assets and liabilities held in currencies other than the Euro, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at forward or spot rates where necessary to address short term imbalances.

Wavin companies are exposed to foreign currency transactional risks on revenues, expenses and borrowings that are denominated in a currency other than the respective functional currencies of Wavin entities. The purpose of Wavin's foreign currency hedging activities is to protect the Company from the short term risk that net cash flows resulting from trading transactions are adversely affected by changes in exchange rates. Wavin has defined clear treasury policies regarding foreign exchange exposures. It is policy that material imbalances are identified and may be hedged in order to minimise potential volatility in results which could arise as a result of currency fluctuations.

The Group uses forward exchange contracts and currency swaps to hedge forecasted cash flow transactions. In 2011 forward exchange contracts and currency swaps were used to hedge a.o. cash flows in Euro countries which have Pound Sterling, Polish Zloty, Danish Krone, Norwegian Krone, Swedish Krone, Czech Koruna and Turkish Lira as functional currency and cash flows in US Dollar in countries which use the Turkish Lira as functional currency. Over the longer term permanent changes in foreign exchange rates might have an impact on profit. The appreciation of most currencies against the Euro resulted in a transactional foreign exchange profit of € 0.4 million (2010: € 1.0 million loss).

Exposure to currency risk

The Group's exposure to foreign currency transaction risk per 31 December based on the notional amounts was:

(€ x 1,000)								2011
	EUR	GBP	PLN	DKK	NOK	CZK	TRY	USD
Other non-current investments	232	–	–	–	–	–	–	–
Trade and other receivables	23,682	1,601	26	522	54	203	–	6,504
Cash and cash equivalents	16,126	355	23	–	1	–	–	3,286
Bank loans	(2,289)	–	–	–	–	–	–	–
Trade and other payables	(58,616)	(1,127)	(123)	(633)	(20)	(194)	(38)	(11,557)
Bank overdrafts	(1,797)	(279)	(537)	(462)	(364)	(453)	(147)	–
Total	(22,662)	550	(611)	(573)	(329)	(444)	(185)	(1,767)

(€ x 1,000)								2010
	EUR	GBP	PLN	DKK	NOK	CZK	TRY	USD
Other non-current investments	432	–	–	–	–	–	–	–
Trade and other receivables	23,377	1,414	123	(133)	25	(278)	2,034	8,643
Cash and cash equivalents	9,156	376	(4)	482	275	117	–	2,898
Bank loans	(2,800)	–	–	–	–	–	–	–
Trade and other payables	(53,705)	915	37	808	(38)	(32)	–	(9,196)
Bank overdrafts	5,863	(577)	–	–	–	–	–	(3,742)
Total	(17,677)	2,128	156	1,157	262	(193)	2,034	(1,397)

The principal exchange rates against the Euro used in preparing the balance sheet and the income statement are set out in note 3(c).

The Company amongst others, partly hedges the Euro exposure of non-Euro countries. Ultimo 2011 the Euro exposure hedged amounted to € 36.4 million (2010: € 37.5 million). This hedge is not included in the schedule above.

Sensitivity analysis

A strengthening or weakening of the Euro against the principal currencies at 31 December 2011 would have had an impact on equity and the income statement. Based on the foreign currency exposure ultimo year the impact of 5% strengthening of the local functional currencies against Euro and the other principle currencies would result in the amounts shown below, independently defined for each currency. This analysis assumes that all other variables, in particular interest rates, remain unchanged. The analysis is performed on the same basis for 2010.

(€ x 1,000)		2011	2010
		PROFIT OR LOSS/EQUITY	PROFIT OR LOSS/EQUITY
Euro		1,133	884
Pound Sterling		(28)	(106)
Polish Zloty		31	(8)
Danish Krone		29	(58)
Norwegian Krone		16	(13)
Czech Koruna		22	10
Turkish Lira		9	(102)
US Dollar		88	70

A 5% weakening of the local functional currencies against Euro and the other principle currencies at 31 December would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain unchanged. The sensitivity analysis excludes loans in foreign currencies which are transferred in full to group companies for which the related foreign currency of the loan is the functional currency of the group company concerned. The effect of the Euro exposure hedges in non-Euro countries is not included in the analyses above.

Interest rate risk

It is Wavin's policy to limit exposure to interest rate risks, to ensure financing costs are limited and to maintain interest coverage ratios in line with covenants. The Group's Treasury Committee is responsible for managing interest rate risks within the framework specified by the corporate financing policy.

The Group's credit facility has an interest rate based on variable inter-bank offered rates. To limit the exposure to a rise in interest rates, the Group has entered into interest rate swaps, which converts the variable rates into fixed rates. At 31 December 2011, the Group had effective interest rate swaps outstanding with a total notional amount of € 160 million (2010: € 259.8 million). Until April 2013 the variable interest exposure on € 160 million is hedged at an average interest rate of 3.8% (2010: 3.9%). Furthermore, the Group has entered into forward starting interest rate swaps for the period April 2013 – October 2015 with a total notional amount of € 98.9 million (of which € 23.9 million is denominated in Pound Sterling) at an average interest rate of 3.6% (2010: 3.7%). The Group also had interest rate swaps with a fair value of € 1.4 million outstanding per 31 December 2010 for which no hedge relation existed anymore. In 2011 these swaps were settled. Therefore the Group's sensitivity to interest rate movements is limited. The fair value of the financial instruments per 31 December 2011 amounts to a € 11.7 million liability (2010: € 13.9 million liability), which fully relates to effective hedges.

The average payable fixed interest rate under the interest rate swaps of 3.8% excludes the margin payable under the facility agreement. The applicable margin is based on the leverage ratio. The margin is restated on a quarterly basis, following the covenant reporting to the banking syndicate. The average margin for 2011 was 2.5% (2010: 3.3%).

Debt profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

(€ x 1,000)	2011	FACE VALUE 2010
Fixed rate instruments		
Financial liabilities	(160,000)	(259,780)
Total	(160,000)	(259,780)
Variable rate instruments		
Financial assets	76,633	55,748
Financial liabilities	(151,611)	(63,836)
Total	(74,978)	(8,088)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would in principle not affect profit or loss. The instruments that had become ineffective due to the refinancing in 2009 have been settled in 2011.

It is estimated that a change of 100 basis points in interest rates would have increased or decreased equity by € 3.5 million (2010: € 7.2 million) due to changes in the fair value of interest rate swaps and net profit by nil (2010: € 0.5 million) as in 2011 all interest rate swaps qualify as effective hedges.

Sensitivity analysis for variable rate instruments

As 54.3% of the Group's debt has been hedged (2010: 85.4%) it is estimated that a general increase in interest rates of 1.0% would have an impact of € 1.0 million on the Group's profit before tax (2010: limited).

This analysis assumes that all other variables, in particular foreign currency rates, remain unchanged. The analysis for 2011 is performed on the same basis as for 2010.

Fair values

The fair value of assets and liabilities has been determined either by reference to the market value at the balance sheet date or by discounting the relevant cash flows using current interest rates for similar instruments. For interest rate swaps the market to market value is based on the last applicable floating rate of 2011. Receivables and payables with a remaining life of less than one year are valued at the notional amount, which is deemed to reflect the fair value. All non-current interest-bearing loans have variable interest rates. All non-current interest-bearing loans are valued at amortised cost.

The fair value of financial assets and liabilities per 31 December 2011 is equal to the carrying amounts shown in the balance sheet except for the Forward Start Facility of which the fair value is € 7.1 million above the carrying amount, representing the capitalised fee costs.

5. Segment reporting

Based on the Group's management and internal reporting structure the Group defined five geographic segments. The geographic segments are based on the location of the customers. For each of these segments the Group's Management Board reviews internal management reports on a monthly basis.

The Group acknowledges the following geographic segments:

- North West Europe (The Netherlands, Germany, Belgium, Denmark, Norway, Sweden, Finland);
- South West Europe (UK, Ireland, France);
- Central & Eastern Europe (Poland, Czechia, Russia, Slovakia, Ukraine, Lithuania, Estonia, Latvia, Belarus);
- South East Europe (Italy, Turkey, Hungary, Romania, Serbia, Croatia);
- Overseas and Other (Wavin Overseas, Wavin T&I, Wavin Head Office and several small holding companies).

Performance is measured mainly on segment Ebitda (operating profit before depreciation, amortisation and non-recurring items), as included in the internal management reports. Ebitda is used to measure performance as management believes that such information is the most relevant in evaluating the performance of certain segments relative to other entities that operate within the industry.

Inter-segment pricing is determined at an arm's length basis. Segment results, assets and liabilities include items directly attributable to the region as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant & equipment, and intangible assets other than assets acquired through business combinations, like goodwill and brand names.

The income statement and balance sheet segmentation of the regional segmentation is as follows:

Geographic segmentation income statement

(€ x 1,000)	NOTE	NORTH WEST EUROPE	SOUTH WEST EUROPE	CENTRAL & EASTERN EUROPE	SOUTH EAST EUROPE	OVERSEAS AND OTHER	CONSOLI- DATED
2011							
Total external revenue	8	489,010	355,978	226,854	196,810	58,408	1,327,060
Result from operating activities		19,498	(11,248)	18,797	3,416	5,071	35,534
Non-recurring operational results	14	26	(63)	(580)	(1,223)	(3,927)	(5,767)
Recurring result from operating activities		19,472	(11,185)	19,377	4,639	8,998	41,301
Depreciation and amortisation (recurring)	17,18	17,373	16,883	9,719	5,475	7,274	56,724
Ebitda		36,845	5,698	29,096	10,114	16,272	98,025
2010							
Total external revenue	8	405,820	370,130	198,985	197,806	58,511	1,231,252
Result from operating activities		11,654	5,471	17,217	2,464	1,137	37,943
Non-recurring operational results	14	(1,468)	(2,411)	(213)	(708)	(1,580)	(6,380)
Recurring result from operating activities		13,122	7,882	17,430	3,172	2,717	44,323
Depreciation and amortisation (recurring)	17,18	17,563	17,847	11,339	5,807	7,209	59,765
Ebitda		30,685	25,729	28,769	8,979	9,926	104,088

Geographic segmentation balance sheet and other key figures

(€ x 1,000)	NOTE	NORTH WEST EUROPE	SOUTH WEST EUROPE	CENTRAL & EASTERN EUROPE	SOUTH EAST EUROPE	OVERSEAS AND OTHER*	ELIMINATION**	CONSOLI- DATED
2011								
Segment assets		301,865	407,315	187,555	154,305	841,227	(566,643)	1,325,624
Investment in associates	19	25	1	–	–	21,557	–	21,583
Total assets		301,890	407,316	187,555	154,305	862,784	(566,643)	1,347,207
Total liabilities		194,977	320,654	132,685	82,470	282,988	(247,482)	766,292
Acquired through business combinations		5,254	–	–	–	–	–	5,254
Capital expenditure	17,18	14,707	17,300	8,715	5,372	6,309	–	52,403
Number of employees per year end (x1)	12	1,770	1,795	1,343	774	259	–	5,941
2010								
Segment assets		292,352	408,981	193,498	166,773	765,118	(486,900)	1,339,822
Investment in associates	19	56	–	–	–	21,016	–	21,072
Total assets		292,408	408,981	193,498	166,773	786,134	(486,900)	1,360,894
Total liabilities		210,644	301,172	153,120	83,534	207,056	(173,578)	781,948
Acquired through business combinations		–	–	60	–	–	–	60
Capital expenditure	17,18	13,868	15,975	5,663	3,498	4,676	–	43,680
Number of employees per year end (x1)	12	1,772	1,941	1,328	768	280	–	6,089

* The goodwill related to the acquisition of the shares Beheermaatschappij Wavin B.V. in 2005 is included in this segment.

