

US\$750,000,000



Mexichem, S.A.B. de C.V.
US\$750,000,000 5.875% Senior Notes due 2044

We are offering US\$750,000,00 aggregate principal amount of our Senior Notes due 2044 (the Notes). The Notes will bear interest at a rate of 5.875% per year and we will pay interest on the Notes semiannually in arrears on March 17 and September 17 of each year, beginning on March 17, 2015. The Notes will mature on September 17, 2044.

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 10th, 2005 on prospectuses for securities, as amended. The Notes 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 22 for a discussion of certain risks you should consider in connection with an investment in the Notes.

Offering Price: 99.150% plus accrued interest, if any, from September 17, 2014

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. AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW (LEY DEL MERCADO DE VALORES), 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 are being offered pursuant to an exemption from the requirement to publish the prospectus under Directive 2003/71/EC (as amended and supplemented from time to time, or the Prospectus Directive) of the EU and this offering memorandum has not been approved by a competent authority within the meaning of the Prospectus Directive.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (Securities Act), any state securities laws, or the securities laws of any other jurisdiction and may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S under the Securities Act (Regulation S)), except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold in the United States only to qualified institutional buyers in compliance with Rule 144A under the Securities Act (Rule 144A) and to persons other than U.S. persons outside the United States in compliance with Regulation S. 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 eligible offerees and certain restrictions on the transfer of the Notes, see "Transfer restrictions."

Delivery of the notes was made to investors in book-entry form through the facilities of The Depository Trust Company (DTC) and its participants, including Euroclear Bank S.A./N.V. (Euroclear), as operator of the Euroclear System, and Clearstream Banking Société Anonyme, Luxembourg (Clearstream Luxembourg) on September 17, 2014.

Joint Bookrunners

BBVA

J.P. Morgan

Morgan Stanley

Santander

Co-manager

Casa de Bolsa BX+

The date of this offering memorandum is February 26, 2015.

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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, prospects, 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 document may only be used where it is legal to sell the Notes. Neither we nor the initial purchasers are making an offer of the Notes in any jurisdiction where the offer is not permitted.

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 the 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 of 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 will be 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. See “Risk factors” for a description of specified factors relating to investment in the Notes.

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 OF THE STATE OF NEW HAMPSHIRE 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 OF THE STATE OF NEW HAMPSHIRE 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, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO ELIGIBLE HOLDERS IN MEXICO

This Offering Memorandum has not been reviewed or approved by the CNBV. This offering does not constitute a public offering in Mexico and this Offering Memorandum may not be publicly distributed in Mexico. The CNBV will be notified of the terms of this offering for information purposes only, and such notification does not imply a certification as to the investment quality of the Notes, our solvency or the accuracy or completeness of the information included in this Offering Memorandum.

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, with principal places of business and corporate domicile (*domicilio social*) in Mexico City. In addition, most of our respective directors, officers and controlling persons, as well as certain experts named in this offering memorandum, reside outside the United States, and all or a substantial portion of their assets and our assets are located outside of the United States. As a result, it may be difficult for investors to effect service of process within the United States upon these persons or to enforce against them, either inside or outside the United States, judgments obtained against them in the U.S. courts, or to enforce in U.S. courts judgments obtained against them in courts in jurisdictions outside the United States, in each case, in any action predicated upon civil liabilities under the U.S. federal securities laws. Based on the opinion of Bufete Robles Miaja, S.C., our special Mexican counsel, there is doubt as to the enforceability against these persons in Mexico, whether in original actions or in actions for enforcement of judgments of U.S. courts, of liabilities predicated solely upon the U.S. federal 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.

INCORPORATION OF DOCUMENTS BY REFERENCE

We incorporate by reference into this offering memorandum certain information published by Mexichem on its website, which means that we can disclose important information to you by referring to another document. Specifically, we incorporate by reference into this document our quarterly report for the third quarter of 2014 (the “3Q Report”), which is available on our website at http://www.mexichem.com/English1/docs/report/3_14_EN.pdf, and will be published on the Luxembourg Stock Exchange website (www.bourse.lu).

Any statement contained in the 3Q Report shall be considered to be modified or superseded for purposes of this offering memorandum to the extent that a statement contained in this offering memorandum or the other reports incorporated by reference herein modifies or supersedes such statement. Any statement that is modified or superseded shall not, except as so modified or superseded, constitute a part of this offering memorandum. Certain of the information that we incorporate by reference into this offering memorandum may contain general references to our website and our social media channels. However, the contents of our website and social media channels, with the exception of the 3Q Report, are not incorporated by reference into this offering memorandum.

CERTAIN DEFINITIONS

In this offering memorandum, except where otherwise indicated or where the context otherwise requires, references to:

- “ABIQUIM” means the Brazilian Chemical Industry Association (*Associação Brasileira da Indústria Química*);
- “AlphaGary” means AlphaGary Corporation;
- “Amati” means Corporación Amati, S.A. de C.V.;
- “ANIQ” means the Mexican National Chemical Industry Association (*Asociación Nacional de la Industria Química*);
- “ASTM” means the American Society for Testing Materials;
- “Banco de México” means the Central Bank of Mexico;
- “Camesa” means Grupo Industrial Camesa, S.A. de C.V.;
- “CFE” means the Mexican Federal Electricity Commission (*Comisión Federal de Electricidad*);
- “CHS” means CHS Capital;
- “Clearstream Luxembourg” means *Clearstream Banking Société Anonyme, Luxembourg*;
- “CNBV” means the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*);
- “CNA” means the National Water Commission (*Comisión Nacional del Agua*);
- “Comapa” means Municipal Water and Sewage Commission (*Comisión Municipal de Agua Potable y Alcantarillado*);
- “DTC” means the Depository Trust Company;
- “Dura-Line” means Dura-Line Corporation, a cable and gas pipe producer with operations in the United States and Mexico, as well as in Asia (India), the Middle East (Oman), Europe (the Czech Republic) and Africa (South Africa);
- “EBITDA” means earnings before interest, tax and depreciation and amortizations;
- “ECU” means an electrochemical unit consisting of one unit of chlorine and 1.1 units of caustic soda;
- “EDC” means ethylene dichloride;
- “Enesa Energía” means Enesa Energía S.A. de C.V.;
- “Euro” or “€” means the lawful currency of the European Union;
- “Euroclear” means the Euroclear Bank S.A./N.V.;
- “European Union” refers to the group of countries comprised of Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain,

Sweden and the United Kingdom;

- “Eurostat” means the Eurostat Economist Intelligence Unit;
- “FDM” means Fluorita de México, S.A. de C.V.;
- “FSMA” means United Kingdom Financial Services and Markets Act of 2000;
- “GDP” means gross domestic product;
- “GRC” means glass reinforced pipe;
- “GRI” means Global Reporting Initiative;
- “HDPE” means high-density polyethylene;
- “HF” means hydrofluoric acid;
- “HIS-PVC” means high impact suspension PVC resin;
- “IASB” means the International Accounting Standards Board;
- “ICIS” means the Independent Chemical Information Service;
- “IFRS” means International Financial Reporting Standards as adopted by the International Accounting Standards Board, and any financial reporting standards authorized by the CNBV and applied by us;
- “Ingleside” means Ingleside Ethylene LLC;
- “Invenergy” means Invenergy Clean Power LLC;
- “IRS” means the Internal Revenue Service;
- “ISO” means the American Society for Testing Materials;
- “Kaluz” means Kaluz, S.A. de C.V.;
- “Federal Labor Law” means the Mexican Federal Labor Law (*Ley Federal del Trabajo*);
- “LIBOR” means the London Interbank Offered Rate;
- “Mexichem,” “we,” “our” and the “Company” each refer to Mexichem, S.A.B. de C.V., and its subsidiaries;
- “Mexichem CID” means the Mexichem Research and Development Center;
- “Mexico” means the United Mexican States;
- “OxyChem” means Occidental Chemical Corporation;
- “Pemex” means Petroleos Mexicanos;
- “Pemex Petroquímica” means the Pemex subsidiary named Pemex Gas y Petroquímica Básica, which processes, transports and commercializes natural gas, liquid hydrocarbons (such as liquefied petroleum gas) and basic petrochemical products, such as ethane, natural gasolines and sulphur;

- “peso” or “Ps.” means the lawful currency of Mexico;
- “Policyd” means Policyd, Inc. de CV, a manufacturer of PVC resins;
- “PolyOne” means Polyone Corporation, a producer of PVC compounds;
- “PMV” means Petroquímica Mexicana de Vinilo, S.A. de C.V., a joint venture with Pemex Petroquímica;
- “PROFEPA” means the Mexican Environmental Protection Agency (*Procuraduría Federal de Protección al Ambiente*);
- “PVC” means polyvinyl chloride;
- “Quimir” means Quimir, S.A. de C.V., a producer of industrial and food phosphates;
- “reais,” “real” or “R\$” means the lawful currency of Brazil;
- “Regulation S” means Regulation S under the Securities Act;
- “Relevant Member State” means any Member State of the European Economic Area that has implemented the Prospectus Directive;
- “Rule 144A” means Rule 144A under the Securities Act;
- “Securities Act” means the U.S. Securities Act of 1933, as amended;
- “SEMARNAT” means the Ministry of Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales*);
- “SFA” means the Securities and Futures Act, Chapter 289 of Singapore;
- “SRI” means SRI Consulting;
- “Strategic” means Strategic Value Partners LLC;
- “TIIE” means the *Tasa de Interés Interbancaria de Equilibrio*, or the equilibrium interbank interest rate, a rate that represents interbank credit transactions;
- “tons” means metric tons (one metric ton is equal to 1,000 kilograms or 2,204.6 pounds);
- “TPM” means total productive management;
- “U.S. GAAP” means generally accepted accounting principles in the United States;
- “U.S. Dollar,” “Dollars,” “US\$” or “\$” means the lawful currency of the United States;
- “USGS” means the U.S. Geological Survey;
- “VCM” means vinyl chloride monomer;
- “Vestolit” means Vestolit, GmbH, the sixth largest producer of PVC resin in Europe;
- “Wavin” means Wavin N.V., a manufacturer of PVC pipes and resin headquartered in the Netherlands;
- “WVA” means the IHS World Vinyls Analysis.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial information

This offering memorandum includes our audited consolidated financial statements as of December 31, 2013, 2012 and 2011 and for each of the years then ended, and our unaudited interim condensed consolidated financial statements as of June 30, 2014 and for the six and three months ended June 30, 2014 and 2013.

In 2013, we acquired 100% of the specialty PVC resins operations of PolyOne in the United States. We also entered into two joint ventures, the first with Pemex Petroquímica to form PMV, and the second with OxyChem to form Ingleside. Our consolidated financial statements for the year ended December 31, 2013 reflect the consolidation of PolyOne, PMV and Ingleside from March 25, 2013, September 1, 2013 and October 31, 2013, respectively. In 2012, we acquired two companies, FDM and Wavin. Our consolidated financial statements for the year ended December 31, 2012 reflect the consolidation of Wavin from May 7, 2012 and the consolidation of FDM from January 26, 2012. In 2011, we acquired AlphaGary. Our financial statements for the year ended December 31, 2011 reflect the consolidation of AlphaGary for the full twelve months.

Our consolidated financial statements have been prepared in accordance with IFRS issued by the 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 2013, 2012 and 2011, 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, ethylene, VCM, which, in turn, becomes PVC, chlorine derivatives and resins. Our Integral Solutions Division produces pipes and fittings 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 HF, fluorocarbons and refrigerant gases.

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, 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 and 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. See “Summary consolidated financial data” and “Selected consolidated financial data” for a reconciliation of gross profit to EBITDA for our consolidated operations and for our three operating divisions.

Currency information

Unless otherwise specified, references in this offering memorandum to “U.S. dollars,” “\$” or “US\$” are to United States dollars, references to “pesos” or “Ps.” are to Mexican pesos and references to “reais,” “real” or “R\$,” are to Brazilian reais, reference to “Euros” or “€” are to European Euros.

Until January 1, 2013, we issued our financial statements in pesos, the functional currency applicable to certain of our subsidiaries. However, in 2013, we decided to change our reporting currency to U.S. dollars because it is the currency with which our operational and financial decisions are made. The financial statements for the years ended December 31, 2012 and 2011, although initially issued in pesos, were thereafter subsequently restated in U.S. dollars to make these financial statements comparable to those as of and for the year ended December 31, 2013. Consequently, all of the figures included in our financial statements are represented in U.S. dollars.

Industry and market data

Unless otherwise noted, market data and other statistical information used throughout this offering memorandum are generally 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 IHS WVA 2013 and the IHS World Chlor-Alkali Analysis 2013 published by IHS Inc.;
- chemical economics handbook, process economics program yearbook and international marketing research reports prepared by SRI which include Fluorocarbons 2013 and Fluorspar and Inorganic Fluorine Compounds 2013; and
- 2013 SRI Consulting Market Research on Fluorspar and Hydrofluoric Acid, the Mexican ANIQ and the Brazilian ABIQUIM.