For the allocation of this goodwill to each region we refer to note 18.

** Intercompany positions within the region have been eliminated.

Business segmentation

The Management Board also monitors the sales performance of the identified business segments. The Group comprises seven segments, which are divided in two specific sectors.

Above Ground: This sector includes above ground plastic pipe and fitting systems for surface heating and cooling, hot and cold tap water, soil and waste discharge and electrical conduit applications.

Below Ground: This sector includes below ground pipe systems for rain and storm water management and foul water discharge as well as systems for cable ducting and water and gas distribution.

(€ x 1,000)	2011	REVENUE 2010
Hot & Cold	275,826	272,049
Soil & Waste	170,081	159,820
Other Building Systems	45,186	49,380
Above Ground	491,093	481,249
Foul Water Systems	420,021	372,804
Water Management	147,168	142,115
Cable Ducting	60,407	53,263
Water & Gas	180,838	156,223
Below Ground	808,434	724,405
Unallocated	27,533	25,598
Total revenue	1,327,060	1,231,252

The unallocated revenue includes amongst others, the sale of raw materials and services rendered.

6. Assets held-for-sale

The assets and liabilities per 31 December classified as held-for-sale can be specified as follows:

(€ x 1,000)	2011	2010
Property, plant & equipment	2,178	314
Intangible assets	163	—
Inventories	547	—
Total assets	2,888	314
Deferred tax liabilities	234	—
Trade and other payables	68	—
Total liabilities	302	—

The assets classified as held-for-sale per 31 December 2010 have not been sold. Based on current views following the economic situation these assets have been impaired to scrap value.

The assets classified as held-for-sale per 31 December 2011 include our remaining activities in Sully sur Loire in France which have been sold to RYB S.A. early 2012. In addition a former production facility of Euroceramic in the Netherlands which was not included in the sale of our clay activities on the European continent (see note 7) has been classified as held-for-sale in 2011. A portion of this land has been sold early 2012 at a price above the book value. The sale of the remaining plot of land is in process. However due to the current economic situation it might take more than a year to sell this asset. It is expected that all assets held-for-sale will be sold at a selling price above the current book value.

7. Acquisitions and divestments of subsidiaries

Acquisitions

On the 1st of January 2011 the acquired assets from KWH Pipe Sverige AG (KWH), relating to the PE Water business for below ground applications, were transferred. The purchase price of these assets was satisfied in cash.

This acquisition was deemed immaterial in respect of IFRS 3 disclosure requirements. This acquisition contributed € 14.2 million to revenue. The purchase price allocation resulted in a negative goodwill of € 1.0 million which has been included in the income statement as non-recurring income (see note 14).

Fair value adjustments according to IFRS 3

In 2011 no adjustments to the provisional accounting in 2010 were made.

Divestments

In 2011 two subsidiaries were divested in line with the 'Wavin 2015 strategy' to reduce complexity and to focus on leading local positions in plastic pipe systems and solutions. The assets of these subsidiaries were not classified as held-for-sale at 31 December 2010.

In July 2011 the Group sold its clay activities on the European Continent (Euroceramic) to Steinzeug GmbH.

This divestment resulted in a profit before tax of € 2.2 million. The contribution of these activities in 2011 and 2010 can be specified as follows:

(€ x 1,000)	2011	2010
Revenue	11,926	10,870
Expenses	(13,015)	(10,915)
Result from operating activities	(1,089)	(45)
Net finance income	(77)	46
Income tax expense	23	(173)
Net profit from operating activities	(1,143)	(172)
Result on divestment	2,239	–
Profit for the period	1,096	(172)

As per 30 June Wavin sold Kulker SAS, a local subsidiary of Wavin France, to RYB S.A. This divestment resulted in a loss before tax of € 0.2 million. The contribution of these activities in 2011 and 2010 can be specified as follows:

(€ x 1,000)	2011	2010
Revenue	8,715	7,064
Expenses	(8,037)	(6,667)
Result from operating activities	678	397
Net finance income	11	6
Income tax expense	(229)	(134)
Net profit from operating activities	460	269
Result on divestment	(193)	–
Profit for the period	267	269

In 2011 these activities generated a cash outflow from operating activities of € 0.7 million compared to a cash inflow in 2010 of € 1.3 million.

As none of the divested activities represents a major line of business within the Group we have not classified the divestments as discontinued operations and have therefore not adjusted the comparative figures.

Effect of divestment on the financial position of the Group

The effect of the divestment of clay activities on the European Continent and Kulker SAS on the financial position of the Group can be specified as follows:

(€ x 1,000)	2011
Property, plant & equipment	8,019
Intangible assets	104
Other non-current assets	24
Inventories	6,646
Trade and other receivables	8,171
Cash and cash equivalents	499
Total assets	23,463
Employee benefits	1,038
Provisions	27
Deferred tax liabilities	1,342
Trade and other payables	6,622
Total liabilities	9,029
Net assets	14,434

8. Revenue

(€ x 1,000)	2011	2010
Sale of goods	1,318,111	1,219,987
Other revenues	8,949	11,265
Total revenue	1,327,060	1,231,252

Other revenues are mainly related to services rendered, the rental of properties and royalty income for our products and technologies.

Of the total revenue € 122.1 million was realised in the Netherlands and € 1.2 billion was realised outside the Netherlands (2010: € 116.1 million respectively € 1.1 billion).

9. Other operating income

(€ x 1,000)	2011	2010
Gain on sale of land and buildings	1,030	1,194
Gain on disposal of other tangible fixed assets	143	276
Capitalised withholding tax	2,206	–
Negative goodwill on acquisitions	986	–
Other rental and service income	430	492
Other income	3,753	2,595
Total	8,548	4,557

Gain on sale of land and buildings of € 1.0 million relates to the profit realised with the sale of property in the UK and France. The negative goodwill relates to the acquisition of the KWH activities and is the result of the purchase price allocation (see note 7).

As in the foreseeable future the Dutch companies are expected to come into an income tax paying position, an amount of € 2.2 million of foreign withholding taxes which was withheld in previous years has been capitalised. In addition the Dutch companies received a social security premium refund related to previous years, which is included in other income.

10. Other operating expenses

(€ x 1,000)	2011	2010
Loss on disposal of other tangible fixed assets	(273)	(815)
Amortisation of assets acquired through business combinations	(4,637)	(6,250)
Taxes, other than income tax	(3,254)	(2,702)
Impairment goodwill	(731)	(46)
Other expenses	(2,652)	(2,390)
Total	(11,547)	(12,203)

Expenses related to the amortisation of assets acquired through business combinations represent the amortisation of acquired intangible assets such as order portfolios, customer contracts, customer relations and distribution networks. These expenses decreased compared to last year as some identified intangible assets related to a.o. the acquisition of Hepworth in 2005 were fully written off in the course of 2010 and 2011. For further details see note 18 of the Group Financial Statements.

Taxes, other than income tax, amongst others relate to real estate tax. The impairment of goodwill relates to a foreseen capital increase in our subsidiary in Spain following our obligation to acquire the third party share in order to finalize the liquidation process.

11. Personnel expenses

(€ x 1,000)	NOTE	2011	2010
Salaries and wages		(204,609)	(210,128)
Social security contributions		(34,074)	(34,478)
Contributions to defined contribution plans		(1,864)	(2,992)
Expenses related to defined benefit plans	27	(11,480)	(12,631)
Other personnel expenses		(12,358)	(9,861)
Total recurring personnel expenses		(264,385)	(270,090)
Expenses share appreciation rights / LTIP	28	(252)	(182)
Total		(264,637)	(270,272)

Following restructuring measures taken in recent years salary costs decreased. Other personnel expenses increased due to the increased number of agencies throughout the year.

Total average full time equivalents increased in 2011 by 21 to 6,623 (see note 12).

12. Personnel employed

The total average full time equivalent (FTE) of employees and the number of employees are as follows:

	2011	2010
Average full time equivalents	6,623	6,602
Number of employees at 31 December	5,941	6,089

Of the average number of FTEs, 766 are based in the Netherlands and 5,857 FTEs are based outside the Netherlands (2010: 816 FTEs and 5,786 FTEs respectively).

The divestment of subsidiaries and restructuring measures resulted in a decrease of staff which was offset by a higher number of agencies in some other countries due to increasing sales and production activities. On a like for like basis average FTE amounted to 6,593, a decrease of 9 FTEs.

13. Finance income and expense

Recognised in the income statement

(€ x 1,000)	2011	2010
Interest income on bank deposits	1,908	395
Fair value revaluation gains	1,420	1,330
Total finance income	3,328	1,725
Interest expense	(31,142)	(34,843)
Exchange rate differences	(419)	(1,021)
Total finance expense	(31,561)	(35,864)
Total net finance costs recognised in profit or loss	(28,233)	(34,139)

Net financing costs were € 28.2 million compared to € 34.1 million last year following the reduced margins under the syndicated finance facility and a lower average net debt position during the year.

As a result of the recapitalisation in 2009 the level of outstanding interest instruments exceeded the drawings under the Amended Credit Facility and became ineffective. As a consequence the change in fair value of these instruments is recorded through the income statement instead of equity. In 2011 these swaps have been settled.

Recognised in other comprehensive income

(€ x 1,000)	2011	2010
Fair value changes financial instruments	584	2,014
Income tax on finance income (expense) recognised in other comprehensive income	(111)	(485)
Total net finance costs recognised in comprehensive income	473	1,529

The decrease of fair value changes of financial instruments is due to the expiration of interest instruments with a notional amount of € 99.8 million. This effect is largely off-set by an increase in the fair value of the present interest instrument portfolio as a result of decreasing interest rates per 31 December 2011.

14. Non-recurring income and expense

Non-recurring income and non-recurring expenses in 2011 can be specified as follows:

(€ x 1,000)	NOTE	2011	2010
Restructuring costs	29	(4,725)	(6,814)
Profit on sale of property, plant & equipment	9	1,030	860
Negative goodwill on acquisitions	7	986	–
Acquisition costs		–	(221)
Other	28	(3,058)	(205)
Total non-recurring results from operating activities		(5,767)	6,380
Profit on sale of subsidiaries		2,046	–
Tax rate adjustments	15	2,699	1,244
Non-recurring tax benefits		8,315	3,372
Total non-recurring income tax		11,014	4,616
Total		7,293	(1,764)

Restructuring costs in 2011 relate to announced restructurings mainly in the North West Europe and South East Europe regions and the closure of our activities in Spain. The profit on sale of land and buildings relates to the profit realised with the sale of property in the UK and France. The negative goodwill relates to the acquisition of the KWH activities and is the result of the purchase price allocation (for further details we refer to note 7). Other non-recurring expenses include impairment charges on land which is partly classified as held-for-sale and expenses for external support related to the unsolicited conditional offer received from Mexichem S.A.B. de C.V.

Non-recurring tax benefits include the release of a tax provision for capital gain tax of € 6.8 million related to the sale of associates in 2006. The income included on the line tax rate adjustments reflects mainly the effect on the deferred tax liabilities following the reduction of the corporate income tax rate in the UK from 28% to 25%.

15. Income tax expense

Recognised in the income statement

(€ x 1,000)	2011	2010
Current year	(5,203)	(5,451)
Utilisation of / (addition to) not capitalised compensable losses	(334)	(794)
Adjustments for prior years	(696)	1,756
Current tax income (expense)	(6,233)	(4,489)
Release capital gain tax	6,812	–
Identified tax exposures	(2,346)	–
Tax provision	4,466	–
Origination and reversal of temporary differences	2,657	853
Changes in tax rate	2,699	1,244
Benefit from tax losses recognised	2,652	3,492
Deferred tax income (expense)	8,008	5,589
Total income tax recognised in the income statement	6,241	1,100

Total income tax recognised in the income statement was positively affected by significant one-off tax benefits for a total amount of € 7.2 million, including the release of a provision for capital gain taxes for an amount of € 6.8 million related to the profit realised on the sale of associates in 2006. The change of the corporate income tax rate, a.o. in the UK from 28% to 25% resulted in a release of the deferred tax liabilities with € 2.7 million. These benefits offset an addition to the tax provision for identified tax exposures in the Group for an amount of € 2.3 million.

In addition losses incurred in some emerging markets for which no tax recovery was taken into account were partly compensated by the utilisation of some non-capitalised tax losses carried forward.

Recognised in other comprehensive income

(€ x 1,000)

	2011			2010		
	BEFORE TAX	TAX (EXPENSE) BENEFIT	NET OF TAX	BEFORE TAX	TAX (EXPENSE) BENEFIT	NET OF TAX
Exchange differences on translating foreign operations	(15,192)	–	(15,192)	12,231	–	12,231
Fair value changes financial instruments	584	(111)	473	2,014	(485)	1,529
Total	(14,608)	(111)	(14,719)	14,245	(485)	13,760

Reconciliation of effective tax rate

	%	2011	%	2010
		€ x 1,000		€ x 1,000
Profit before tax		11,786		6,000
Profit on sale of subsidiaries		(2,046)		–
Share of profit of associates		(2,439)		(2,196)
Adjusted profit before tax		7,301		3,804
Income tax using the Dutch tax rate	25.0%	(1,825)	25.5%	(970)
Effect of taxes in foreign jurisdictions	(12.4%)	907	(8.6%)	326
Non-taxable income / (non-deductible expenses)	2.2%	(163)	(16.2%)	617
Movements in tax provisions through the income statement	(61.2%)	4,466	0.0%	–
Tax rate adjustments	(37.0%)	2,699	(32.7%)	1,244
Utilisation of / (addition to) not capitalised compensable losses	4.6%	(334)	20.9%	(794)
Recognition of previously not recognised tax losses	0.0%	–	(2.9%)	112
Other effects	(6.7%)	491	(14.9%)	565
Total	(85.5%)	6,241	(28.9%)	1,100

Non-taxable income includes losses related to the closure of foreign operations.

16. Earnings per share

Basic earnings per share

The basic earnings per share and diluted earnings per share are based on the profit attributable to ordinary shareholders of € 17.1 million (2010: € 5.8 million) and the average number of outstanding shares in 2011 of 50,628,686 (2010: 50,690,035) respectively the diluted average number of outstanding shares in 2011 of 50,841,924 (2010: 50,815,227). The number of ordinary shares outstanding per 31 December 2011 is 50,579,009 (2010: 50,668,360).

The earnings per share are as follows:

(€ x 1 unless otherwise stated)	2011	2010
Net profit attributable to ordinary shareholders (€ x 1,000)	17,133	5,825
Recurring net profit attributable to ordinary shareholders (€ x 1,000)	9,596	7,564
Basic earnings per share (weighted average)	0.34	0.11
Diluted earnings per share (weighted average)	0.34	0.11
Basic recurring earnings per share (weighted average)	0.19	0.15
Diluted recurring earnings per share (weighted average)	0.19	0.15
Basic earnings per share (year end)	0.34	0.11
Diluted earnings per share (year end)	0.34	0.11
Basic recurring earnings per share (year end)	0.19	0.15
Diluted recurring earnings per share (year end)	0.19	0.15

Outstanding number of shares

The change in outstanding number of shares can be specified as follows:

(shares x 1)	2011	2010
Issued ordinary shares at 1 January	50,782,132	50,782,132
Treasury shares at 1 January	(113,772)	(70,744)
Outstanding ordinary shares at 1 January	50,668,360	50,711,388
Effect of shares issued	46,649	31,972
Effect of shares purchased	(136,000)	(75,000)
Outstanding ordinary shares at period end	50,579,009	50,668,360
Treasury shares at 31 December	203,123	113,772
Issued shares at 31 December	50,782,132	50,782,132
Outstanding ordinary shares at reporting date (diluted)	50,812,605	50,813,405
Issued ordinary shares at reporting date (diluted)	51,015,728	50,927,177

Weighted average number of shares

(shares x 1)	2011	2010
Weighted average number of outstanding ordinary shares at period end	50,628,686	50,690,035
Weighted average number of outstanding ordinary shares at period end (diluted)	50,841,924	50,815,227

The dilution of ordinary shares of 213,238 shares (2010: 125,192 shares) relates to the granted matching shares and performance options as part of the Long Term Incentive Plan (see note 28). As the granted options for 2008 and 2009 are not expected to meet the vesting conditions no dilution is taken into account with respect to these options.

17. Property, plant & equipment

(€ x 1,000)	NOTE	LAND AND BUILDINGS	MACHINERY AND EQUIPMENT	OTHER ASSETS	UNDER CONSTRUCTION	TOTAL
Cost						
Balance at 1 January 2010		279,898	717,995	74,198	10,839	1,082,930
Investments		3,714	22,021	1,870	8,964	36,569
Transfer to assets classified as held-for-sale	6	509	18	205	–	732
Disposals and divestments		(1,785)	(11,185)	(2,545)	–	(15,515)
Effect of movements in exchange rates		4,136	11,812	752	210	16,910
Balance at 31 December 2010		286,472	740,661	74,480	20,013	1,121,626
Balance at 1 January 2011		286,472	740,661	74,480	20,013	1,121,626
Acquisitions through business combinations	7	3,256	1,643	152	–	5,051
Investments		6,057	33,149	2,731	(750)	41,187
Transfer to assets classified as held-for-sale	6	(2,239)	(7,926)	(137)	–	(10,302)
Divestments		(7,248)	(8,968)	(391)	(685)	(17,292)
Disposals		(3,191)	(7,741)	(1,995)	–	(12,927)
Effect of movements in exchange rates		(3,532)	(7,762)	(695)	(311)	(12,300)
Balance at 31 December 2011		279,575	743,056	74,145	18,267	1,115,043
Depreciation						
Balance at 1 January 2010		(125,164)	(543,588)	(64,395)	–	(733,147)
Depreciation charge for the year		(8,868)	(34,447)	(3,825)	–	(47,140)
Transfer to assets classified as held-for-sale	6	(458)	(48)	(196)	–	(702)
Disposals and divestments		1,145	10,326	2,511	–	13,982
Effect of movements in exchange rates		(1,340)	(8,369)	(643)	–	(10,352)
Balance at 31 December 2010		(134,685)	(576,126)	(66,548)	–	(777,359)
Balance at 1 January 2011		(134,685)	(576,126)	(66,548)	–	(777,359)
Depreciation charge for the year		(8,109)	(33,929)	(3,010)	–	(45,048)
Transfer to assets classified as held-for-sale	6	982	7,285	122	–	8,389
Impairment losses	14	(1,400)	–	–	–	(1,400)
Divestments		1,098	7,925	358	–	9,381
Disposals		2,891	7,604	1,983	–	12,478
Effect of movements in exchange rates		774	3,815	472	–	5,061
Balance at 31 December 2011		(138,449)	(583,426)	(66,623)	–	(788,498)
Carrying amounts						
At 1 January 2010		154,734	174,407	9,803	10,839	349,783
At 31 December 2010		151,787	164,535	7,932	20,013	344,267
At 1 January 2011		151,787	164,535	7,932	20,013	344,267
At 31 December 2011		141,126	159,630	7,522	18,267	326,545

Depreciation charge

The depreciation charge is recognised in the following line items in the income statement:

(€ x 1,000)	2011	2010
Cost of sales	(36,273)	(37,476)
Research & development expenses	(240)	(211)
Administrative expenses	(7,506)	(9,379)
Other operating expenses	(1,029)	(74)
Total depreciation	(45,048)	(47,140)
Recurring	(44,909)	(47,034)
Non-recurring	(139)	(106)

Impairment losses

The impairment losses of € 1.4 million relate to land which is partly classified as held-for-sale.