Although we believe these sources, including our estimates, are reliable, we have not independently verified the information and cannot guarantee its accuracy or completeness.

In addition, in many cases, we have based certain statements contained in this offering memorandum regarding our industry and our position in the industry on certain assumptions concerning our customers and competitors. These assumptions are based on our experience in the industry and our own investigation of market conditions. We cannot assure you as to the accuracy of any such assumptions, and such assumptions may not be indicative of our position in our industry.

Intellectual property

This offering memorandum includes some of our trademarks, trade names and service marks, including our logos. Each trademark, trade name or service mark of any company appearing in this offering memorandum belongs to its respective holder.

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,” “us,” 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 that you should consider before investing in the Notes. You should read the entire offering memorandum and the documents incorporated by reference herein 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 believe that we are one of the largest chemical companies in Latin America based on average annual production capacity and net sales. We are also a worldwide leader in plastic pipes and solutions with a presence in the Americas, Asia and Europe. We produce a diverse portfolio of chemical products in over 100 plants, which are strategically located in 18 countries across Latin America, the United States, Canada, Japan, Taiwan, China and 23 European countries, such as the United Kingdom, Germany, the Netherlands, Italy, France and Poland, among others. We also sell products in more than 50 countries. According to IHS, we are the largest producer of plastic 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. We have the largest production capacity for HF in the world in addition to the world’s largest fluorspar mine, according to Roskill Consulting. This makes us the only fully-integrated HF producer in the Americas.

Our principal products include PVC resin, compounds and pipe, fluid transportation solutions, chlorine, caustic soda, fluorspar and HF, aluminum fluoride, phosphates and refrigerant gases, which are widely used in the construction, housing, infrastructure, agriculture, potable water, sewage, irrigation, automotive, medical and air conditioning industries. In 2013, we had an approximate 31% market share in the sale of PVC resin and an approximate 31% market share in the sale of PVC pipes in Latin America, based on market studies from IHS, WVA and ANIQ. In addition, we believe that we have a leading market share in our plastic piping business in several European countries, such as Belgium, the Czech Republic, Denmark, Germany, Hungary, the Netherlands and Poland. In 2013, 2012 and 2011, our consolidated net sales, excluding intracompany sales, were \$5.2 billion, \$4.8 billion and \$3.8 billion, respectively, with annual increases of 8.6% and 26.3% in 2013 and 2012, respectively. Our EBITDA for 2013, 2012 and 2011 was \$898.9, \$962.5 and \$829.2 million, respectively.

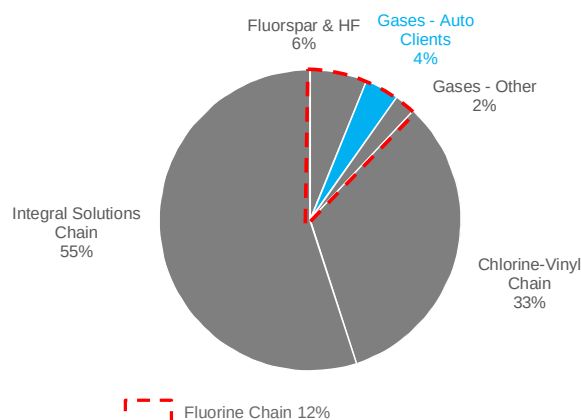
In recent years, we have secured a strong competitive position and market share throughout the Latin American, North American, European and Asian markets, both as a result of organic growth as well as acquisitions focused on expanding and vertically integrating our production processes. Our growth strategy is designed to gradually increase the supply of the main raw materials that we produce in order to vertically integrate our divisions to: (i) produce specialized products with higher margins, (ii) manage the production of our raw materials directly and (iii) reduce our operating costs and improve our margins. We have proven experience in integrating and operating acquired companies. Since 2011, we acquired AlphaGary, a manufacturer of compounds; FDM, including fluorine mineral concessions from the Las Sabinas mining unit; and, Wavin, a manufacturer of plastic pipes headquartered in the Netherlands. More recently, during 2013, we acquired 100% of PolyOne’s specialty PVC resin operations in the United States and entered into two joint ventures, the first with Pemex Petroquímica to generate value for our Chlorine-Vinyl division and the second with OxyChem, to construct an ethylene cracker with an annual capacity of 1,200 million pounds (550,000 tons). In 2014, we signed agreements to acquire Vestolit, a specialty resin producer based in Germany, with an annual resin capacity of 415,000 tons, and Dura-Line, a data, telecommunication and gas polyethylene pipe producer with operations in the United States, Mexico, the Czech Republic, Oman, India and South Africa.

Our business consists of three operating divisions:

- Chlorine-Vinyl Division.** This division consists of four manufacturing processes: (i) the chlor-alkali process, which produces chlorine, caustic soda, sodium hypochlorite and phosphate; (ii) ethylene and VCM production; (iii) the vinyl process, which produces PVC resins; and (iv) the compounds process, which produces PVC compounds used in different manufacturing processes such as piping, fittings, cables, medical applications and window frames. Our Chlorine-Vinyl Division had net sales of \$998.8 million for the six months ended June 30, 2014 and \$1.8 billion in 2013 (including intra-company sales), which accounted for approximately 35.9% and 35.0% of our consolidated net sales in those periods, respectively. We own the rights to a salt dome in Mexico with over 30 years of potential reserves. We also operate modern chlorine, caustic soda and PVC resin and compound production facilities.
- Integral Solutions Division.** This division produces plastic pipes, fittings and pipe systems for the conveyance of fluids, mainly water, surface heating and cooling systems and water treatment systems, 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 \$1.6 billion for the six months ended June 30, 2014 and \$3.0 billion in 2013 (including intra-company transactions), which accounted for approximately 56.4% and 58.9% of our consolidated net sales in those periods, respectively.
- Fluorine Division.** This division consists of one mining and three manufacturing processes: (i) the extraction and sale of fluorspar process, which is the raw material used in the production of all fluorinated products that is further used in the cement, ceramics, steel and glass industries; (ii) the production and sale of acid fluorspar to HF producers, (iii) the HF process, which encompasses the production of HF, which is a chemical precursor to numerous pharmaceuticals and plastics, refrigerant gas and aluminum fluoride, which is used for the production of aluminum by electrolysis; and (iv) refrigerant gas production, which is used in the pharmaceutical, automotive, air conditioning and refrigerant industries. This division includes the mining concession to the world's largest fluorspar mine with installed annual production capacity of approximately 1.3 million tons, an approximate extraction rate of 20% of the global fluorspar needs per year and proven reserves of 32 million tons for the next 28 years, according to the 2013 Roskill report. Our Fluorine Division had net sales, including intra-company transactions, of \$340 million for the six months ended June 30, 2014 and \$673 million in 2013, which accounted for approximately 12.2% and 13.0%, respectively, of our consolidated net sales in those periods.

The following table sets forth our total revenue breakdown by operating division.

Mexichem's 2013 Net Sales Breakdown ⁽¹⁾



(1) Excludes transactions within the same division and includes transactions with other divisions.

Further, the following table sets forth our principal products sold in 2013, together with our market position and market share for each of these products by country.

Country/Region	Product	Position	% Market Share
Integral Solutions			
Argentina	Pipe	2	13
Baltics ⁽¹⁾	Pipe	2	10
Belgium	Pipe	1	20
Brazil	Pipe	2	33
Colombia	Pipe	1	50
Costa Rica.....	Pipe	1	48
Czech Republic	Pipe	1	24
Denmark	Pipe	1	44
Ecuador.....	Pipe	1	52
El Salvador	Pipe	1	59
France	Pipe	2	13
Germany	Pipe	2	9
Guatemala.....	Pipe	1	37
Honduras.....	Pipe	1	34
Hungary	Pipe	1	30
Italy	Pipe	3	5
Mexico	Pipe	1	30
Netherlands.....	Pipe	1	27
Nicaragua.....	Pipe	1	47
Norway	Pipe	2	24
Panama	Pipe	1	32
Peru	Pipe	1	25
Poland.....	Pipe	1	22
Romania.....	Pipe	5	6
Sweden	Pipe	3	16
Turkey	Pipe	5	5
United Kingdom.....	Pipe	2	21
Venezuela	Pipe	2	29
Fluorine Division			
United States.....	Fluorspar (acid grade)	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 (acid grade)	1	30
Canada.....	Fluorspar (metallurgic)	1	79
Canada.....	Fluorspar (acid grade)	1	38
Japan.....	Fluorspar (metallurgic)	1	79
Japan.....	Fluorocarbons	2	30

Country/Region	Product	Position	% Market Share
Chlorine-Vinyl Division			
United States	Compounds	8	7
Mexico	Chlorine	1	68
Mexico	Compounds	1	28
Mexico	PVC Resin	1	47
Mexico	Caustic Soda	1	46
Colombia	Compounds	1	53
Colombia	PVC Resin	1	78

(1) Includes Estonia, Latvia and Lithuania.

Source: IHS, IHS 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 into the higher value-added products market 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 a salt dome in Mexico, which according to our internal estimates, has over 30 years of potential reserves, and we operate modern chlorine, caustic soda and PVC resin production facilities. In addition, we are the only fully integrated HF producer in the Americas. We hold the rights to the world's largest fluorspar mine, according to Roskill, with over 32 million tons or 28 years of potential fluorspar reserves.

We have recently acquired new companies or formed joint ventures with various companies to fully vertically integrate our operations and to increase our access to the raw materials needed for our operations. These acquisitions and joint ventures include:

- **Acquisition of Dura-Line:** On August 18, 2014, we reached an agreement with CHS to acquire Dura-Line. Based in Knoxville, Tennessee, Dura-Line is a global leader in HDPE conduit, duct and pressure-pipe solutions for telecom and data communications, energy and infrastructure industries. Dura-Line has manufacturing facilities in the U.S., Mexico, India, Oman, Europe and South Africa. The Dura-Line acquisition will allow us to naturally hedge our ethylene production by stabilizing our piping prices even if the price of ethylene decreases.
- **Acquisition of Vestolit:** On August 4, 2014, we reached an agreement with Strategic to acquire Vestolit, the sixth largest producer of PVC resin in Europe. Vestolit is the only European producer of HIS-PVC and the second largest European producer of PVC paste. Vestolit has an aggregated annual capacity of 415,000 tons.
- **Mexichem and OxyChem Joint Venture:** On October 31, 2013, we and OxyChem formalized a joint venture, each with an equal stake, named Ingleside, to construct an ethylene cracker with an annual production capacity of 550,000 tons. Ingleside will supply ethylene to OxyChem's VCM production facilities, which, in turn, will supply VCM to us.
- **Mexichem and Pemex Petroquímica Joint Venture:** On September 11, 2013, we formalized a joint venture with Pemex Petroquímica in PMV in order to secure the supply of VCM needed for our PVC plants. PMV is expected to increase competition in the domestic petrochemicals industry and to generate additional value in our Chlorine-Vinyl Division.

- Acquisition of PolyOne: On March 25, 2013, we reached an agreement with PolyOne to acquire 100% of its specialty PVC resin operations in the United States, allowing us to enter into the specialty items resins market with higher margins. We now have two production plants and one research and development center.
- Acquisition of Wavin: In May 2012, we acquired 95.7% of the shares of Wavin, a leading supplier of plastic pipe systems and solutions in Europe. In the first quarter of 2013, we acquired the remaining 4.3% of Wavin's outstanding shares.
- Acquisition of FDM: On January 26, 2012, we acquired 100% of the shares of FDM from Amati. This acquisition has provided us with access to the purest fluorite available in the world and has enabled us to ensure a continuous supply of the raw materials required for our United Kingdom operations.
- Acquisition of AlphaGary: On January 7, 2011, we 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, we have consolidated our presence in the compound markets in which we operate and we have combined both, the research and development potential and the innovative knowledge of AlphaGary into our operations.

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 plastic 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 IHS. We believe that the primary markets for these products, the infrastructure and construction industries, should experience sustained growth over the coming years. Our consolidated net sales in 2013 were principally concentrated in Mexico, Brazil and Colombia, which represented 23.9%, 10.6%, 11.0%, respectively. 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 June 2014, several other 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, and Mexico, based on data from the World Economic Forum and its World Competition Report 2012-2013. We expect that 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 IHS.

We believe that we are also uniquely positioned as a key producer of fluorochemicals. We have a particularly strong market presence in Mexico, the United States and Canada, as the only provider of fluorspar. We hold the rights to the world's largest fluorspar mine, with modern HF and refrigerant gas 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 over our competitors. We typically enter into long-term, U.S. dollar-denominated contracts with reputable international customers for the sale of the fluorspar and HF we produce. We believe that our unique global position will allow us to explore opportunities 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 22 acquisitions (for an aggregate of 78 acquired companies) since 2003. See "—Recent acquisitions." The acquisition completed in 2011 contributed \$272 million and \$35 million to net sales and EBITDA, respectively, which represented approximately 6.5% and 4.2% of total net sales and EBITDA for 2011; the acquisitions completed in 2012 contributed \$1,091 million and \$83 million to net sales and EBITDA, respectively, which represented approximately 24.9% and 8.6% of total net sales and EBITDA for 2012; and the acquisitions completed in 2013, which were primarily intended to further increase our access to

raw materials through vertical integration, contributed \$72 million and \$12 million to net sales and EBITDA, respectively, which represented approximately 1.4% and 1.3% of total net sales and EBITDA for 2013.