Acquisitions through business combinations

Acquisitions through business combinations in 2011 reflect the acquisition of the assets from KWH Pipe Sverige AG relating to the PE Water business for below ground applications (see note 7).

Divestments

Disposals and divestments include the sale of clay activities on the European Continent (Euroceramic) and Kulker SAS, a local subsidiary of Wavin France (see note 7).

Leased plant and machinery

The Group has no material financial lease agreements.

Security

At 31 December 2011 properties with a carrying amount of € 22.9 million (2010: € 30.9 million) were subject to a registered debenture to secure bank loans (see note 26).

Assets under construction

Assets under construction of € 18.3 million (2010: € 20.0 million) are mainly related to investments in production equipment and installations.

Capitalised borrowing costs

Like in 2010 no borrowing costs were capitalised as the assets under construction per 31 December 2011 and investments in 2011 did not classify as qualifying assets.

18. Intangible assets

(€ x 1,000)	NOTE	GOODWILL	BRAND NAMES	CUSTOMER RELATIONS AND OTHER IFRS 3 ASSETS	OTHER INTANGIBLE ASSETS	TOTAL
Cost						
Balance at 1 January 2010		156,117	220,636	121,293	72,470	570,516
Acquisitions through business combinations	7	–	–	60	–	60
Additions		–	–	–	3,173	3,173
Internally developed assets		–	–	–	3,938	3,938
Disposals and divestments		–	–	(696)	(323)	(1,019)
Effect of movements in exchange rates		3,677	3,446	1,718	399	9,240
Balance at 31 December 2010		159,794	224,082	122,375	79,657	585,908
Balance at 1 January 2011		159,794	224,082	122,375	79,657	585,908
Acquisitions through business combinations	7	–	–	226	–	226
Additions		731	–	–	7,314	8,045
Internally developed assets		–	–	–	3,171	3,171
Transfer to assets classified as held-for-sale	6	(163)	–	–	–	(163)
Divestments		(104)	–	–	(85)	(189)
Disposals		–	–	–	(668)	(668)
Effect of movements in exchange rates		(2,098)	(377)	116	(358)	(2,717)
Balance at 31 December 2011		158,160	223,705	122,717	89,031	593,613
Amortisation						
Balance at 1 January 2010		(4,414)	–	(35,936)	(45,005)	(85,355)
Amortisation charge for the year		–	–	(6,298)	(6,542)	(12,840)
Impairment goodwill		(46)	–	–	–	(46)
Disposals and divestments		–	–	696	323	1,019
Effect of movements in exchange rates		(76)	–	(196)	(285)	(557)
Balance at 31 December 2010		(4,536)	–	(41,734)	(51,509)	(97,779)
Balance at 1 January 2011		(4,536)	–	(41,734)	(51,509)	(97,779)
Amortisation charge for the year		–	–	(4,637)	(7,178)	(11,815)
Impairment goodwill	7	(731)	–	–	–	(731)
Divestments		–	–	–	85	85
Disposals		–	–	–	668	668
Effect of movements in exchange rates		(79)	–	(207)	479	193
Balance at 31 December 2011		(5,346)	–	(46,578)	(57,455)	(109,379)
Carrying amounts						
At 1 January 2010		151,703	220,636	85,357	27,465	485,161
At 31 December 2010		155,258	224,082	80,641	28,148	488,129
At 1 January 2011		155,258	224,082	80,641	28,148	488,129
At 31 December 2011		152,814	223,705	76,139	31,576	484,234

Acquisitions through business combinations

Acquisitions through business combinations in 2011 reflect the acquisition of the assets from KWH Pipe Sverige AG relating to the PE Water business for below ground applications (see note 7). The 2010 figure reflects the establishment of a sales organisation in the Czech Republic with Gebr. Ostendorf – OSMA zpracování plastu.

Divestments

Disposals and divestments include the sale of clay activities on the European Continent (Euroceramic) and Kulker SAS, a local subsidiary of Wavin France (see note 7).

Impairment testing

Determination of value in use

Goodwill and other intangible assets with indefinite useful lives are tested for impairment per cash generating unit in the fourth quarter or whenever an impairment trigger exists.

In assessing whether non-current assets including goodwill and brand names have to be impaired, the carrying amount of each cash generating unit is compared to the recoverable amount of this cash generating unit. The five geographic segments are the main cash generating units and the recoverable amount of these cash generating units is based on value-in-use calculations. The operating plan for the coming year is the starting point for the projections for the determination of the value in use. These projections include forecasts for the growth of revenue, added value and direct and indirect costs and assumptions regarding developments in capital expenditure and investments in working capital. In our projections we assume that after the crisis the growth of our business will pick up again as the fundamentals for growth have not changed (more single unit housing, substitution of traditional materials, energy efficiency of buildings, more comfort, changed climate / rainfall, infiltration and attenuation needs, etc.). Yearly, Wavin invests considerably in product and process development which should drive sales growth (ambition is +2% on top of market growth), especially of the higher margin sub-segments water management (infiltration) and hot & cold (surface heating and cooling). In our forecasts, we assume sales will recover to pre-recession levels in a period of seven years and results in a period of ten years. The increase is supported by expected market recovery and the impact of efficiency improvement projects and certain cost reduction programmes that have been implemented in recent years.

We have extended our projections beyond five years as we expect further growth in the next five years to come to a steady state. Beyond the projection period of ten years, results are extrapolated using an assumed growth rate that does not exceed 2% in mature markets and 2.5% in the emerging markets.

In the projection period we have forecasted an annual revenue growth of the Group of 3 – 4% per year with different growth assumptions per cash generating unit. This growth in combination with a better use of the direct and indirect workforce and asset base results in improved EBITDA margins.

Projected cash flows are discounted using a specific discount rate per cash generating unit, taking country risk premiums into account. The pre-tax discount rates used range from 9.6% to 12.6% (2010: 8.8% to 11.9%). The average pre-tax discount rate for the Group was 10.7% (2010: 9.5%). The discount rate increased compared to last year despite a decrease of the risk-free interest rate. The current historical low risk free interest rate does not reflect a long term required return on investments. As a consequence we have decided to use a normalised risk free interest rate for cost of equity, which is above the current level.

Impairments

For 2011 the calculation of the value in use of the various cash generating units in comparison to the carrying amount resulted in no impairments.

Sensitivities

The determined values in use are sensitive to variations in estimates and assumptions. Therefore we have performed sensitivity analysis on the base case assumptions. We have concluded that a reduction of the base case added value margin with 200 basis points results in negative excess values for the South West Europe region of € 13.4 million and for the South East Europe region of € 3.0 million.

A 200 basis points higher pre-tax discount rate compared to the discount rate used in the base case will not lead to a materially different outcome of the impairment test although the headroom for some regions is limited.

As our model assumes a recovery of revenue to pre-crisis levels also sensitivity analysis have been executed on the revenue growth rates of the cash generating units.

The first sensitivity which includes a 25% lower growth rate of revenue in combination with a lower increase of direct as well as indirect costs for the projection period and a lower level of investments on net turnover (NTO) for the years 2017 and further, still results in positive excess values for the South West Europe region and the South East Europe region, being the regions with the least headroom, even if the residual cash flow growth would be reduced by 0.5% (sensitivity 2).

A 50% lower growth rate of revenue (sensitivity 3) in combination with a reduction of the residual growth rate (sensitivity 4) would result in the impairment charges as included in the tables underneath.

(€ × million, unless otherwise stated)

South West Europe

	2011-2021 NTO GROWTH*	RESIDUAL CASH FLOW GROWTH	EXCESS FAIR VALUE
Sensitivity 1: 25% lower growth rates of NTO in combination with lower growth of costs and investments compared to base case	3.2%	2.0%	57
Sensitivity 2: Sensitivity 1 with a reduction in the residual cash flow growth	3.2%	1.5%	35
Sensitivity 3: 50% lower growth rates of NTO in combination with lower growth of costs and investments compared to base case	2.2%	2.0%	(32)
Sensitivity 4: Sensitivity 3 with a reduction in the residual cash flow growth	2.2%	1.5%	(48)

* Compounded average growth rate.

(€ × million, unless otherwise stated)

South East Europe

	2011-2021 NTO GROWTH*	RESIDUAL CASH FLOW GROWTH	EXCESS FAIR VALUE
Sensitivity 1: 25% lower growth rates of NTO in combination with lower growth of costs and investments compared to base case	4.5%	2.5%	16
Sensitivity 2: Sensitivity 1 with a reduction in the residual cash flow growth	4.5%	2.0%	12
Sensitivity 3: 50% lower growth rates of NTO in combination with lower growth of costs and investments compared to base case	3.3%	2.5%	(13)
Sensitivity 4: Sensitivity 3 with a reduction in the residual cash flow growth	3.3%	2.0%	(16)

* Compounded average growth rate.

The North West Europe region as well as the Central Eastern Europe region have sufficient headroom available to cover revenue growth reduction of more than 50% in combination with a reduction of the residual growth rate with 0.5%.

Closure Spain

In 2011 the Group announced the closure of Spain and as a consequence has to acquire the third party share. The related goodwill of € 0.7 million has been impaired.

Amortisation charge

Intangible assets not being goodwill and brand names are amortised over the estimated economic lifetime. If an impairment indicator exists, an impairment test is performed. In cases where the book value of an asset exceeds the recoverable amount an impairment charge is recognised in the income statement. The amortisation charge is recognised in the following line items in the income statement:

(€ × 1,000)	2011	2010
Cost of sales	(180)	(175)
Research & development expenses	(1,853)	(1,524)
Administrative expenses	(5,145)	(4,891)
Other operating expenses	(4,637)	(6,250)
Total	(11,815)	(12,840)
Recurring	(11,815)	(12,731)
Non-recurring	–	(109)

Goodwill

The carrying amount of goodwill allocated to each CGU is as follows:

(€ x 1,000)	2011	2010
North West Europe	43,318	43,705
South West Europe	42,900	42,122
Central & Eastern Europe	51,046	53,819
South East Europe	12,412	12,668
Overseas and Other	3,138	2,944
Total	152,814	155,258

As a result of exchange rate devaluations especially of the Polish Zloty and Czech Koruna the carrying amount of goodwill decreased by € 2.2 million.

Brand names

The carrying amount of brand names can be specified as follows:

(€ x 1,000)	2011	2010
North West Europe	60,987	60,911
South West Europe	113,640	111,574
South East Europe	20,738	21,528
Central & Eastern Europe	24,631	26,360
Overseas and Other	3,709	3,709
Total	223,705	224,082

As a result of exchange rate appreciation of the Pound Sterling the carrying amount of the brand names for the South West Europe Region increased. This was more than off-set by the devaluation of the Polish Zloty and Turkish Lira, resulting in a decrease in the carrying amount of brand names by € 0.4 million.

The carrying amount of brand names can be allocated as follows to each CGU:

(€ x 1,000)	BRAND NAME	2011	2010
South West Europe	Hep ₂ O	61,977	60,146
South West Europe	Warmafloor	617	598
South East Europe	Chemidro	3,000	3,000
South East Europe	Pilsa	2,251	2,658
Wavin Group	Wavin	155,860	157,680
Total		223,705	224,082

Customer relations and other assets from business combinations

The carrying amount of other assets from business combinations represents the recognised assets consisting mainly of order portfolio and customer contracts which meet the conditions for recognition under IFRS 3. In case of a triggering event an impairment test is performed by estimating the recoverable amount based on its value in use.

Other intangible assets

Development costs

The carrying amount of development costs represents the capitalised expenses related to new internally developed products and production processes. In case of a triggering event an impairment test is performed by estimating the recoverable amount based on its value in use.

The additions in development costs amount to € 3.1 million including an amount of € 0.3 million (2010: € 0.4 million) of capitalised borrowing costs during the period ended 31 December 2011 using an average interest rate of 6.5% (2010: 7.1%).

Software

The carrying amount of software represents the capitalised expenses related to new (internally developed) software solutions and related implementation expenses. The additions in software for an amount of € 7.3 million (2010: € 4.2 million) are mainly related to the further roll-out of the Group-wide IT platform.

Other

In addition to development costs and software the carrying amount of other intangible assets includes capitalised expenses related to licenses, trademarks, patents etc.

19. Investments in associates

The investment in associates for the year amounts to € 21.6 million. In 2011 the Group received dividends of € 2.3 million from its investments in associates. Non of the Groups associates are publicly listed entities and consequently do not have published price quotations.

The Groups investment in associates relates mainly to our 40% (2010: 40%) shareholding in GF Wavin AG (Switzerland). The (100%) key figures of GF Wavin AG are:

(€ x 1,000)	ASSETS	LIABILITIES	EQUITY	REVENUE	PROFIT/LOSS
2011					
GF Wavin AG	75,932	25,466	50,466	83,864	5,915
2010					
GF Wavin AG	84,836	35,612	49,224	74,730	5,523

The decrease in assets, equity and liabilities is for a significant part the result of working capital reduction.

20. Other financial (non-current and current) assets

(€ x 1,000)	2011	2010
Non-current investments		
Guaranteed deposit	232	262
Financial instruments	433	177
Other non-current investments	1,086	445
Total non-current investments	1,751	884
Total current investments	-	-

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 4. The increase of other non-current investments mainly relate to the reclassification of a specific trade receivable for which mortgages have been granted to Wavin.

21. Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities are attributable to:

(€ x 1,000)	2011		2010	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Intangible assets	88	78,041	86	81,232
Property, plant & equipment	714	26,680	523	31,392
Financial assets	1	1,131	1	1,240
Inventories	1,096	741	1,032	1,079
Other current assets	622	474	1,610	351
Tax losses carried forward	19,063	–	11,873	–
Provision for employee benefits	1,998	40	2,131	16
Other provisions	1,119	340	1,269	–
Interest-bearing loans and borrowings	29	–	209	202
Other liabilities	5,194	649	5,884	681
Tax assets / liabilities	29,924	108,096	24,618	116,193
Set off tax assets and liabilities	(21,014)	(21,014)	(15,032)	(15,032)
Net tax assets / liabilities	8,910	87,082	9,586	101,161

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

(€ x 1,000)	2011	2010
Deductible temporary differences not capitalised	169	119
Tax losses carried forward not capitalised	8,985	9,361
Withholding taxes not capitalised	–	4,052
Total unrecognised deferred tax assets	9,154	13,532

The tax assets are not recognised because it is not probable that taxable profit will be available against which the Group can utilise the benefits in the near future. The decrease of tax losses not capitalised mainly relates to not capitalised losses carried forward in some Eastern European Countries.

There are no time restrictions on the utilisation of not capitalised tax losses carried forward for an amount of € 9.0 million. As the Dutch companies are expected to come into an income tax paying position, foreign withholding taxes which were withheld in previous years have been capitalised in 2011.

Movement in temporary differences during the year

(€ x 1,000)	BALANCE AT 1 JANUARY	ACQUISITIONS/ DIVESTMENTS	RECOGNISED IN THE INCOME STATEMENT	RECOGNISED DIRECTLY IN EQUITY	USED FOR PURPOSE	EFFECT OF MOVEMENTS IN FOREIGN EXCHANGE	BALANCE AT 31 DECEMBER
2011							
Intangible assets	81,146	59	(3,144)	(613)	–	505	77,953
Property, plant & equipment	30,869	(1,133)	(3,266)	(23)	–	(481)	25,966
Financial assets	1,239	–	(63)	(35)	–	(11)	1,130
Inventories	47	(5)	(405)	–	–	8	(355)
Other current assets	(1,259)	–	1,014	–	–	97	(148)
Tax losses carried forward	(11,873)	–	(7,857)	–	662	5	(19,063)
Provision for employee benefits	(2,115)	112	–	–	–	45	(1,958)
Other provisions	(1,269)	–	473	–	–	17	(779)
Interest-bearing loans and borrowings	(7)	–	(24)	–	–	2	(29)
Other liabilities	(5,203)	–	460	175	–	23	(4,545)
Tax (assets) liabilities	91,575	(967)	(12,812)	(496)	662	210	78,172
2010							
Intangible assets	81,957	–	(2,150)	498	–	841	81,146
Property, plant & equipment	29,770	–	683	106	–	310	30,869
Financial assets	1,448	–	(267)	36	–	22	1,239
Inventories	314	–	(240)	–	–	(27)	47
Other current assets	(943)	–	(321)	–	–	5	(1,259)
Tax losses carried forward	(9,688)	–	(3,403)	–	1,456	(238)	(11,873)
Provision for employee benefits	(2,167)	–	100	–	–	(48)	(2,115)
Other provisions	(1,181)	–	(62)	–	–	(26)	(1,269)
Interest-bearing loans and borrowings	133	–	(136)	–	–	(4)	(7)
Other liabilities	(5,852)	–	207	492	–	(50)	(5,203)
Tax (assets) liabilities	93,791	–	(5,589)	1,132	1,456	785	91,575

22. Inventories

(€ x 1,000)	2011	2010
Raw materials and consumables	27,202	31,803
Finished products and merchandise	115,693	130,625
Other inventories	10,347	9,510
Total	153,242	171,938
Inventories stated at net realisable value	1,850	4,271

Despite increasing raw material prices, stock reduction measures resulted in a decrease of stock value compared to last year. At 31 December 2011 the provision for obsolete stocks amounted to € 14.4 million (2010: € 16.0 million). The addition to the provision for obsolete stocks amounted to € 1.2 million (2010: € 0.3 million), which was included in cost of sales. In the current year the provision for obsolete stocks was used for an amount of € 2.8 million (2010: € 2.7 million).

In 2011 raw materials, consumables and changes in finished goods recognised as cost of sales amounted to € 707.4 million (2010: € 622.8 million). This increased charge reflects the higher activity level and higher raw material prices compared to last year.

23. Trade and other receivables

(€ x 1,000)	NOTE	2011	2010
Trade receivables	4	240,174	239,684
Amounts receivable from associates		24	51
Other receivables and prepayments		29,226	26,759
Total		269,424	266,494

Trade receivables are shown net of an allowance for doubtful debts of € 12.4 million (2010: € 12.6 million) arising from the possible non-payment by customers.

The impairment loss recognised in the current year was € 3.0 million (2010: € 3.3 million) and for an amount of € 2.5 million (2010: € 2.1 million) trade receivables were actually written off. The Group's exposure to credit and currency risks and the allocation of the allowance for doubtful debts at the reporting date is disclosed in note 4.

24. Cash and cash equivalents

(€ x 1,000)	2011	2010
Bank balances	76,530	55,638
Cash	103	110
Total	76,633	55,748

Due to the seasonality of the business most cash is generated towards the end of the year. This cash flow cannot completely be used for the repayment of debt given the maturity of the drawings under the Forward Start Facility and the funding requirements for the building up of working capital at the beginning of the following year.

At 31 December the bank balances were freely available.

25. Equity

In the year under review 30,773 shares were sold to the Management Board and senior management as part of the Long Term Incentive Plan (see note 28). In addition 15,876 matching shares related to the LTIP 2008 vested in the first six months of 2011. All these shares were deducted from the treasury shares.

In 2011 the Company purchased 136,000 company shares with a nominal value of € 0.40 per share.

Per 31 December 2011 the Company holds 203,123 shares (31 December 2010: 113,772 shares) as treasury shares to cover current and future obligations under the Long Term Incentive Plan of the Company.

Changes in equity classified as other comprehensive income include the changes in the hedging reserve which consists of the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Cumulative translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Of the shareholders' equity of € 573.2 million, an amount of € 9.6 million (2010: € 8.1 million) is not available for distribution subject to relevant provisions of the Company's Articles of Association, local accounting principles and legal requirements.

For further details on Wavin N.V.'s shareholders' equity we refer to note F of the Company Financial Statements and the statement of changes in equity.

26. Interest-bearing loans and borrowings

(€ x 1,000)	2011	2010
Non-current liabilities		
Interest-bearing loans and borrowings	287,532	295,357
Total non-current liabilities	287,532	295,357
Current liabilities		
Discounted drafts	1,350	945
Unsecured bank overdrafts	15,602	15,553
Total current liabilities	16,952	16,498

Wavin's main source of financing was a syndicated loan facility of € 500 million that expired in October 2011 and was rolled over to the Forward Start Facility of € 475 million. The Forward Start Facility will expire in April 2013. The Forward Start Facility has been extended and amended in January 2012.