As noted above, 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. From 2003 through December 31, 2013, we have invested over \$3.7 billion in acquisitions.

Experienced management team with significant industry experience.

A significant part of our senior management team has meaningful experience in the Latin American chemicals industry, with an average of over 11 years of experience in the industry. We believe that 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.

Strong relationships and long-term agreements with main suppliers.

We operate under long-term supply agreements with OxyChem and we entered into a joint venture with Pemex Petroquímica for the procurement of VCM, which we use to make PVC. We believe that these arrangements 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 with a distinct advantage over our competitors who do not have similar strategic arrangements.

Significant economies of scale with strategically located facilities that results 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 Roskill in 2013, and, with the acquisition of FDM, we have increased our potential reserves of the highest purity fluorspar, (2) have the world's highest HF production capacity according to the latest survey conducted by Roskill in 2013, (3) have established strong relationships with key market participants, (4) have become the world leader in fluorine chemical segment, especially in the production of refrigerant gas, 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 industry with more value-added products, either through joint ventures with established producers, or through direct acquisitions. The Chlorine-Vinyl Division begins its process by extracting salt from our own mines to make PVC resin, which is the main raw material used in making pipes for our Integral Solutions Division. Also, in September 2013 and October 2013, we formalized our joint venture with Pemex Petroquímica and with OxyChem, respectively. We believe that both joint ventures allow us, and will allow us, to integrate ourselves into the ethylene market, which represents 79% of the cost of VCM and 56% of the cost of PVC piping. We believe that these joint ventures will allow us to reduce our VCM production costs, will seek to guarantee our supply of VCM and will allow us to directly manage the production and supply of one of our main raw materials.

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 in Altamira, 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 HF production facilities are located near the United States border and the Mexican gulf coast. This provides us with 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 2011, we have invested approximately \$775 million to construct and upgrade our facilities and equipment. Our EBITDA margin for the year ended December 31, 2013 was 17.4%, which we believe compares favorably to industry margins.

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

We are constantly conducting research and development. Our patented production processes provide us with a competitive advantage over global competitors. Our eight research centers in Mexico, the United States, the Netherlands 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 HF production by treating raw fluorine with sulfuric acid. This innovation has reduced the annual cost of production of HF by an estimated \$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. In total, we have over 480 patented products.

Strategy

Our business strategy emphasizes expanding our presence in new and existing markets through organic growth as well as 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:

A continued focus on high value-added products.

We will continue to focus on developing value-added products. We have developed a state-of-the-art process to purify fluorspar from our mine at a significantly decreased cost in order to manufacture HF, which is generally sold at ten times the average price of fluorspar. Moreover, the acquisition of Wavin and PolyOne, as well as our recent agreements to acquire Dura-Line and Vestolit, are part of our strategy to further integrate ourselves into higher value-added products through strategic acquisitions. Value-added products (principally pipes systems and compounds) accounted for approximately 68.8% of our consolidated net sales in 2013 and 65.3% in 2012.

We will continue to leverage our competitive advantage in developing new and advanced production processes through Mexichem Research and Development Center (Mexichem CID), which develops new products geared towards addressing the needs of our customers, making them available through our extensive distribution network in the markets that we serve. We will also 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, plastic pipes, compounds, plasticizers and fluorspar purification. This technology allows us to produce a unique pipe that meets the requirements of most infrastructure projects and HF at lower cost, giving us an important competitive advantage. The improvements that we have made to our fluorspar purification process have significantly changed the global HF industry and positioned us as a leader in this industry.

A continued 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, each 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.

A continued 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 through the continued vertical integration of our operations with a focus on our high value-added products. Our vertical integration strategy also decreases our exposure to any price volatility of our main raw materials, helps improve our profit margins through cost synergies and helps us increase the diversity of the products which we offer. 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 our 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 2:1. We have also secured liquidity through a revolving credit line of up to \$1.5 billion. We continue to implement other financial strategies, including a conservative maturity profile for our debt facilities, a conservative hedging strategy and additional strategies to match our currency exposure that allow us to maintain the financial flexibility that we require in order to continue executing our growth strategies.

Implement our business culture.

Our current operations are the result of 22 acquisitions of 78 companies since 2003 from different parts of the world, bringing diverse cultures, ways of thinking and different personalities and perspectives into our business. As such, we believe that a unified business culture is important for meeting our goals. We take pride in establishing and disseminating among our companies our unique mission, vision and values as part of this unified culture so that our employees are not only aware of our mission, vision and values, but so they may also apply them in their daily routines.

Commit to social and environmental responsibility.

We continue to focus not only on our economic development, but also on our responsibility for social and environmental sustainability. As part of this, we have established our Global Reporting Initiative (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 and Deloitte's subsequent audit of our GRI initiative confirmed this result and further conferred a "+" distinction for our efforts. We have continued to maintain this "A+" rating through 2013. We believe that we are among the few companies in the world in this sector that not only fulfill our social and environmental responsibility, but do so with the greatest level of commitment.

Recent acquisitions

The following table sets forth our acquisitions carried out in 2013, 2012 and 2011, together with installed capacity and sales (in thousands dollars) for each company for the six months ended June 30, 2014 and for 2013.

Date of acquisition	Company	Product	Operating Division	Annual installed production capacity (tons)⁽¹⁾	Net sales in the six months ended June 30, 2014 (thousands of dollars)	Net sales in 2013 (thousands of dollars)
September 11, 2013	PMV	VCM	Chlorine-Vinyl	400,000	123,743	63,927
March 25, 2013	PolyOne	PVC-Resins	Chlorine-Vinyl	100,599	74,323	73,251
May 7, 2012	Wavin	Plastic Pipe	Integral Solutions	620,000	820,717	1,544,220
January 26, 2012	FDM	Fluorspar	Fluorine	100,000	3,431	9,215
January 7, 2011	AlphaGary	Compounds	Chlorine-Vinyl	106,100	145,605	261,898

(1) Includes all products.

Other recent acquisitions and joint ventures by division include the following below:

Chlorine-Vinyl Division

Vestolit Acquisition

On August 4, 2014, we reached an agreement with Strategic to acquire Vestolit, the sixth largest producer of PVC resin in Europe. Vestolit, headquartered in Marl, Germany, is the only European producer of HIS-PVC and the second largest European producer of PVC paste. Vestolit has an aggregated annual capacity of 415,000 tons. This acquisition is expected to strengthen our market position in Europe and to allow us to enter into new segments of the European market. Also, this acquisition is expected to provide us with access to new technologies and better practices that will enhance our global operations in the Chlorine-Vinyl Division. The transaction is expected to close in the fourth quarter of 2014 and is subject to regulatory approvals in order to close. The approximate value of this acquisition is €219 million in cash and assumed liabilities.

Mexichem and OxyChem joint venture

On October 31, 2013, we and OxyChem formalized a joint venture, each with an equal stake, named Ingleside, to construct an ethylene cracker with an annual capacity of 550,000 tons. This new plant represents a total investment of \$1.5 billion, and will be located at the installations of OxyChem in Ingleside, Texas. The cracker is expected to utilize the OxyChem duct and storage system located in Markham, Texas. The cracker will supply ethylene to the OxyChem VCM production facility in Texas, which, in turn, will supply VCM to us. The total amount invested into Ingleside as of June 30, 2014 and December 31, 2013 is \$206 million and \$46 million, respectively. We expect that the cracker will be fully operational in 2017.

Mexichem and Pemex Petroquímica joint venture

On September 11, 2013, we and Pemex Petroquímica formalized a joint venture in PMV. As a result of this strategic alliance, our vinyl chain (from salt-ethylene to PVC resin and our fluids conduction systems) will be fully vertically integrated, allowing the Mexican industry to become more competitive compared to that of the United States and allowing Mexico to benefit from the shale gas revolution. As part of this joint venture, Pemex Petroquímica is contributing an ethylene cracker, an EDC and VCM plant, two electricity cogeneration units and maritime facilities. Our contributions to PMV include salt deposits, the chlorine-caustic soda plant located in Coatzacoalcos, and \$200 million for the VCM capacity expansion from the approximate 125,000 tons a year that we produced prior to the formation of PMV to the designed capacity of approximately 400,000 tons a year. We are currently determining the fair value of the net assets that we acquired, which is expected to take effect one year after the acquisition in conformity with IFRS 3. Consequently, the amounts relating to the fair values of our net assets reported in the consolidated financial statements accompanying offering memorandum are provisional and subject to change. Our property, plant and equipment were revalued as a result of the application of our accounting policies, which led to an increase in the value of our assets by \$256 million as a contribution in kind.

Through the formation of PMV, we intend to secure the supply of VCM needed for our PVC plants. We also expect that this plant will provide for the further vertical integration of our Chlorine-Vinyl Division by allowing us to produce one of the main raw materials used in this division and that it will improve our competitive position in the manufacturing of PVC products.

PolyOne Acquisition

On March 25, 2013, we reached an agreement with PolyOne to acquire 100% of its specialty PVC resin operations in the United States, allowing us to enter into the specialty resins market with higher margins. We now have two production plants and one research and development center. By means of this acquisition, we concentrated our sales in one key site and improved our cost efficiencies. The approximate value of this acquisition was \$250 million.

AlphaGary Acquisition

On January 7, 2011, we 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, we have consolidated our presence in the compound markets in which we operate and we have combined both the research and development potential and the innovative knowledge of AlphaGary into our operations. The approximate value of this acquisition was \$322 million.

Integral Solutions Division

Dura-Line Acquisition

On August 18, 2014, we reached an agreement with CHS to acquire Dura-Line, advancing our global growth strategy in high-end specialty products. Based in Knoxville, Tennessee, Dura-Line is a global leader in HDPE conduit, duct and pressure-pipe solutions for telecom and data communications, energy and infrastructure industries. Dura-Line has manufacturing facilities in the U.S. and Mexico, as well as in Asia (India), the Middle East (Oman), Europe (the Czech Republic) and Africa (South Africa). This acquisition is expected to provide us with access to new markets, including India, and to continue our growth in the high value-added products market. The acquisition is expected to close in the near term and is subject to regulatory approvals in order to close. This transaction has an approximate value of \$630 million.

Wavin Acquisition

In May 2012, we acquired 95.7% of the shares of Wavin, which 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 gas and telecom operations. In the first quarter of 2013, we acquired the remaining 4.3% of Wavin's outstanding shares. Wavin has its headquarters in Zwolle, the Netherlands and operates in 25 European countries and in China. The approximate value of this acquisition was €533 million. We have been able to optimize both Wavin's synergies and its results partially due to its restructuring in 2013. During this restructuring, Wavin closed over 10 plants in Europe without affecting its sales volume, allowing us to improve our overall margins.

Fluorine Division

FDM Acquisition

On January 26, 2012, Mexichem acquired 100% of the shares of FDM from Amati, located in Múzquiz, Coahuila, Mexico. This acquisition provides us with access to the purest fluorspar available in the world, and enables us to ensure that we meet the continuous supply of some of the raw materials required for our United Kingdom operations. The FDM mine that we acquired has potential reserves in excess of 13 million tons and has an estimated annual extraction of 100,000 tons. The approximate value of this acquisition was \$68 million.

Other Recent Events

Cogeneration energy project

On July 15, 2014, a consortium formed by us, Enesa Energía and Invenergy were selected by Pemex to develop a cogeneration plant. This plant is expected to commence its operations in early 2018 and has an expected capacity of 530 megawatts. The estimated total investment is \$650 million.

We also intend to pursue an opportunity to develop a cogeneration plant in connection with the Pajaritos plant, which would reduce our energy costs. This plant would have a potential capacity of 500 megawatts, of which 40% would be auto-consumption, and would be expected to commence operations approximately 2.5 years from the date of the commencement of construction.

Revolving Credit Facility

On June 30, 2014, we entered into a revolving credit facility of \$1.5 billion with a five-year term and with a rate of LIBOR plus 95 basis points to 1.35 basis points, depending on our utilization level and our S&P and Fitch rating. We expect that this revolving credit facility will allow us to increase our financial flexibility and will allow us to take advantage of opportunities that arise in our markets to consolidate our strategic growth plans.

THE OFFERING

The summary below describes the principal terms of the Notes. Certain of the terms and conditions described below are subject to important limitations 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.....	\$750,000,000 aggregate principal amount of 5.875% Senior Notes due 2044.
Offering Price.....	99.150%, plus accrued interest, if any, from September 17, 2014.
Maturity Date.....	September 17, 2044.
Interest Rate	Interest on the Notes will accrue at a rate of 5.875% per year.
Interest Payment Dates	March 17 and September 17 of each year, beginning on March 17, 2015.
Subsidiary Guarantors	The Notes will be guaranteed by certain of our subsidiaries identified in “Description of Notes—General.” As of and for the six months ended June 30, 2014, the subsidiary guarantors (in addition to Mexichem, on a stand-alone basis) accounted for 52.3% of our total assets and 55.1% of our EBITDA on a consolidated basis.
Guarantees	The Notes will be fully and unconditionally guaranteed on a senior unsecured basis by our subsidiary guarantors.
Ranking	The Notes and subsidiary guarantees will be our and our subsidiary guarantors’ respective senior unsecured obligations and they will 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, such as tax and labor obligations); and • senior to all of our and our subsidiary guarantors’ respective existing and future subordinated indebtedness. The Notes and the subsidiary guarantees will 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 will be structurally subordinated to all indebtedness, and trade payables, of our non-guarantor subsidiaries. As of June 30, 2014, 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 \$2,949.1 million. Of this amount, no amount would have been secured by collateral.

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, upon the giving of a notice of redemption to the holders, 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 will, among others, limit the creation of liens by us and our subsidiaries, and will 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.....	We will use the net proceeds of the offering (after paying underwriting fees and commissions and expenses related to the offering) to repay our indebtedness and to finance prospective strategic acquisitions, with any remaining proceeds to be used for

	general corporate purposes. See “Use of proceeds.”
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.....	The Notes will be issued in the form of global Notes in fully registered form without interest coupons. The global Notes will be exchangeable or transferable, as the case may be, for definitive certificated Notes in fully registered form without interest coupons only in limited circumstances. The Notes will be 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.....	The Notes have been delivered in book-entry form through the facilities of DTC for the accounts of its participants, including Euroclear and Clearstream Luxembourg.
Transfer Restrictions	We have not registered the Notes under the Securities Act or the securities laws of any other jurisdiction. The 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 will notify 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. We cannot assure that this application will be accepted.
Governing Law	The indenture, the Notes and the subsidiary guarantees 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 22 for a discussion of certain risks that you should consider in connection with an investment in the Notes.

Additional information

Our executive offices are located at Río San Javier No. 10, Fraccionamiento Viveros del Río, Tlalnepantla, Estado de México, México, 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 in U.S. dollars. We previously issued our financial statements in Mexican pesos, the functional currency applicable to certain of our subsidiaries. However, in 2013, we decided to change our reporting currency to U.S. dollars because it is the currency with which our operational and financial decisions are made. Consequently, all of the figures included in our financial statements are now represented in U.S. dollars. See “Presentation of Financial and Other Information—Currency Information.”

The summary consolidated financial data as of and for the years ended December 31, 2013, 2012 and 2011 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, 2014 and for the six months ended June 30, 2014 and 2013 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.

	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
(Thousands of U.S. dollars)					
Statement of Comprehensive Income Data					
Net sales	2,782,557	2,569,529	5,176,999	4,767,743	3,766,339
Cost of sales	2,037,111	1,771,924	3,646,751	3,178,163	2,498,025
Gross profit	745,446	797,605	1,530,248	1,589,580	1,268,314
Selling and development expenses	325,065	321,115	645,372	597,540	451,240
Administrative expenses	139,886	127,848	263,148	220,349	163,234
Depreciation and amortization	53,174	51,799	109,632	124,576	75,034
Other (income) expenses	(32,070)	(37,295)	(50,210)	4,670	(18,612)
Exchange gain	(8,278)	(13,538)	(29,424)	(56,419)	(40,276)
Exchange loss	39,498	29,175	81,252	56,089	10,752
Interest expense	85,679	91,230	174,892	258,527	106,039
Interest income	(19,593)	(33,610)	(65,810)	(35,837)	(5,661)
Monetary position loss	5,277	6,466	13,831	2,959	3,649
Other taxes	—	—	—	—	17,064
Equity in income of associated entity	(2,172)	(1,588)	(705)	(1,795)	—
Profit before income taxes	158,980	256,003	388,270	418,921	505,851
Income tax expense	54,257	93,383	156,800	119,535	149,299
Profit for the year from continuing operations	104,723	162,620	231,470	299,386	356,552
(Loss) gain from discontinued operations, net	(615)	(13,685)	(148,415)	19,527	(6,335)
Consolidated profit for the year	104,108	148,935	83,055	318,913	350,217
Other comprehensive income (loss):					
Items that will not be reclassified subsequently to profit or loss:					
Property, plant and equipment revaluation	24,776	269,601	310,308	108,971	—
Actuarial losses recognized during the year	(1,411)	(1,433)	(2,866)	(35,370)	—
Income taxes	(8,001)	(89,669)	(101,438)	(26,883)	—
	15,364	178,499	206,004	46,718	—
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	48,726	(86,443)	(9,735)	(26,898)	(49,758)
Valuation of financial instruments	—	—	(49,047)	—	—
Net gain (loss) on available-for-sale financial assets	14,038	(30,011)	—	5,477	(9,147)
Income taxes	(4,170)	8,703	15,115	(1,643)	2,744
	58,594	(107,751)	(43,667)	(23,064)	(56,161)
Other comprehensive income for the year	73,958	70,748	162,337	23,654	(56,161)
Total consolidated comprehensive profit for the year	178,066	219,683	245,392	342,567	294,056
Consolidated profit for the year:					
Owners of the company	103,068	144,467	80,603	316,095	349,019
Non-controlling interests	1,040	4,468	2,452	2,818	1,198

	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
	(Thousands of U.S. dollars)				
	104,108	148,935	83,055	318,913	350,217
Total comprehensive income attributable to:					
Owners of the company	177,292	213,726	233,269	343,360	292,726
Non-controlling interests	774	5,957	12,123	(793)	1,330
	178,066	219,683	245,392	342,567	294,056
Earnings (loss) per share attributable to owners of the company:					
From continuing operations	0.05	0.08	0.11	0.16	0.20
From discontinued operations	0.00	(0.01)	(0.07)	0.01	0.00
Basic earnings per share	0.05	0.07	0.04	0.17	0.20
Weighted average common shares outstanding	2,100,000,000	2,100,000,000	2,100,000,000	1,889,666,667	1,800,000,000

	As of June 30,		As of December 31,		
	2014	2013	2013	2012	2011
	(Thousands of U.S. dollars)				
Statement of Financial Position Data					
Assets:					
Current assets:					
Cash and cash equivalents	1,043,673	1,329,308	1,232,561	1,395,197	523,942
Trade investment	—	—	—	250,000	—
Investment securities available for sale	—	—	—	—	25,522
Accounts receivable, net	1,338,562	1,148,899	1,032,726	1,010,662	756,590
Due from related parties.....	5,525	9,510	11,168	8,526	5,150
Inventories, net	815,369	706,264	728,805	736,209	457,748
Prepaid expenses	55,462	46,955	27,537	29,213	12,318
Derivative financial instruments.....	3,677	—	—	—	—
Assets classified as held for sale	12,946	22,025	20,181	25,214	20,729
Total current assets	3,275,214	3,262,961	3,052,978	3,455,021	1,801,999
Non-current assets					
Property, plant and equipment, net.....	3,321,606	2,498,625	3,152,748	2,462,378	1,692,242
Other assets, net	78,291	64,035	72,639	65,736	14,468
Investment in shares of associated entity	31,400	29,707	33,381	31,390	—
Employee benefits	—	—	—	—	3,834
Intangible assets, net	1,184,060	1,102,425	1,208,186	1,145,299	462,135
Deferred income taxes.....	122,313	32,488	125,357	36,886	41,377
Goodwill.....	558,519	697,898	536,513	479,541	391,061
Total non-current assets.....	5,296,189	4,425,178	5,128,824	4,221,230	2,605,117
Total assets.....	8,571,403	7,688,139	8,181,802	7,676,251	4,407,116
Liabilities:					
Current liabilities:					
Bank loans and current portion of long-term debt	70,778	58,297	62,121	125,321	271,908
Suppliers	858,304	713,953	553,696	742,832	362,471
Credit letters of suppliers	216,631	173,847	399,451	185,208	228,260
Due to related parties	1,749	22,662	1,610	37,363	26,863
Other accounts payable and accrued liabilities	474,839	419,054	399,754	331,765	215,241
Provisions.....	18,122	30,660	25,963	53,529	6,097
Employee benefits	3,497	4,443	7,934	9,796	11,072
Short term finance lease.....	49,182	51,253	41,668	31,795	2,862
Derivative financial instruments	228	—	—	—	—
Liabilities directly associated with assets held for sale.....	17,433	3,169	22,748	1,636	4,250
Total current liabilities	1,710,763	1,477,338	1,514,945	1,519,245	1,129,024
Non-current liabilities					
Bank loans and long-term debt	2,132,222	2,242,229	2,103,086	2,205,169	1,207,090
Long-term other liabilities.....	23,011	14,736	24,937	21,176	34,478
Long-term provisions	47,108	59,254	49,621	52,813	26,787
Employee benefits	83,774	105,973	80,196	111,918	—
Deferred income taxes.....	476,559	372,631	511,913	399,421	202,338
Long term finance lease	184,959	146,385	185,564	110,803	8,843
Long term income tax.....	45,949	—	45,794	—	—
Derivative financial instruments	63,551	35,597	74,689	17,496	9,906
Liabilities directly associated with assets held for sale	—	8,046	—	—	—
Total non-current liabilities	3,057,133	2,984,851	3,075,800	2,918,796	1,489,442
Total liabilities.....	4,767,896	4,462,189	4,590,745	4,438,041	2,618,466
Stockholders' equity:					
Paid-in capital					
Nominal	256,482	256,482	256,482	256,482	225,855
Additional paid-in capital	1,706,856	1,717,539	1,709,628	1,708,376	404,433
Cumulative effect of restatement.....	23,948	23,948	23,948	23,948	23,948
Earned capital					
Retained earnings.....	646,293	844,319	681,921	776,838	703,325
Other comprehensive income.....	645,477	301,910	570,265	415,618	362,005
Share repurchase reserve.....	151,176	57,456	56,312	38,609	64,744

	As of June 30,		As of December 31,		
	2014	2013	2013	2012	2011
	(Thousands of U.S. dollars)				
Controlling interest.....	3,430,232	3,201,654	3,298,556	3,219,871	1,784,310
Non-controlling interest	373,275	24,296	292,501	18,339	4,340
Total stockholders' equity.....	3,803,507	3,225,950	3,591,057	3,238,210	1,788,650
Total liabilities and stockholders' equity.....	8,571,403	7,688,139	8,181,802	7,676,251	4,407,116

Selected Guarantor Financial Information

The following tables present selected financial data on a subsidiary guarantor versus non-guarantor basis, as of June 30, 2014 and for the six months ended June 30, 2013, and as of and for the year ended December 31, 2013. As of and for the six months ended June 30, 2014, the subsidiary guarantors (in addition to Mexichem, on a stand-alone basis) accounted for 52.3% of our total assets and 55.1% of our EBITDA on a consolidated basis.

Six months ended June 30, 2014					
	Parent Company	Guarantor subsidiaries	Non- guarantor subsidiaries	Eliminations	Total Consolidated
(Thousands of U.S. dollars except as otherwise indicated)					
Statement of Comprehensive Income Data					
Net sales	-	1,759,390	1,858,035	(834,868)	2,782,557
Cost of sales	-	1,399,000	1,452,246	(814,135)	2,037,111
Gross profit	-	360,390	405,789	(20,733)	745,446
Selling and development expenses	-	136,258	188,504	303	325,065
Administrative expenses	10,184	35,794	114,944	(21,036)	139,886
Depreciation and amortization	-	11,949	41,225	-	53,174
Other expenses (income)	(2,698)	(2,229)	(27,143)	-	(32,070)
Exchange gain	(416)	(5,347)	(2,515)	-	(8,278)
Exchange loss	3,116	6,053	30,329	-	39,498
Interest expense	51,886	17,424	36,139	(19,770)	85,679
Interest income	(25,116)	(5,239)	17,618	(6,856)	(19,593)
Monetary position loss	-	-	5,277	-	5,277
Equity in income of associated companies	(3)	(3,136)	967	-	(2,172)
Profit before income taxes	(36,953)	168,863	444	26,626	158,980
Income tax expense	4,634	38,733	10,890	-	54,257
Profit from continuing operations	(41,587)	130,130	(10,446)	26,626	104,723
(Loss), gain from discontinued operations, net	-	639	(1,254)	-	(615)
Consolidated profit	(41,587)	130,769	(11,700)	26,626	104,108
Other comprehensive (income) loss:					
Exchange differences on translating foreign					
operations	-	-	20,962	27,764	48,726
Net (gain) loss on available-for-sale financial					
assets	-	-	24,776	-	24,776
Actuarial (gain) loss	-	-	(1,411)	-	(1,411)
Income taxes on net (gain) loss on					
cash flow	(4,211)	-	(7,960)	-	(12,171)
Hedging instruments and net (gain)					
loss on available-for-sale					
financial assets	14,038	-	-	-	14,038
Consolidated comprehensive income	(31,760)	130,769	24,667	54,390	178,066