Non-current bank loans per 31 December 2011 relate to the Forward Start Facility. The total facility is a bullet facility repayable in full in April 2013. Under the revolving facility funds are drawn and repaid in line with the short term financing needs. Per 31 December 2011 the drawings under the Forward Start Facility amounted to a face value of € 294.7 million (31 December 2010: € 304.0 million) and are secured.

The current portion of interest-bearing loans and borrowings consists of money market loans that the Group holds per 31 December 2011.

Terms and debt repayment schedule*

	NOTE			2011				2010	
		EFFECTIVE INTEREST RATE	YEAR OF MATURITY	FACE VALUE (€ X 1,000)	CARRYING AMOUNT (€ X 1,000)	EFFECTIVE INTEREST RATE	YEAR OF MATURITY	FACE VALUE (€ X 1,000)	CARRYING AMOUNT (€ X 1,000)
Secured bank loans									
Syndicated Loan Facility**				–	–	5.91%	2013	304,041	292,280
Forward Start Facility**		5.52%	2013	294,659	287,532			–	–
Unsecured bank loans									
Other unsecured loans				–	–	2.56%	2012	3,077	3,077
Unsecured bank overdrafts		8.36%	2012	15,602	15,602	5.43%	2011	15,553	15,553
Discounted drafts		1.63%	2012	1,350	1,350	1.33%	2011	945	945
Secured bank overdrafts				–	–			–	–
Cash and cash equivalents	24	misc.	2012	(76,633)	(76,633)	misc.	2011	(55,748)	(55,748)
Total				234,978	227,851			267,868	256,107

* For details on financial instruments we refer to note 4.

** The effective interest rate of the Syndicated Loan Facility and Forward Start Facility is excluding the effect of the ineffective interest rate swaps and commitment fee.

The key terms of the € 475 million Forward Start Facility were:

- Facility start date was 16 October 2011;
- Facility consisted of a € 237.5 million committed term loan facility and a € 237.5 million committed multi currency revolving credit facility;
- For the term loan and revolving facility: repayment in one amount at maturity date of 16 April 2013 (remaining duration of 1.3 years);
- The interest rate was based on interbank offered rates like Euribor/Libor/Wibor/Pribor increased with a margin. This margin was based on a margin grid depending on the leverage ratio. The margin amounts to a maximum of 400 basis points and a minimum of 175 basis points. The margin was recalculated on a quarterly basis;
- The commitment fee amounted to 35% of the applicable margin;
- Comprehensive security package was in place (see note 34);
- The financial covenants were tested on a quarterly basis.

The aggregate tangible assets and the aggregate Ebitda of the identified guarantors of the facility should represent at least 70% of the consolidated tangible assets and consolidated Ebitda. The leverage ratio as defined in the Forward Start Facility is defined as: Total net debt divided by result from operating activities before depreciation, amortisation, non-recurring restructuring expenses and non-recurring gains or losses on the sale of fixed assets, including income of associates and excluding profit attributable to non-controlling interest. The interest coverage ratio is defined as: result from operating activities before depreciation, amortisation, non-recurring restructuring expenses and non-recurring gains or losses on the sale of fixed assets, including income of associates and excluding profit attributable to non-controlling interest, divided by the net interest expenses, including all interest and other financing charges in the nature of interest.

The term loans are fully drawn and from the revolving facility € 57.6 million (2010: € 53.0 million) is drawn.

Covenant ratios per 31 December can be specified as follows:

	2011		2010	
	ACTUAL	REQUIRED	ACTUAL	REQUIRED
Leverage ratio	2.4	< 3.0	2.3	< 3.7
Interest coverage ratio	4.2	> 2.8	3.7	> 2.3

Wavin was in compliance with the agreed ratios as defined in the Forward Start Facility.

In January 2012 we agreed with the lending banks to extend and amend our existing financing facility. The amended syndicated arrangement amounts to € 440 million and will mature in April 2015. The € 440 million facility consists of a € 220 million Bullet Term Facility and a € 220 million Revolving Credit Facility. The conditions and margins remain unchanged to the existing facility. Maturity has been extended with two years to April 2015.

For the amended syndicated facility the covenant levels have been relaxed. The maximum leverage ratio and minimum interest coverage ratio under the amended facilities vary in line with the seasonality of the business for the different time periods and can be specified as follows:

Testing date	LEVERAGE RATIO	INTEREST COVERAGE RATIO
2012 Q1	< 3.95	> 2.80
2012 Q2	< 3.95	> 2.80
2012 Q3	< 3.75	> 3.25
2012 Q4	< 2.90	> 3.50
2013 Q1	< 3.75	> 3.50
2013 Q2	< 3.75	> 3.50
2013 Q3	< 3.50	> 3.75
2013 Q4	< 2.60	> 4.00
2014 Q1	< 3.30	> 4.00
2014 Q2	< 3.30	> 4.00
2014 Q3	< 3.10	> 4.00
2014 Q4	< 2.50	> 4.00
2015 Q1	< 2.75	> 4.00

The key terms of the € 440 million Syndicated Loan Facility are:

- Facility consisting of a € 220 million committed term loan facility and a € 220 million committed multi currency revolving credit facility;
- For the term loan and revolving facility: repayment in one amount at maturity date of 16 April 2015 (remaining duration of 3.3 years);
- The interest rate is based on interbank offered rates like Euribor/Libor/Wibor/Pribor increased with a margin. This margin is based on a margin grid depending on the leverage ratio. The margin amounts to a maximum of 275 basis points and a minimum of 175 basis points. The margin is recalculated on a quarterly basis;
- The commitment fee amounts to 35% of the applicable margin;
- Comprehensive security package in place (see note 34);
- The financial covenants are tested on a quarterly basis.

The aggregate tangible assets and the aggregate Ebitda of the identified guarantors of the facility should represent at least 75% of the consolidated tangible assets and consolidated Ebitda. The threshold for specific indebtedness has been revised under the amended syndicated facility.

In addition to the group facility, the Group has mostly uncommitted bilateral credit facilities with several banks for an amount of € 68.6 million (2010: € 123.7 million) of which € 15.6 million was drawn per 31 December 2011 (2010: € 19.2 million). In addition to the credit facilities Wavin has a € 25 million committed non-recourse factoring agreement in place of which € 21.2 million was used as per 31 December 2011.

The transaction costs related to the Forward Start Facility of € 475 million are amortised using the effective interest method during the period of the borrowings. The transaction costs are mainly related to arrangement and underwriting fees, legal fees and consultancy fees (due diligence, non-audit services, etc.).

27. Employee benefits

(€ x 1,000)	2011	2010
Present value of unfunded obligations	11,703	12,602
Present value of funded obligations	426,945	399,392
Total present value of obligations	438,648	411,994
Fair value of plan assets	(428,006)	(417,803)
Unrecognised actuarial gains and (losses)	(6,343)	15,833
Effect of asset ceiling	9,200	4,142
Total employee benefits	13,499	14,166
Non-current	12,919	13,647
Current	580	519

Unfunded obligations

Unfunded obligations consist of service awards and jubilee commitments qualifying as other long term benefit plans, which are recognised in the Dutch, German, French, Irish, Polish, Italian and Turkish operating companies.

Liability for defined benefit obligations

Wavin has defined benefit pension plans in Norway, Ireland, the UK, and The Netherlands. All other pension arrangements are defined contribution plans. Other defined benefit obligations are in place in Germany, France and Italy.

In the UK and Ireland the pension liabilities are covered by company pension funds. The Company is liable for the deficits of these funds. Plan assets of these funds do not include investments in the Company. After the periodic actuarial calculation it was concluded that the Wavin Plastics Pension Scheme in the UK and the Wavin Ireland Pension Scheme have a deficit. It has been agreed with the trustees that in the coming 5 years Wavin UK will pay GBP 3.0 million additional contribution to the Wavin Plastics Pension Scheme, starting as of 2012. With the Irish trustees Wavin Ireland agreed to pay € 0.5 million additional contribution in the coming 10 years, starting as of 2012. For the Hepworth Building Products Pension Scheme and for the Irish Executive Pension Scheme additional contributions have been agreed starting as of 2010 and 2011 (with a total additional contribution of € 0.6 million per year).

The pension liabilities of the Dutch Wavin entities are covered by a multi employer pension fund (Pensioenfonds OWASE). Although the Company is not liable for any deficits in this fund the plan qualifies as a defined benefit plan as the Company might be entitled to a possible reward if the board of the pension fund would decide on a premium reduction or premium refund. However, the participating companies of the pension fund have the ambition to change the current defined benefit plan into a collective defined contribution plan.

The defined benefit schemes of Wavin Norway is outsourced to insurance companies. The exposures related to the pension liabilities in Germany, France and Italy are fully accrued for.

Movements in the liability for defined benefit obligations for the Group were:

(€ x 1,000)	2011	2010
Liability for defined benefit obligations at 1 January	411,994	393,460
Effect of movements in foreign exchange	5,172	4,884
Contributions received	3,354	3,427
Movements to defined benefit plans	12	–
Divestments of subsidiaries	(11,754)	–
Benefits paid by the plan	(16,766)	(15,994)
Actuarial gains (losses) not recognised	17,383	(4,155)
Actuarial gains (losses) recognised through profit or loss	–	–
Movement to liabilities held-for-sale	–	–
Service costs and interest	29,253	30,372
Liability for defined benefit obligations at 31 December	438,648	411,994

Plan assets

Movements in the plan assets were:

(€ x 1,000)	2011	2010
Fair value of plan assets at 1 January	417,803	360,554
Effect of movements in foreign exchange	4,233	3,678
Contributions paid into the plan by participants	3,354	3,427
Contributions paid into the plan by the Group	9,682	12,312
Divestments of subsidiaries	(8,870)	–
Benefits paid by the plan	(15,543)	(14,933)
Expected return on plan assets	22,470	21,019
Actuarial gains (losses) not recognised	(5,123)	31,746
Fair value of plan assets at 31 December	428,006	417,803

Plan assets consist of the following:

	2011	2010
Equity securities	41%	47%
Government bonds	56%	47%
Property	0%	0%
Other	3%	6%
Total fair value of plan assets	100%	100%

Expense recognised in the income statement

(€ x 1,000)	2011	2010
Current service costs	7,709	8,921
Interest on obligation	21,544	21,451
Expected return on plan assets	(22,470)	(21,019)
Actuarial (gains) losses to the extent recognised	(361)	302
Effect of asset ceiling	5,058	2,977
Expense recognised in the income statement	11,480	12,632

In the UK and Ireland the unrecognised actuarial losses per 31 December 2011 have exceeded the corridor. This will result in an increase of the expense for employee benefits recognised in the 2012 income statement of approximately € 2.2 million.