As of June 30, 2014					
	Parent Company	Guarantor subsidiaries	Non- guarantor subsidiaries	Eliminations	Total Consolidated
(Thousands of U.S. dollars except as otherwise indicated)					
Statement of Financial Position Data					
Assets:					
Current assets:					
Cash and cash equivalents	611,561	76,488	355,624	-	1,043,673
Accounts receivable, net	561,305	673,672	103,585	-	1,338,562
Related parties	312,437	632,295	1,179,536	(2,118,743)	5,525
Inventories, net	-	341,802	473,567	-	815,369
Prepaid expenses	382	23,414	31,666	-	55,462
Derivative financial instruments	3,677	-	-	-	3,677
Assets held for sale	-	-	12,946	-	12,946
Total current assets	1,489,362	1,747,671	2,156,924	(2,118,743)	3,275,214
Non-current assets:					
Property, plant and equipment, net	-	1,532,718	1,788,888	-	3,321,606
Other assets, net	4	29,504	48,783	-	78,291

As of June 30, 2014

	Parent Company	Guarantor subsidiaries	Non- guarantor subsidiaries	Eliminations	Total Consolidated
	(Thousands of U.S. dollars except as otherwise indicated)				
Investment in shares of associated companies...	2,482,948	995,134	31,400	(3,478,082)	31,400
Intangible assets, net	17,435	123,542	1,043,083	-	1,184,060
Deferred income taxes.....	-	12,382	109,931	-	122,313
Goodwill.....	-	96,462	462,057	-	558,519
Total non-current assets.....	2,500,387	2,789,742	3,484,142	(3,478,082)	5,296,189
Total assets.....	3,989,749	4,537,413	5,641,066	(5,596,825)	8,571,403
Liabilities:					
Current liabilities:					
Bank loans and current portion of long-term debt.....	-	36,926	33,852	-	70,778
Suppliers.....	17	492,475	582,443	-	1,074,935
Related parties	163,885	845,844	1,110,763	(2,118,743)	1,749
Other accounts payable and accrued liabilities..	26,093	120,328	377,828	-	524,249
Provisions.....	111	712	17,299	-	18,122
Employee benefits	-	2,572	925	-	3,497
Assets held for sale.....	-	11,763	5,670	-	17,433
Total current liabilities.....	190,106	1,510,620	2,128,780	(2,118,743)	1,710,763
Non-current liabilities					
Bank loans and long-term debt.....	1,789,408	246,371	96,443	-	2,132,222
Other liabilities	45,950	182,500	72,577	-	301,027
Employee benefits	-	6,106	77,668	-	83,774
Deferred income taxes.....	(60,468)	219,896	317,131	-	476,559
Derivative financial instruments.....	57,738	355	5,458	-	63,551
Total non-current liabilities	1,832,628	655,228	569,277	-	3,057,133
Total liabilities.....	2,022,734	2,165,848	2,698,057	(2,118,743)	4,767,896
Stockholders' equity:					
Paid-in capital					
Nominal.....	256,482	1,052,050	2,865,668	(3,917,718)	256,482
Additional paid-in capital.....	1,706,856	-	-	-	1,706,856
Cumulative effect of restatement.....	23,948	99,895	75,092	(174,987)	23,948
Earned capital					
Retained earnings	(147,708)	863,503	(433,316)	363,814	646,293
Other comprehensive income	(23,739)	273,315	393,873	2,028	645,477
Reserve for reacquisition of shares	151,176	-	-	-	151,176
Controlling interest.....	1,967,015	2,288,763	2,901,317	(3,726,863)	3,430,232
Non-controlling interest	-	82,802	41,692	248,781	373,275
Total stockholders' equity.....	1,967,015	2,371,565	2,943,009	(3,478,082)	3,803,507
Total liabilities and stockholders' equity	3,989,749	4,537,413	5,641,066	(5,596,825)	8,571,403

Year ended December 31, 2013

	Parent Company	Guarantor subsidiaries	Non- guarantor subsidiaries	Eliminations	Total Consolidated
	(Thousands of U.S. dollars except as otherwise indicated)				
Statement of Comprehensive Income Data					
Net sales	-	3,557,046	3,205,290	(1,585,337)	5,176,999
Cost of sales.....	-	2,761,319	2,426,131	(1,540,699)	3,646,751
Gross profit	-	795,727	779,159	(44,638)	1,530,248
Selling and development expenses.....	-	282,339	360,354	2,679	645,372
Administrative expenses.....	20,812	89,368	200,285	(47,317)	263,148
Depreciation and amortization	-	27,473	82,159	-	109,632
Other expenses (income)	(67,028)	94,791	(77,973)	-	(50,210)
Exchange gain	-	(965)	(28,459)	-	(29,424)
Exchange loss	56,288	4,921	20,043	-	81,252
Interest expense	109,470	33,013	79,455	(47,046)	174,892
Interest income	(76,411)	(15,167)	(21,278)	47,046	(65,810)
Monetary position loss.....	-	-	13,831	-	13,831

Year ended December 31, 2013					
	Parent Company	Guarantor subsidiaries	Non- guarantor subsidiaries	Eliminations	Total Consolidated
	(Thousands of U.S. dollars except as otherwise indicated)				
Equity in income of associated companies.....	(85,519)	(232,727)	317,541	-	(705)
Profit before income taxes	42,388	512,681	(166,799)	-	388,270
Income tax expense	6,959	105,862	43,979	-	156,800
Profit from continuing operations	35,429	406,819	(210,778)	-	231,470
(Loss), gain from discontinued operations, net	-	(105,090)	(43,325)	-	(148,415)
Consolidated profit	35,429	301,729	(254,103)	-	83,055
Other comprehensive income (loss):					
(Loss), gain from discontinued					
operations.....	-	(33,255)	23,520	-	(9,735)
Net gain (loss) on cash flow hedging instruments	(49,047)	-	-	-	(49,047)
Net gain (loss) on available-for-sale financial					
assets	-	177,050	133,258	-	310,308
Actuarial gain (loss)	(2,618)	(248)	(2,866)	-	(5,732)
Available-for-sale financial assets	(14,224)	(49,040)	(23,059)	-	(86,323)
Consolidated comprehensive income.....	(27,842)	393,866	(120,632)	-	245,392

	As of December 31, 2013				
	Parent Company	Guarantor subsidiaries	Non- guarantor subsidiaries	Eliminations	Total Consolidated
	(Thousands of U.S. dollars except as otherwise indicated)				
Statement of Financial Position Data					
Assets:					
Current assets:					
Cash and cash equivalents	629,212	95,469	507,880	-	1,232,561
Accounts receivable, net	(24,219)	593,752	463,193	-	1,032,726
Related parties	911,783	361,856	853,208	(2,115,679)	11,168
Inventories, net	-	323,818	404,987	-	728,805
Prepaid expenses.....	700	6,019	20,818	-	27,537
Assets held for sale.....	-	-	20,181	-	20,181
Total current assets	1,517,476	1,380,914	2,270,267	(2,115,679)	3,052,978
Non-current assets					
Property, plant and equipment, net.....	-	1,543,593	1,609,155	-	3,152,748
Other assets, net	4	26,734	45,901	-	72,639
Investment in shares of associated companies...	2,477,293	913,507	2,468,737	(5,826,156)	33,381
Intangible assets, net	-	128,301	1,079,885	-	1,208,186
Deferred income taxes.....	-	16,429	108,928	-	125,357
Goodwill.....	-	96,462	440,051	-	536,513
Total non-current assets.....	2,477,297	2,725,026	5,752,657	(5,826,156)	5,128,824
Total assets.....	3,994,773	4,105,940	8,022,924	(7,941,835)	8,181,802

Liabilities:					
Current liabilities:					
Bank loans and current portion of					
long-term debt	-	46,584	15,537	-	62,121
Suppliers.....	-	442,213	510,934	-	953,147
Related parties	157,692	521,932	1,437,665	(2,115,679)	1,610
Other accounts payable and accrued liabilities..	26,339	113,562	301,521	-	441,422
Provisions.....	111	652	25,200	-	25,963
Employee benefits	-	5,119	2,815	-	7,934
Assets held for sale.....	-	15,921	6,827	-	22,748
Total current liabilities.....	184,142	1,145,983	2,300,499	(2,115,679)	1,514,945
Non-current liabilities					
Bank loans and long-term debt.....	1,786,399	259,007	57,680	-	2,103,086
Other liabilities	-	178,204	81,918	-	260,122
Long term income tax	45,794	-	-	-	45,794
Employee benefits	-	5,666	74,530	-	80,196
Deferred income taxes.....	(67,626)	243,213	336,326	-	511,913
Derivative financial instruments	67,045	(119)	7,763	-	74,689
Total non-current liabilities	1,831,612	685,971	558,217	-	3,075,800

As of December 31, 2013					
	Parent Company	Guarantor subsidiaries	Non- guarantor subsidiaries	Eliminations	Total Consolidated
	(Thousands of U.S. dollars except as otherwise indicated)				
Total liabilities.....	2,015,754	1,831,954	2,858,716	(2,115,679)	4,590,745
Stockholders' equity:					
Paid-in capital					
Nominal.....	256,482	1,063,111	2,837,658	(3,900,769)	256,482
Additional paid-in capital.....	1,709,628	-	-	-	1,709,628
Cumulative effect of restatement.....	23,948	99,895	6,650	(106,545)	23,948
Earned capital					
Retained earnings	251,922	845,446	1,653,565	(2,069,012)	681,921
Other comprehensive income	(319,273)	242,534	646,000	1,004	570,265
Reserve for reacquisition of shares	56,312	-	-	-	56,312
Controlling interest.....	1,979,019	2,250,986	5,143,873	(6,075,322)	3,298,556
Non-controlling interest	-	23,000	20,335	249,166	292,501
Total stockholders' equity	1,979,019	2,273,986	5,164,208	(5,826,156)	3,591,057
Total liabilities and stockholders' equity.....	3,994,773	4,105,940	8,022,924	(7,941,835)	8,181,802

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,		
	2014	2013	2013	2012	2011
	(Thousands of U.S. dollars)				
Chlorine-Vinyl Division⁽¹⁾					
Income Statement Data:					
Net sales	998,831	886,336	1,813,871	1,780,507	1,865,841
Cost of sales	849,186	701,082	1,478,546	1,415,776	1,497,319
Gross profit.....	149,645	185,254	335,325	364,731	368,522
Operating expenses ⁽²⁾	53,865	56,482	121,256	117,299	115,372
Other Data:					
EBITDA ⁽³⁾	159,271	157,041	298,277	314,233	321,110
Volume (thousands of tons).....	848,402	888,514	1,796,812	1,848,872	1,842,027
Integral Solutions Division⁽¹⁾					
Income Statement Data:					
Net sales	1,568,789	1,500,557	3,049,817	2,570,012	1,521,724
Cost of sales	1,136,235	1,069,714	2,185,497	1,760,839	994,860
Gross profit.....	432,554	430,843	864,320	809,173	526,864
Operating expenses ⁽²⁾	330,278	325,836	655,532	613,298	360,413
Other Data:					
EBITDA ⁽³⁾	190,955	184,521	376,302	335,792	242,788
Volume (thousands of tons).....	477,437	459,686	931,625	807,882	494,262
Fluorine Division⁽¹⁾					
Income Statement Data:					
Net sales	339,903	373,330	672,980	810,942	810,825
Cost of sales	185,389	197,771	360,399	401,157	415,716
Gross profit.....	154,514	175,559	312,581	409,785	395,109
Operating expenses ⁽²⁾	75,942	54,610	133,915	177,209	132,701
Other Data:					
EBITDA ⁽³⁾	112,170	157,762	240,119	319,948	318,130
Volume (thousands of tons).....	533,686	622,793	1,166,819	1,236,555	1,204,799

	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
	(Thousands of U.S. dollars)				
Holding Company					
Income Statement Data:					
Net sales	12,429	13,327	35,903	42,197	39,931
Cost of sales	—	—	—	—	—
Gross profit.....	12,429	13,327	35,903	42,197	39,931
Operating expenses ⁽²⁾	29,666	33,917	75,120	75,635	124,522
Other Data:					
EBITDA ⁽³⁾	(8,003)	(9,440)	(15,806)	(7,487)	(52,772)
Eliminations					
Income Statement Data:					
Net sales	(137,395)	(204,021)	(395,572)	(435,915)	(471,982)
Cost of sales	(133,699)	(196,643)	(377,691)	(399,609)	(409,870)
Gross profit.....	(3,696)	(7,378)	(17,881)	(36,306)	(62,112)
Operating expenses ⁽²⁾	(3,696)	(7,378)	(17,881)	(36,306)	(62,112)
Other Data:					
EBITDA ⁽³⁾	—	—	—	—	—

(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).

(3) EBITDA is a measure we use to monitor our consolidated operating performance and consists of gross profit, less operating expenses (selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other income and 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.