The expense is recognised in the following line items in the income statement:

(€ x 1,000)	2011	2010
Cost of sales	5,323	5,211
Selling and distribution expenses	4,796	5,272
Administrative expenses	1,361	2,149
Total	11,480	12,632
Actual return on plan assets	17,254	18,720

Actuarial gains and losses not recognised

(€ x 1,000)	2011	2010
Actuarial gains and (losses) not recognised at 1 January	15,833	(19,409)
Effect of movements in foreign exchange	(1,293)	(961)
Divestments of subsidiaries	1,984	–
Recognised during the period	(361)	302
Not recognised during the period on the liabilities	(17,383)	4,155
Not recognised during the period on the assets	(5,123)	31,746
Actuarial gains and (losses) not recognised at 31 December	(6,343)	15,833

Principal actuarial assumptions at the balance sheet date

(% – expressed as weighted average)	2011	2010
Discount rate at 31 December	5.2	5.3
Expected return on plan assets at 31 December	4.8	5.5
Future salary increases	3.1	2.9
Future pension increases	2.1	1.9

The overall expected long term rate of return on assets is 4.8%. The expected long term rate of return is based on the target portfolio as a whole and based on the sum of the returns on individual asset categories.

The Group expects to contribute € 13.1 million to its defined benefit pension plans in 2012. For other benefit plans the contribution for 2012 by the Group is expected to be € 0.1 million.

Assumptions regarding future mortality are based on published statistics and mortality tables. In the Netherlands Pensionfund Owise applied as per 31 December 2011 the most recent mortality table 'AG Prognosetabel 2010-2060', adjusted for differences between the total population and the working population (experience factor 2011). The current longevities underlying the values of the liabilities in the defined benefit plans are as follows:

	NETHER- LANDS	2011 UK	NETHER- LANDS	2010 UK
Longevity at age 65 for current pensioners				
Males	21.5	21.0	21.4	20.7
Females	24.0	24.0	23.9	23.6
Longevity at age 65 for current members aged 45				
Males	23.0	23.0	23.0	21.8
Females	24.8	26.0	24.8	24.6

Historical information

The difference between the actual and expected return on plan assets was a loss of € 5.2 million, a loss of € 2.3 million in 2010, a gain of € 2.8 million in 2009, a loss of € 62.4 million in 2008 and a loss of € 14.4 million in 2007.

The historical data breakdown of the deficit in the plan and experience adjustments is as follows:

(€ x 1,000)	2011	2010	2009	2008	2007
Present value of the defined benefit obligation	438,648	411,994	393,460	337,250	372,282
Fair value of plan assets	(428,006)	(417,803)	(360,554)	(299,342)	(368,783)
Deficit in the plan	10,642	(5,809)	32,906	37,908	3,499
Adjustments due to experience	(13,902)	15,969	35,588	(68,763)	(5,656)
Adjustments due to change in assumptions	24,305	11,108	(36,890)	28,826	(1,427)
Total adjustments	10,403	27,077	(1,302)	(39,937)	(7,083)

28. Share-based payments

According to the Long Term Incentive Plan (LTIP) eligible employees can, on a voluntary basis, elect to invest part of their individual annual incentive in Wavin shares. The investment is limited to 50% of the individual's gross annual incentive. The minimum investment, if an employee elects to invest, is set at 10% of the gross annual incentive. The employee receives the right to one conditional matching share for each two purchased shares and a maximum of three conditional performance options for each share purchased. Only employees who participated and remain in service during the vesting period of 3 years will become entitled to receive the matching shares.

The total number of performance options to be granted is dependent on the realisation of an Ebitda growth realised during the four years vesting period and the number of employees that is still employed at the time of vesting. Only employees who participated and remain in service during the vesting period of 4 years will become entitled to receive the performance options. The purchased shares and the matching shares are subject to a mandatory lock-up period of five years following the date of grant. In 2011 eligible employees purchased 30,773 shares (2010: 31,410 shares) resulting in a future grant of 15,395 matching shares and a maximum of 92,319 performance options.

The terms and conditions relating to the grants of the Long Term Incentive Plan are as follows:

	NUMBER OF INSTRUMENTS GRANTED	VESTING CONDITIONS	YEAR OF VESTING	YEAR OF EXPIRY (OPTIONS) / HOLDING PERIOD (SHARES)
Conditional performance options granted in 2008	104,897	4 years' service and Ebitda growth target	2012	2015
Conditional performance options granted in 2009	96,456	4 years' service and Ebitda growth target	2013	2016
Conditional performance options granted in 2010	94,104	4 years' service and Ebitda growth target	2014	2017
Conditional performance options granted in 2011	92,319	4 years' service and Ebitda growth target	2015	2018
Total performance options*	387,776			
Conditional matching shares granted in 2009	16,095	3 years' service	2012	2014
Conditional matching shares granted in 2010	15,705	3 years' service	2013	2015
Conditional matching shares granted in 2011	15,395	3 years' service	2014	2016
Total conditional shares	47,195			

* At 15% or more average annual Ebitda growth over the years 2008 up to and including 2011, over the years 2009 up to and including 2012, over the years 2010 up to and including 2013 resp over the years 2011 up to and including 2014 the maximum number of performance options will be granted.

The number of the granted shares and options are as follows:

		2011			2010	
	WEIGHTED AVERAGE EXERCISE PRICE (€)	NUMBER OF PERFOR- MANCE OPTIONS	NUMBER OF MATCHING SHARES	WEIGHTED AVERAGE EXERCISE PRICE (€)*	NUMBER OF PERFOR- MANCE OPTIONS	NUMBER OF MATCHING SHARES
Outstanding at 1 January	14.09	283,300	47,246	1.93	1,529,880	254,980
Granted during the period		92,319	15,395		752,445	125,429
Vested during the period		–	(15,876)		–	–
Forfeited during the period		(26,215)	(3,069)		(57,996)	(9,666)
Effect of reverse stock split		–	–		(1,941,029)	(323,497)
Outstanding at 31 December	13.05	349,404	43,696	14.09	283,300	47,246
Exercisable at 31 December	–	–	–	–	–	–

* Weighted average exercise price per 31 December 2010 is affected by the reverse stock split and granted options in 2010.

The fair value of the matching shares is determined using the Black-Scholes model. Given that the Wavin shares are listed as from 11 October 2006, insufficient historical share price data is available for determining the historical volatility of the Wavin shares for a period equal to the life of the options granted. Therefore we have analysed the historical share price development of comparable companies in order to determine the expected volatility to be applied. The fair value of the performance options at grant date is determined using a binominal tree valuation methodology.

The input used in the measurement of the fair values at grant date of the Long Term Incentive Plan is as follows:

(€ × 1.– unless other wise stated)	2011	2010	2009	2008
Fair value of matching shares at grant date*	10.73	11.04	4.80	20.08
Fair value performance option at grant date*	4.25	3.60	1.20	5.12
Share price at grant date*	10.83	11.20	6.16	24.05
Exercise price at grant date*	10.83	11.20	6.40	23.76
Expected volatility (weighted average %)	42%	40%	40%	35%
Option life (expected weighted average in years)	5.70	5.76	6.17	5.83
Expected dividends	0.05	0.03	0.14	0.46
Risk-free interest rate (% based on government bonds)	3.14%	2.93%	3.28%	3.70%

* The values and price for the years 2008-2010 have been adjusted for comparison reason to reflect the effect of the rights issue in 2009 and reverse stock split in 2010.

The effect of forfeitures is remeasured at each reporting date and at settlement date.

The expenses related to the Long Term Incentive Plan can be summarised as follows:

(€ x 1,000)	2011	2010
Expense arising from shares granted in 2008	43	75
Expense arising from shares granted in 2009	22	22
Expense arising from shares granted in 2010	51	41
Expense arising from options granted in 2010	45	44
Expense arising from shares granted in 2011	39	–
Expense arising from options granted in 2011	52	–
Total expense recognised as personnel costs	252	182
Total unrecognised value of liability for vested benefits	–	–

As options granted in 2008 and 2009 are not expected to meet the vesting conditions no expenses are taken into account.

29. Provisions

(€ x 1,000)	WARRANTY	RESTRUC- TURING	TAX PROVISIONS	OTHER PROVISIONS	TOTAL
Balance at 1 January 2011	3,544	4,242	8,670	9,846	26,302
Divestments	(27)	–	–	–	(27)
Provisions made during the year	2,591	3,377	2,346	422	8,736
Provisions used during the year	(1,971)	(3,609)	–	(962)	(6,542)
Provisions reversed during the year	(940)	(61)	(6,812)	(452)	(8,265)
Effect of movements in foreign exchange	(11)	(8)	(204)	(66)	(289)
Balance at 31 December 2011	3,186	3,941	4,000	8,788	19,915
Non-current	991	204	4,000	6,195	11,390
Current	2,195	3,737	–	2,593	8,525

Warranty

For products sold, a provision is recognised based on actual claims received and on historical data regarding warranty costs, which were not provided for on an individual claims basis. The product liability insurance cover is taken into account when determining the provision. Claims honoured are charged against the provision. The Group expects to incur the liabilities over the next two years.

Restructuring

In 2011 restructuring provisions were made for smaller restructurings in Germany, Belgium and Turkey and the closure of our activities in Spain. It is expected that these restructurings will largely be completed within one year from the balance sheet date.

Tax

The tax provisions relate to identified tax exposures in the Group. The majority of the cash outflows related to the tax provisions are expected to be within one to four years.

Other provisions

The other provisions per 31 December 2011 mainly consist of provisions for the obligation to take back returnable packaging in Germany (€ 3.1 million), quarry restoration obligations related to the clay activities in the UK (€ 2.3 million) and environmental commitments at the Dutch production site (€ 1.1 million). The majority of the cash outflows related to other provisions are expected to be within one to five years.

30. Other non-current liabilities

The other non-current liabilities can be specified as follows::

(€ x 1,000)	2011	2010
Interest instruments	11,678	6,746
Deferred government grants	25	38
Other non-current liabilities	239	377
Total other non-current liabilities	11,942	7,161

Despite a one year shorter duration, the carrying value of financial instruments has increased substantially due to decreasing interest rates on the capital market.