The following tables set forth, for the periods indicated, a reconciliation of gross profit to EBITDA for our consolidated operations and for our three operating divisions.

	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
	(Thousands of U.S. dollars)				
Consolidated Operations					
Gross profit	745,446	797,605	1,530,248	1,589,580	1,268,314
Less: Operating expenses ⁽¹⁾	486,055	463,467	967,942	947,135	670,896
Plus: Depreciation and amortization ⁽²⁾	195,002	155,746	336,586	320,041	231,838
EBITDA	454,393	489,884	898,892	962,486	829,256

(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.

	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
	(Thousands of U.S. dollars)				
Chlorine-Vinyl Division⁽¹⁾					
Gross profit	149,645	185,254	335,325	364,731	368,522
Less: Operating expenses ⁽²⁾	53,865	56,482	121,256	117,299	115,372
Plus: Depreciation and amortization ⁽³⁾	63,491	28,269	84,208	66,801	67,960
EBITDA	159,271	157,041	298,277	314,233	321,110
Integral Solutions Division⁽¹⁾					
Gross profit	432,554	430,843	864,320	809,173	526,864
Less: Operating expenses ⁽²⁾	330,278	325,836	655,532	613,298	360,413
Plus: Depreciation and amortization ⁽³⁾	88,679	79,514	167,514	139,917	76,337
EBITDA	190,955	184,521	376,302	335,792	242,788
Fluorine Division⁽¹⁾					
Gross profit	154,514	175,559	312,581	409,785	395,109
Less: Operating expenses ⁽²⁾	75,942	54,610	133,915	177,209	132,701

	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
	(Thousands of U.S. dollars)				
Plus: Depreciation and amortization ⁽³⁾	33,598	36,813	61,453	87,372	55,722
EBITDA	112,170	157,762	240,119	319,948	318,130
Holding Company					
Gross profit	12,429	13,327	35,903	42,197	39,931
Less: Operating expenses ⁽²⁾	29,666	33,917	75,120	75,635	124,522
Plus: Depreciation and amortization ⁽³⁾	9,234	11,150	23,411	25,951	31,819
EBITDA	(8,003)	(9,440)	(15,806)	(7,487)	(52,772)
Eliminations					
Gross profit	(3,696)	(7,378)	(17,881)	(36,306)	(62,112)
Less: Operating expenses ⁽²⁾	(3,696)	(7,378)	(17,881)	(36,306)	(62,112)
Plus: Depreciation and amortization ⁽³⁾	-	-	-	-	-
EBITDA	-	-	-	-	-

⁽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 affected by political and economic conditions in Latin America, the United States, Europe 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 initially 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 that we sell with reference to international market prices. The European 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 Europe 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, agriculture and automotive industries.

Failure to replace other products made with different materials or to develop new products and production technologies or to implement productivity and cost reduction initiatives successfully may adversely affect our competitive position.

Research and development initiatives relating to new technologies can lead to the creation of new products or materials to replace those that we currently produce. The markets for many of our chemical products require these continuous advances in quality, performance and materials, and we need to develop and sell products that meet market and/or regulatory needs on a timely basis in order to remain competitive. If we are unable to compete with any new products or substances, 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 and/or regulatory needs on a timely basis, our results of operations could be materially and adversely affected.

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, the Netherlands, Germany, Poland, Turkey, France, the Czech Republic, and other European countries. 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;
- environmental regulations; 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, North America, Asia and Europe, 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 that we sell that are treated as commodities, such as chlorine, caustic soda, PVC resin and fluorspar, we generally have limited control over price in many of our markets. Competition with respect to other products, such as PVC pipes, compounds and refrigerant gases, 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 chemicals markets, including those in Europe and Latin America, 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 and Europe. Such increase in competition may have an adverse effect over our profitability.

Our business is dependent on the construction industry.

Our business is dependent on the viability of the construction industry. Therefore, a decline in the growth of the construction industry in the countries where we operate 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 our key raw materials, including natural gas, energy, sulfur, ethane, ethylene, petroleum and petroleum derivatives, may adversely affect our business and operating results.

The price of natural gas, energy, ethane, ethylene, sulfur, petroleum and petroleum derivatives, which we use in our manufacturing processes, have recently experienced significant volatility in regional and international markets, which has increased our production costs, as well as the prices of the products manufactured and sold by us. In addition, we acquire some of those raw materials, such as natural gas, ethane and ethylene, in regional markets while we sell our products in international markets where the prices do not always reflect the fluctuations in prices in the regional markets. Future fluctuations in the price of these products may result in an increase in the cost of inputs used in our operations, which may adversely affect our results of operations.

On August 18, 2014, we reached an agreement with CHS to acquire Dura-Line, which is subject to certain regulatory approvals in order to close. Based in Knoxville, Tennessee, Dura-Line is a global leader in HDPE conduit, duct and pressure-pipe solutions for telecom and data communications, energy and infrastructure industries.

Dura-Line mainly produces and sells polyethylene pipe, the main raw material of which is ethylene, which in turn has as its main raw material ethane. Recently, the market has experienced volatility in ethylene prices, which affect production costs of polyethylene. Future fluctuations in the price of ethane and/or ethylene may result in an increase in the cost of inputs of polyethylene producers, which may affect our results of operations and the profitability of our investments.

Our agreements with OxyChem and Pemex Petroquímica may be insufficient to meet all of our operating needs, which may impact the price of our raw materials.

VCM is a necessary raw material for our production and supply of PVC, while ethane and ethylene are necessary raw materials for the production of VCM. Prior to September 2013, Pemex, the state oil and gas company, was the only producer of VCM in Mexico and was the primary purchaser of the chlorine that we produced. In the past, due to operating irregularities at the VCM Pajaritos production plant of Pemex Petroquímica, Pemex did not purchase chlorine from us at expected levels nor did it supply us with as much VCM as we anticipated. Therefore, we experienced a lower supply of VCM quantities than expected, making it impossible for us to meet full production capacity.

Our recent acquisition and joint venture strategy has been to vertically integrate our operations to provide for economies of scale and to reduce operating expenses by providing us with direct access to raw materials, including VCM. In September 2013, we and Pemex Petroquímica entered into a joint venture through an investment in PMV. We expect that as a result of this joint venture, the total VCM capacity of the Pajaritos plant will expand from 200,000 tons a year to the designed capacity of 400,000 tons a year and we will have direct access to the VCM needed for the operation of our Vinyl chain. In doing so, we will have an increased internal consumption of chlorine, thereby reducing our sales of chlorine to third parties. In addition, in October 2013, we also entered into a joint venture with OxyChem, Ingleside, to build and install an ethylene cracker in Texas whereby, in return, OxyChem will provide us with direct access to VCM.

We cannot guarantee that PMV, OxyChem or our joint ventures with Pemex Petroquímica and OxyChem will be able to supply us with all of the VCM that we need in order to meet our contractual obligations with respect to PVC production. There can be no assurance that our joint ventures with Pemex Petroquímica or OxyChem will provide us with the level of VCM production that we anticipate, especially if there is any deviation from our expected timelines with respect to plant construction and increases in capacity, and we could also lose any of our expected investments in these joint ventures, which could materially and adversely affect our business and financial condition. If we cannot obtain the required VCM through any of the above means, we may be forced to purchase VCM on the spot market, as we have done in the past, which may materially and adversely impact our ability to meet production deadlines.

Even accounting for our supply contracts and joint ventures with Pemex Petroquímica and OxyChem, we still remain susceptible to volatility in ethane and ethylene prices. The price of ethane has decreased since 2008 but the price of ethylene is still high and has created an attractive margin for market entrants. A variation in the price of ethane and ethylene in the future could affect our operating results and also may not allow for, or may delay, the recovery of our investments in PMV and Ingleside.

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 natural gas, ethane, electricity and VCM. We currently depend on a limited number of suppliers for the production and delivery of these supplies, even though we have attempted to mitigate our dependency on suppliers through our joint ventures and acquisitions. Because the price of these supplies depends in large part on the international price of oil, which has significantly increased 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 us with these materials on current terms or at all. Any prolonged interruption, discontinuation or other disruption in the supply of raw materials or energy, or substantial increases in their costs, could have a material adverse effect on our results of operations. There can be no assurance that any of our suppliers of raw materials will continue to meet their obligations or will continue to provide raw materials on terms and conditions satisfactory to us. Each of these scenarios would adversely affect our financial condition and our 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 an increase in the price of raw materials to our 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 2013, 2012 and 2011, we made capital investments of \$420 million, \$263 million and \$92 million, respectively, for these purposes. We also have plans to expand and upgrade certain of our existing facilities.

We have acquired or formed, and plan to continue to acquire or form, companies and joint ventures to increase our production capacity. For example, in October 2013, we and OxyChem formed Ingleside to build an ethylene cracker with annual capacity of 550,000 tons in Texas. The total amount invested in Ingleside as of December 31, 2013 was \$46 million. Similarly, in September 2013, we and Pemex Petroquímica formed PMV to, among other reasons, expand VCM capacity from the current estimated 200,000 tons a year to the designed capacity of 400,000 tons a year. In March 2013, we reached an agreement with PolyOne to acquire 100% of its specialty PVC resin operations in the United States, at a total investment cost of \$250 million. In May 2012, we acquired 95.7% of the shares of Wavin and in the first quarter of 2013, we acquired the remaining 4.3% of Wavin's outstanding shares, a leading European entity in the production of plastic piping systems and solutions. This acquisition had an approximate value of €533 million. On January 26, 2012, we acquired all of the shares of FDM, which will provide us with access to the purest fluorine available in the world, as the FDM mine has potential reserves in excess of 13,000,000 tons and an estimated annual extraction of 100,000 tons. The FDM transaction had a value of \$68 million.

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. Moreover, we might not be able to meet our obligations under our financing contracts if we do not meet our expected returns on investments. In addition, we may be unable to complete our current projects in a timely manner, or at all, due to factors such as our inability to obtain financing, regulatory changes, noncompliance or the unavailability of contractors and subcontractors and logistical problems. This could have a material adverse effect on our results of operations, including as a result of asset impairment charges.

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

Our principal mining operations are located in Mexico. 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, may be cancelled or terminated under certain circumstances or may not be renewed upon their expiration. With respect to our Fluorine Division, we have several mining concessions to explore and exploit mineral reserves, some of which expire between 2016 and 2063. With respect to PMV, we have a mining concession for the salt dome 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 as long as: (1) the renewal is requested prior to the termination of the original concession; and (2) all requirements set forth in the concession and in 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 or all of our concessions will be renewed, or what terms may apply to the renewals, as the government has discretion with

respect to 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.

Our concessions could be expropriated or terminated under Mexican law.

Mexican law provides that the federal government has the right to expropriate the assets related to our concessions. 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. Pursuant to the Expropriation Law (*Ley de Expropiación*), the compensation will be paid by the government within a 45 business day period from the declaration of expropriation in pesos or by payment with another asset. If our concessions are expropriated and we are unable to secure fair compensation, our results of operations and financial condition could be adversely affected.

In addition, our concessions may be terminated, without compensation, in certain circumstances by governmental authorities. The terms of our concessions require us to comply with certain ongoing obligations. Our concessions may be terminated by the Mexican federal government under certain circumstances if we fail to comply with the terms of our concessions, including where minimum expenditure levels are not achieved by us (or a corresponding penalty is not paid to the appropriate governmental authority), if certain fees are not paid to the government or if environmental and safety standards are not met.

The cancellation or termination of any of our concessions would have 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 the risk of potential expropriation or nationalization of our assets in some of the countries where we operate.

We are exposed to the risk of potential expropriation and nationalization of our assets that are located in the various countries in which we operate. For example, approximately 1.6% of the total value of our assets as of December 31, 2013 are located in Venezuela (at the official exchange rate of 6.3 Bolivares per dollar). Like Venezuela, some of the countries in which 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 of operations.

The volume of the fluorspar reserves amount that we recover and our rate of production may be different than anticipated.

Our fluorspar 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 fluorspar 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 that 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 prices and of operating and capital costs may prevent some of our fluorspar reserves from being 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 or our inability to successfully integrate new acquisitions could adversely affect our business and our operating results.

As a result of the integration of new companies and as a result of market recovery, between 2008 and 2013, we experienced a rapid growth in net sales of 84.0% and we experienced a substantial increase in operating revenues and cash flow. These increases have given us the flexibility to keep growing while remaining operationally solid, and this growth has resulted in an improvement to our administrative, operating and financial infrastructure.

However, integrating the operations of new businesses with that of our own is a complex and time-consuming process. Prior to each acquisition, the acquired business operated independently, with its own business, corporate culture, locations, employees and systems. There may be substantial difficulties, costs and delays involved in any integration of other businesses with that of our own. These may include: (1) distracting management from day-to-day operations; (2) potential incompatibility of corporate cultures; and (3) an inability to achieve the planned synergies, costs and delays in implementing common systems and procedures.