31. Trade and other payables

(€ x 1,000)	2011	2010
Trade payables	260,755	249,919
Non-trade payables and accrued expenses	62,581	58,410
Interest instruments	–	7,208
Amounts payable to associates	758	1,045
Total trade and other payables	324,094	316,582

Trade payables increased due to higher activity levels and higher raw material prices.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 4.

32. Operating leases

Non-cancellable operating leases are payable as follows:

(€ x 1,000)	2011	2010
Less than one year	15,927	16,072
Between one and five years	34,309	30,720
More than five years	17,647	13,591
Total	67,883	60,383

The Group leases a number of warehouse and factory facilities and internal transport equipment under operating leases. The leases typically run for an initial period of between five and ten years, with an option to renew the lease after that date. None of the leases includes purchase liabilities or contingent rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

During the year ended 31 December 2011 € 19.0 million was recognised as an expense in the income statement in respect of operating leases and rental costs (2010: € 19.1 million).

33. Capital commitments

With respect to the purchase of investment goods, per 31 December 2011 obligations have been entered into and orders have been placed to a value of € 8.1 million (2010: € 8.5 million).

34. Contingent liabilities

At 31 December 2011 bank guarantees issued mainly for bid bonds and performance bonds amount to approximately € 1.1 million (2010: € 4.9 million). Per 31 December 2011 letters of credit were issued for an amount of € 14.1 million (2010: € 8.9 million).

In December 2011 the Hungarian Competition Authority started an investigation of Hungarian pipe producers suspected of forming a price fixing cartel. We are co-operating actively with the authorities, providing any information required and have no reason to believe that the Group violated anti-trust rules.

The Group is defending its position in different procedures brought up by employees, suppliers and/or customers in different countries in Europe. We are also involved in disputes with tax authorities in several jurisdictions. While the outcome of these claims and disputes cannot be predicted with certainty, we believe, based upon legal advice and information received, that the final outcome will not materially affect our consolidated financial position but could be material to our results of operations or cash flows in any one accounting period.

For drawings under the Forward Start Facility of € 475 million the Group has provided lenders securities consisting of mortgages on real estate, pledges on receivables, inventories and bank accounts for a total amount of € 401.3 million. For an amount of € 302.9 million shares in subsidiaries have been pledged. The leverage ratio should not be below a certain level whereas the interest coverage should at least meet a certain level (for details we refer to note 26). The Group must assure that the aggregate tangible assets and the aggregate Ebitda of the identified guarantors represent at least 70% of the consolidated tangible assets and the consolidated Ebitda of the Wavin Group.

Wavin N.V. and the subsidiaries have issued cross guarantees for drawings under the notional cash pool system.

Almost all the subsidiaries in The Netherlands form a fiscal unity with Wavin N.V. for the income tax, VAT and tax on wages. Wavin N.V. is severally liable for the tax debts of the fiscal unity.

35. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries and associates (see overview principal direct and indirect participations). During 2011 there was a related party relationship with Stichting Preferente Aandelen Wavin which has a call option for preference shares of Wavin N.V. (for details we refer to note F of the Company Financial Statements).

The Group also has a related party relationship with Wavin Plastics Pension Scheme, Hepworth Building Products Pension Scheme, Wavin Ireland Pension Scheme, Wavin Ireland Executive Pension Scheme and Stichting Pensioenfondswase (for details we refer to note 27). Finally, a related party relationship exists with the Supervisory Board members and Management Board members (for details we refer to note J of the Company Financial Statements).

Other related party transactions

During the year ended 31 December 2011, we did not sell any goods to associates (2010: nil). Sales of associates to the Group amounted to € 11.0 million (2010: € 12.4 million). At 31 December 2011 the Group owed associates € 0.7 million (2010: € 1.0 million). For details regarding outstanding receivables and liabilities we refer to notes 23 and 31. During the year ended 31 December 2011 the Group received € 2.3 million dividend from associates (2010: € 3.1 million).

Wavin purchases and sells goods and services to various related parties in which Wavin holds a 50% or less equity interest (non-consolidated companies). Such transactions were not significant on an individual or aggregate basis. The transactions were conducted at arm's length with terms comparable to transactions with third parties.

36. Transactions with key management and remuneration

The members of the Supervisory Board and Management Board are considered to be key management. In 2011, there have been no transactions with key management or any family member of key management except for some members of the Supervisory Board and Management Board in their capacity as shareholders. All transactions were conducted at arm's length principle.

No loans or guarantees have been provided to key management or any family member of such persons. Members of the Management Board are entitled to equity compensation benefits (for details reference is made to note 28). Members of the Supervisory Board are not entitled to equity compensation benefits.

For details about the remuneration of key management we refer to note J of the Company Financial Statements.

37. Group companies

The Group's ultimate parent company is Wavin N.V. Please refer to the list of principal direct and indirect participations.

38. Subsequent events

Extend and amendment existing financing facility

In January 2012 Wavin agreed with its lending banks to extend and amend its existing financing facility. The amended syndicated arrangement amounts to € 440 million and will mature in April 2015. The € 440 million facility consists of a € 220 million Bullet Term Facility and a € 220 million Revolving Credit Facility. Covenant levels have been relaxed, whilst conditions and margins remain unchanged to the existing facility. Maturity has been extended with two years to April 2015. For further details we refer to note 26.

Sale of geocomposite drainage activities in France

In January 2012 Wavin agreed to sell its geocomposite drainage activities in France to RYB, a French provider of polyethylene (PE) pipe systems. With these activities Wavin realised revenues of approx. € 5 million.

Cash public offer on Wavin ordinary shares

On 8 February 2012 Mexichem S.A.B. de C.V. (Mexichem) and Wavin announced that Mexichem intends to make a cash offer of € 10.50 per Wavin ordinary share. The Management and Supervisory Board of Wavin support and recommend the intended offer under the current circumstances. The commencement of the offer is subject to the satisfaction or waiver of certain pre-offer conditions customary for transactions of this kind, such as (i) completion of the notification procedures pursuant to the Dutch Merger Code (SER-besluit Fusiegeregels 2000), (ii) completion of all actions necessary to consult Wavin's central works council and the European works council, (iii) no revocation of the recommendation by Wavin's Board of Management or Supervisory Board, (iv) Mexichem and Wavin having reached agreement on the contents of the offer memorandum and which is subsequently approved by the AFM, (v) no competing offer having been made, (vi) no order, stay judgment or decree restraining, prohibiting or delaying the transaction, (vii) no preference shares having been issued by Wavin, (viii) no material breach of the merger protocol and (ix) no material adverse effect having occurred. The material adverse effect clause may also be invoked in the event of a breach of the warranties given by Wavin if such breach results in a payment obligation in excess of € 25 million.

When made, the consummation of the offer will be subject to the satisfaction or waiver of certain offer conditions customary for transactions of this kind, such as (i) relevant antitrust clearance for the offer, (ii) a minimum acceptance of 80% of the Wavin shares on a fully diluted basis, (iii) no revocation of the recommendation by Wavin's Board of Management and Supervisory Board, (iv) no competing offer having been made, (v) no preference shares having been issued by Wavin (vi) no order, stay judgment or decree restraining, prohibiting or delaying the transaction, (vii) no material breach of the merger protocol, (viii) approval of Transaction at a Mexichem EGM and (ix) no material adverse effect having occurred. Wavin and Mexichem may terminate the conditional agreement in the event that a bona fide third-party offer or makes an offer which is, a more beneficial offer than the Offer, which is binding upon such party and (i) exceeds the Offer Price by 10% and (ii) includes non-financial commitments which are similar to those agreed upon in the merger protocol (a "Competing Offer"). In the event of a Competing Offer, Mexichem will be given the opportunity to revise its Offer. If this revised Offer by Mexichem is at least equally beneficial to the Competing Offer, Wavin may not terminate the conditional agreement with Mexichem. The same is true for any subsequent Competing Offer. If Wavin terminates the agreement in the event a third party offer has been declared unconditional with at least 50% of the Shares plus one Share having been tendered and provided that such third party has offered an offer price per Share that exceeds the Offer Price by at least 3%, Mexichem is entitled to a break fee amounting to € 8 million. The same break fee applies if the Management and Supervisory Boards revoke their recommendation.

In the event that the public offer of Mexichem is accepted there will be a so called change of control. Due to this change of control, specific contractual clauses will become effective in some cases, which could materially affect our consolidated financial position, consolidated results and/or affect our consolidated cash flows. The following contractual obligations could have a material effect on Wavin in case of change of control:

- The extended and amended financing facility including the related interest rate swaps will be immediately due and payable.
- The 60% shareholder of our associate GF Wavin AG will have the option to purchase our 40% stake against the market value to be established.
- The minority shareholder in our subsidiary MPC Sp.z.o.o. will have the option to sell its stake against the market value to be established.

We believe, based upon legal advice and information received, that the impact of other change of control clauses in contracts will not materially affect our consolidated financial position, consolidated results and or consolidated cash flows.

Based on the Long Term Incentive Plan rules, the Management Board (and the Supervisory Board for grants and awards made to members of the Management Board) has the discretionary authority upon a change of control to

- (i) provide for an exchange of each outstanding Purchased Share, Matching Share and Performance Option or
- (ii) take other reasonable steps it considers appropriate.

Announced restructuring

Early 2012 Wavin UK announced a restructuring plan leading to a headcount reduction of approximately 80 people in the back-office. In other operating companies in continental Europe, Wavin will reduce headcount with 70 people.

independent auditor's report

To the General Meeting of Shareholders of Wavin N.V.

Report on the financial statements

We have audited the accompanying financial statements 2011 of Wavin N.V., Zwolle. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2011, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2011, the company income statement for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Management Board's responsibility

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Management Board Report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Wavin N.V. as at 31 December 2011, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Wavin N.V. as at 31 December 2011, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Management Board Report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the Management Board Report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Amsterdam, 28 February 2012

PricewaterhouseCoopers Accountants N.V.

Originally signed by drs. P.C. Dams RA

The above independent auditor's report is the original auditor's report that was issued on February 28, 2012 with respect to the consolidated financial statements and the company financial statements for the year ended December 31, 2011 as included in Wavin's Annual Report. This Annual Report also contained the Management Board Report. For purposes of the offering memorandum, the Management Board Report and company financial statements have been omitted.

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