In addition, 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, as well as our reporting systems and procedures. Furthermore, the additional employees that 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 and our revenues could decline or grow more slowly than expected. If this occurs, then we may be unable to successfully 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 regarding these acquisitions, see “Management’s discussion and analysis of financial condition and results of operations—Growth through acquisitions and joint ventures.”

Acquisitions inherently 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
- unanticipated 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 that we have acquired. If we are unable to integrate or manage acquired businesses successfully, we may incur higher costs instead of realizing 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 that we have acquired. These effects 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, if 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, cost and expenses do not meet 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, 2014, we had approximately \$2.1 billion of long-term indebtedness outstanding under a series of credit facilities and certain debt issuances in the international capital markets. The agreements governing this indebtedness impose on us and 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. Further, we may also need to obtain waivers from creditors to some of our obligations under our existing or future credit agreements. We cannot assure you that in the future these 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.

We produce and sell hazardous materials as well as products with certain levels of global warming potential as part of our operations and any regulation restrictions on the production and sale of those products or 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 produce, distribute and transport hazardous materials as part of our operations, which involve risks of leaks and spills that could potentially impact both ordinary persons and the environment. We also produce, distribute and sell products which are hazardous or have certain levels of global warming potential that could become restricted in the future. As a result, 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, transportation, 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, or that regulations applied in certain countries or regions will be equally applied and/or adjusted in other countries or regions as part of international treaties adoptions. 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, 2013, approximately 59% 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 should occur, we cannot assure you that any 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 subject to legal and administrative proceedings in certain countries in which we operate, the results of which could adversely affect our business.

We currently have operations in 41 countries around the world. In some of these countries, we are parties to various legal or administrative proceedings arising from our ordinary course of business. For example, Wavin is subject to an administrative proceeding commenced in July 2012 based on alleged antitrust violations. We cannot predict the outcome of this proceeding, or any other, or whether any of these proceedings could be resolved against us. However, if any of these proceedings are resolved against us, the results of these proceedings could have a material adverse effect on our business, results of operations and 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 a material 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 in which we operate. We have a presence in different markets such as the construction, refrigerant gas, industrial, automotive, retail, and rural and urban infrastructure markets. We actively contribute to Mexican development and to the development of the countries in which we operate 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. We also have operations in Europe and Asia as a result of our acquisitions of AlphaGary and Wavin, including over 30 manufacturing and assembly sites in Europe and China. Our activities, financial situation and operating results are subject to fluctuations in these regional economies and to changes in the purchasing power of the local population.

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

The Mexican federal government, as well as the governments of the main 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. Sales in Mexico, Brazil, Colombia, the United States and Europe accounted for approximately 23.9%, 10.6%, 11.0%, 8.8% and 33% of our total sales in 2013, respectively.

Accordingly, the governmental actions and policies of those countries in which we operate concerning the economy in general and mining activities 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 Europe), and by other political developments in, or affecting, these countries. It may also be impacted by regulatory and legal changes or the administrative practices of the authorities in these countries, 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 could impair our ability

to proceed with our business plan or materially adversely affect our business, financial condition or results of operations.

Certain 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, 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 that these countries may take, could have a material adverse effect on our financial condition and results of operations.

For example, in the first quarter of 2014, the Venezuelan government issued a law relating to fair pricing which establishes a maximum profit margin of 30%. It is unclear how this law may ultimately affect the pricing structure of our Venezuelan operations and our ability to respond to the effects of inflation and additional currency devaluations. The law may limit our ability to implement future price increases, could result in the reduction of prices with respect to certain products or product categories and could result in fines for practices deemed to be in violation of the law. The future results of our Venezuelan operations, which only account for approximately 1.6% of the total value of our assets as of December 31, 2013 (at the official exchange rate of 6.3 Bolivares per dollar), might be affected by many factors, including: (1) actions by the Venezuelan government which may include further currency devaluations, implementation and enforcement of profit margin or price controls or changes in import controls; (2) the economic conditions in Venezuela, such as inflation and consumer spending, labor relations, political and social unrest; and (3) the availability of raw materials, utilities and energy.

Further, during 2001 and 2002, Argentina went through a period of severe political, economic and social crisis that resulted in the Argentine government defaulting on its foreign debt obligations. In the first half of 2005, Argentina restructured part of the sovereign debt it defaulted; however, a number of creditors refused to approve the restructuring and litigation brought by these holdout creditors ensued. On June 16, 2014, the U.S. Supreme Court rejected an Argentine appeal and decided to leave in effect a lower court ruling in favor of the holdout creditors, which held that the Argentine government is prohibited from making payments on its restructured debt unless it also pays the holdout creditors the amount owed to them. In July 2014, Argentina and the holdout creditors failed to reach an agreement on the restructuring of this debt. As a result, the Argentine government was prohibited from making certain bond payments. We cannot provide any assurance that inflation, fluctuations in the value of the Argentinian peso, the implementation of additional foreign currency restrictions and/or other future economic, social and political developments in Argentina resulting from this sovereign debt crisis or the difficult economic conditions that currently exist in Argentina will not adversely affect our operations in Argentina.

In addition, in March 2014, the Crimean region of Ukraine was annexed by Russia. In response, other nations, including the United States, have imposed, and may continue to impose, further economic sanctions on Russia and Ukraine. Presently, concerns related to possible annexation of additional territory by Russia have prompted calls for increasing levels of economic sanctions. Continuing political instability in the surrounding region and additional economic sanctions imposed by either the United States or the world community may result in serious economic challenges in Russia and the surrounding areas, and the imposition of trade restrictions may delay or prevent shipment of products to or services performed in those countries, resulting in a significant impact on our business and other planned transactions. Further, potential responses by Russia to those sanctions could adversely affect European economic conditions, which could in turn affect our business in Europe and Russia.

Consequently, these political and economic conditions and any future developments in, or affecting, the economies of these countries and any other country where we conduct our operations could impair our ability to proceed with our business plan or materially adversely affect our business, financial condition or 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. Mexican economic conditions have also been linked to 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 U.S. and European economies. Therefore, the termination of free trade agreements and other related events, further deterioration in economic conditions or delays in the recovery of the U.S. or European economies could affect the economic 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 other 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 economic 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 us through 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 2013, 2012, and 2011, 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.

Until January 1, 2013, we issued our financial statements in pesos, the functional currency applicable to certain of our subsidiaries. However, in 2013, we decided to change our reporting currency to U.S. dollars because it is the currency with which our operational and financial decisions are made. Notwithstanding, we remain exposed to exchange rate fluctuations against the U.S. dollar for those subsidiaries which operate with a different functional currency. The main currencies to which we are exposed are the Mexican peso, the Brazilian real, the Venezuelan bolivar, the Colombian peso, the euro, the British pound sterling, the Turkish lira, and the Polish zloty.

Approximately 56.0% of our outstanding loans and substantially all of our capital investments are denominated in dollars. Moreover, nearly half of our revenue is denominated in U.S. dollars.

Dollar loans generate interest based on a fixed and variable interest rates. Dollar loans based on a fixed interest rate represent 98% of our total Dollar loans, while 2% of our total Dollar loans are calculated with reference to LIBOR. On the other hand, 27% of our Mexican peso loans generate interest on a fixed rate and 73% generate interest on a variable rate based on TIIE.

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

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 a portion of 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. Our exposure to 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 tied to floating rates that is not hedged and we inform our Board of Directors quarterly of our exposure to interest rate risk. Our Corporate Treasury also monitors and manages the financial risks relating to our operations through internal risk reports, which analyze exposure by the degree and magnitude of risks. These risks include market risk (currency risk, interest rates and fair value risk in tough risk), credit risk, liquidity risk and interest rate cash flow.

Hedging is regularly evaluated to ensure it aligns with interest rates and their related risk, in order to obtain the most effective hedging strategy. 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 2013, 2012 and 2011 would have decreased to approximately \$8.3 million, \$7.6 million and \$11.0 million, respectively.

Moreover, we are also exposed to exchange rate risks. If the U.S. dollar had depreciated 1% against the Mexican peso, using the official exchange rate published by Banco de México on December 31, 2013, the expected exchange loss, based on our liabilities of Ps. 11.1 billion on December 31, 2013, would have been \$8.6 million.

We cannot assure you that the stress tests that we perform and the reports that we produce are sufficient to hedge our possible contingencies derived from the stress scenarios considered or from significant fluctuations of interest and exchange rates, which would adversely affect our financial condition and results of operation.

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 or similar laws or regulations in other countries could adversely affect our ability to acquire and sell businesses and to enter into new or complementary businesses or joint ventures with competitors. The approval of the Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*) or similar governmental entities in other countries 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, the mandatory divestiture of assets, the termination of relevant acquisition agreements and/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 or in the countries in which we are attempting to enter.

We currently have a leading position in most of the markets in which we operate, both in Latin America and in Europe, according to data published by IHS WVA, IHS Chlor-Alkali Market Report, SRI, Eurostat Economist Intelligence Unit and our own market research. As our operations and market position continue to increase, the greater the regulatory and antitrust scrutiny we are likely to encounter, which may have a material adverse effect on our financial results and our results of operations.

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 may increase our cost of operation.

We may become subject to more burdensome tax laws.

The Mexican government has, in recent years, implemented various changes to the tax laws applicable to Mexican companies, including us. Should the Mexican Government implement changes to the tax laws that result in our having significantly higher tax liability, we would be required to pay the higher amounts due pursuant to any such changes, which could have a material adverse impact on our results of operations. In December 2013, the Mexican Government enacted various federal tax reforms that entered into effect on January 1, 2014. Among other changes, these reforms: (1) maintained a corporate income tax rate of 30%; (2) eliminated the corporate flat tax, or IETU; (3) imposed withholding taxes at a 10% rate on the payment of dividends and capital gains from the sale of shares by and to Mexican and foreign shareholders; (4) eliminated deductions previously allowed in respect of payments between related parties or certain foreign corporations; (5) limited the tax deductions for certain benefits paid to employees; (6) increased the value-added tax in certain areas of Mexico; and (7) increased the tax for mining activities. Our business, financial condition and results of operations may be adversely affected as a result of increased taxes on salaries and increased costs due to additional compliance measures, including an increase on taxes and duties for mining activities.

We are also subject to tax liabilities in the other countries in which we operate. Changes in tax legislation or tax rates may occur in one or more of the jurisdictions in which we operate which may materially increase the cost of operating our business. Although we are uncertain as to the ultimate effect of such potential legislation, or what the effects will be on our businesses in particular, it is also possible that some governments will make significant changes to their tax policies as part of their responses to their weakened economies. Adverse or unanticipated tax consequences with respect to our business can have a material adverse impact on our financial condition and results of operations.

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 with respect to 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.

Currently, we are subject to exchange controls in certain countries in which we operate such as Venezuela, Brazil, Argentina, China and Russia, among others. These controls restrict our access to foreign exchange and limit our ability to transfer funds out of those countries, including funds for the payment of interest or principal on outstanding debt. In addition, these controls affect our ability to receive dividends and other distributions from subsidiaries in these countries. For example, Pavco de Venezuela, one of our subsidiaries, has encountered some difficulty in obtaining the requisite foreign currency to engage in commercial transactions in the ordinary course of business. Moreover, in February 2013, the Venezuelan government significantly devalued its local currency from 4.30 bolivars per U.S. dollar to 6.30 bolivars per U.S. dollar. For the year ended December 31, 2013, our net sales in Venezuela represented approximately 2.3% of our total consolidated net sales. If 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.

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 the 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 and we may be able to incur more debt which could further exacerbate the risks associated with our indebtedness.

As of June 30, 2014, our total debt was \$2.2 billion and our stockholders' equity was approximately \$3.8 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.

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 equity 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.

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 the Notes for a price equal to 101% of the principal amount of the 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.

The guarantees being given by the subsidiary guarantors provide a basis for a direct claim against the subsidiary guarantors. However, it is possible that such guarantees may not be enforceable. Under Mexican law, in the event that a subsidiary guarantor is determined to be insolvent or bankrupt, its guarantee may be deemed to have been a fraudulent transfer and declared void if such subsidiary guarantor failed to receive fair consideration or reasonably equivalent value in exchange for such guarantee. In addition, under applicable bankruptcy provisions, if we are

judicially determined to be insolvent or bankrupt, our obligations under the Notes would (i) 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) be satisfied at the time claims of all our creditors are satisfied; (iii) be subject to the outcome of, and priorities recognized in, the relevant proceedings; and (iv) rank pari passu with other secured claims and will be subordinated to certain statutorily preferred creditors, such as those holding labor, tax and social security related claims, which will have preference over any other claims, including claims by any investor in respect of the Notes or such guarantees. Furthermore, the validity of each guarantee is subject to the existence and validity of the primary obligation being guaranteed. As a consequence thereof, its enforcement is not independent or irrespective of such primary obligation being guaranteed.

A bankruptcy or other court might make such rulings if it found, among other things, that when a subsidiary guarantor executed its guarantee or granted its lien (or, in some jurisdictions, when it became obligated to make payments under its guarantee):

- such subsidiary guarantor received less than reasonably equivalent value or fair consideration for the incurrence of its guarantee or granting of the lien; and
- such subsidiary guarantor:
 - was (or was rendered) insolvent by the incurrence of the guarantee;
 - was engaged or about to engage in a business or transaction for which its assets constituted unreasonably small capital to carry on its business;
 - intended to incur, or believed that it would incur, obligations beyond its ability to pay as those obligations matured; or
 - was a defendant in an action for money damages, or had a judgment for money damages docketed against it and, in either case, after final judgment, the judgment was unsatisfied.

If the guarantees were legally challenged, any guarantee could be subject to the finding of a court that, because the guarantee was incurred for our benefit, and only indirectly for the benefit of the guarantor, the obligations of the applicable guarantor were incurred for less than reasonably equivalent value or fair consideration. A court could thus void the obligations under the guarantees and related security agreements, subordinate them to the applicable guarantor's other debt or take other action detrimental to the holders of the Notes.

Although courts in different jurisdictions measure solvency differently, in general, an entity would be deemed insolvent if the sum of its debts, including contingent and unliquidated debts, exceeds the fair value of its assets, or if the present fair salable value of its assets is less than the amount that would be required to pay the expected liability on its debts, including contingent and unliquidated debts, as they become due.

If the guarantees become unenforceable under the conditions described above, the Notes would effectively be subordinated to all liabilities, including trade payables, of the subsidiary guarantors. On June 30, 2014, our subsidiary guarantors had total liabilities of \$2.2 billion. A court could also enter a judgment against noteholders ordering them to return any amounts previously paid under such guarantee or enforcement proceeds from the collateral. If any guarantee or lien were avoided, noteholders would cease to have a direct claim against the applicable subsidiary guarantor, but they would retain their rights against us and any other subsidiary guarantors, although there is no assurance that our entities' respective assets would be sufficient to pay the Notes in full.

Provisions of Mexican law may make it difficult for holders of the Notes to convert payments that 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.

The Notes constitute a new issue of securities, for which there is no existing market. Although we have applied to admit the 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 $\text{\textasciitilde}$ 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, including our unsecured senior notes due 2022 and 2042. Although the holders of the $\text{\textasciitilde}$ will have a direct but unsecured claim on our assets and property, payment by us in respect of the $\text{\textasciitilde}$ 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 $\text{\textasciitilde}$ 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, 2014, we and the Subsidiary Guarantors had \$2,073 million of total indebtedness, none of which is secured, and \$130 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 $\text{\textasciitilde}$ 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 a 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, 2014, after giving effect to this offering and the use of net proceeds therefrom and taking into account related derivative financial instruments, approximately \$160.4 million, or 5.4%, 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.

Our controlling shareholders may exercise their control in a manner that differs from your interests as a noteholder.

Members of the del Valle family control approximately 56% of our outstanding voting capital stock, 42% of which is held through their holdings in Kaluz. 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). See “Principal shareholders.” These shareholders may exercise their control in a manner that differs from your interests as a noteholder. For example, they may have an interest in pursuing acquisitions, combinations, divestitures, financings or other transactions which in their judgment could enhance their equity interest, even though such transactions may involve risks to you as a noteholder.

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:

- risks and hazards associated with the mining business and all the businesses in which we participate;
- the availability of, 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, North 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;
- trends in the construction industry, particularly in North America, Latin America and Europe;
- 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 that 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

We estimate that the net proceeds to us from the sale of the Notes in the offering (after fees and commissions to the initial purchasers but before other transaction fees and expenses payable by us) will be approximately \$739.7 million. We will use the net proceeds of the offering to repay our existing indebtedness and to finance our prospective strategic acquisitions, with any remaining proceeds to be used for general corporate purposes.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2014, and as adjusted to give effect to the sale of the Notes after fees and commissions to the initial purchasers but before other transaction fees and expenses payable by us. 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.

	<u>Actual</u>	<u>As adjusted</u>
	(Thousands of U.S. dollars)	
Short-term debt ⁽¹⁾	70,778	70,778
Long-term debt ⁽²⁾	2,132,222	2,878,322
Total debt.....	2,203,000	2,949,100
Total stockholders’ equity.....	3,803,507	3,803,507
Total capitalization.....	<u>6,006,507</u>	<u>6,752,607</u>

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

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

Since June 30, 2014, 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 in U.S. dollars. We previously issued our financial statements in Mexican pesos, the functional currency applicable to certain of our subsidiaries. However, in 2013, we decided to change our reporting currency to U.S. dollars because it is the currency with which our operational and financial decisions are made. Consequently, all of the figures included in our financial statements are now represented in U.S. dollars. See “Presentation of Financial and Other Information—Currency Information.”

The selected consolidated financial data as of and for the years ended December 31, 2013, 2012 and 2011 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, 2014 and for the six months ended June 30, 2014 and 2013 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.

	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
(Thousands of U.S. dollars)					
Statement of Comprehensive Income Data					
Net sales	2,782,557	2,569,529	5,176,999	4,767,743	3,766,339
Cost of sales	2,037,111	1,771,924	3,646,751	3,178,163	2,498,025
Gross profit	745,446	797,605	1,530,248	1,589,580	1,268,314
Selling and development expenses	325,065	321,115	645,372	597,540	451,240
Administrative expenses	139,886	127,848	263,148	220,349	163,234
Depreciation and amortization	53,174	51,799	109,632	124,576	75,034
Other (income) expenses	(32,070)	(37,295)	(50,210)	4,670	(18,612)
Exchange gain	(8,278)	(13,538)	(29,424)	(56,419)	(40,276)
Exchange loss	39,498	29,175	81,252	56,089	10,752
Interest expense	85,679	91,230	174,892	258,527	106,039
Interest income	(19,593)	(33,610)	(65,810)	(35,837)	(5,661)
Monetary position loss	5,277	6,466	13,831	2,959	3,649
Other taxes	—	—	—	—	17,064
Equity in income of associated entity	(2,172)	(1,588)	(705)	(1,795)	—
Profit before income taxes	158,980	256,003	388,270	418,921	505,851
Income tax expense	54,257	93,383	156,800	119,535	149,299
Profit for the year from continuing operations	104,723	162,620	231,470	299,386	356,552
(Loss) gain from discontinued operations, net	(615)	(13,685)	(148,415)	19,527	(6,335)
Consolidated profit for the year	104,108	148,935	83,055	318,913	350,217
Other comprehensive income (loss):					
Items that will not be reclassified subsequently to profit or loss:					
Property, plant and equipment revaluation	24,776	269,601	310,308	108,971	—
Actuarial losses recognized during the year	(1,411)	(1,433)	(2,866)	(35,370)	—
Income taxes	(8,001)	(89,669)	(101,438)	(26,883)	—
	15,364	178,499	206,004	46,718	—
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	48,726	(86,443)	(9,735)	(26,898)	(49,758)
Valuation of financial instruments	—	—	(49,047)	—	—
Net gain (loss) on available-for-sale financial assets	14,038	(30,011)	—	5,477	(9,147)
Income taxes	(4,170)	8,703	15,115	(1,643)	2,744
	58,594	(107,751)	(43,667)	(23,064)	(56,161)
Other comprehensive income for the year	73,958	70,748	162,337	23,654	(56,161)
Total consolidated comprehensive profit for the year	178,066	219,683	245,392	342,567	294,056
Consolidated profit for the year:					
Owners of the company	103,068	144,467	80,603	316,095	349,019
Non-controlling interests	1,040	4,468	2,452	2,818	1,198
	104,108	148,935	83,055	318,913	350,217

	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
	(Thousands of U.S. dollars)				
Total comprehensive income attributable to:					
Owners of the company	177,292	213,726	233,269	343,360	292,726
Non-controlling interests	774	5,957	12,123	(793)	1,330
	<u>178,066</u>	<u>219,683</u>	<u>245,392</u>	<u>342,567</u>	<u>294,056</u>
Earnings (loss) per share attributable to owners of the company:					
From continuing operations	0.05	0.08	0.11	0.16	0.20
From discontinued operations	0.00	(0.01)	(0.07)	0.01	0.00
Basic earnings per share	0.05	0.07	0.04	0.17	0.20
Weighted average common shares outstanding	<u>2,100,000,000</u>	<u>2,100,000,000</u>	<u>2,100,000,000</u>	<u>1,889,666,667</u>	<u>1,800,000,000</u>

	As of June 30,		As of December 31,		
	2014	2013	2013	2012	2011
(Thousands of U.S. dollars)					
Statement of Financial Position Data					
Assets:					
Current assets:					
Cash and cash equivalents	1,043,673	1,329,308	1,232,561	1,395,197	523,942
Trade investment	—	—	—	250,000	—
Investment securities available for sale	—	—	—	—	25,522
Accounts receivable, net	1,338,562	1,148,899	1,032,726	1,010,662	756,590
Due from related parties.....	5,525	9,510	11,168	8,526	5,150
Inventories, net	815,369	706,264	728,805	736,209	457,748
Prepaid expenses	55,462	46,955	27,537	29,213	12,318
Derivative financial instruments.....	3,677	—	—	—	—
Assets classified as held for sale	12,946	22,025	20,181	25,214	20,729
Total current assets.....	3,275,214	3,262,961	3,052,978	3,455,021	1,801,999
Non-current assets					
Property, plant and equipment, net.....	3,321,606	2,498,625	3,152,748	2,462,378	1,692,242
Other assets, net.....	78,291	64,035	72,639	65,736	14,468
Investment in shares of associated entity	31,400	29,707	33,381	31,390	—
Employee benefits	—	—	—	—	3,834
Intangible assets, net	1,184,060	1,102,425	1,208,186	1,145,299	462,135
Deferred income taxes.....	122,313	32,488	125,357	36,886	41,377
Goodwill.....	558,519	697,898	536,513	479,541	391,061
Total non-current assets.....	5,296,189	4,425,178	5,128,824	4,221,230	2,605,117
Total assets.....	8,571,403	7,688,139	8,181,802	7,676,251	4,407,116
Liabilities:					
Current liabilities:					
Bank loans and current portion of long-term debt	70,778	58,297	62,121	125,321	271,908
Suppliers	858,304	713,953	553,696	742,832	362,471
Credit letters of suppliers	216,631	173,847	399,451	185,208	228,260
Due to related parties	1,749	22,662	1,610	37,363	26,863
Other accounts payable and accrued liabilities	474,839	419,054	399,754	331,765	215,241
Provisions.....	18,122	30,660	25,963	53,529	6,097
Employee benefits	3,497	4,443	7,934	9,796	11,072
Short term finance lease.....	49,182	51,253	41,668	31,795	2,862
Derivative financial instruments	228	—	—	—	—
Liabilities directly associated with assets held for sale.....	17,433	3,169	22,748	1,636	4,250
Total current liabilities	1,710,763	1,477,338	1,514,945	1,519,245	1,129,024
Non-current liabilities					
Bank loans and long-term debt	2,132,222	2,242,229	2,103,086	2,205,169	1,207,090
Long-term other liabilities.....	23,011	14,736	24,937	21,176	34,478
Long-term provisions	47,108	59,254	49,621	52,813	26,787
Employee benefits	83,774	105,973	80,196	111,918	—
Deferred income taxes.....	476,559	372,631	511,913	399,421	202,338
Long term finance lease	184,959	146,385	185,564	110,803	8,843
Long term income tax.....	45,949	—	45,794	—	—
Derivative financial instruments	63,551	35,597	74,689	17,496	9,906
Liabilities directly associated with assets held for sale	—	8,046	—	—	—
Total non-current liabilities	3,057,133	2,984,851	3,075,800	2,918,796	1,489,442
Total liabilities.....	4,767,896	4,462,189	4,590,745	4,438,041	2,618,466
Stockholders' equity:					
Paid-in capital					
Nominal	256,482	256,482	256,482	256,482	225,855
Additional paid-in capital	1,706,856	1,717,539	1,709,628	1,708,376	404,433
Cumulative effect of restatement.....	23,948	23,948	23,948	23,948	23,948
Earned capital					
Retained earnings.....	646,293	844,319	681,921	776,838	703,325
Other comprehensive income.....	645,477	301,910	570,265	415,618	362,005
Share repurchase reserve	151,176	57,456	56,312	38,609	64,744
Controlling interest.....	3,430,232	3,201,654	3,298,556	3,219,871	1,784,310
Non-controlling interest	373,275	24,296	292,501	18,339	4,340
Total stockholders' equity.....	3,803,507	3,225,950	3,591,057	3,238,210	1,788,650

	As of June 30,		As of December 31,		
	2014	2013	2013	2012	2011
	(Thousands of U.S. dollars)				
Total liabilities and stockholders' equity.....	8,571,403	7,688,139	8,181,802	7,676,251	4,407,116

Selected Guarantor Financial Information

The following tables present selected financial data on a subsidiary guarantor versus non-guarantor basis, as of June 30, 2014 and for the six months ended June 30, 2013, and as of and for the year ended December 31, 2013. As of and for the six months ended June 30, 2014, the subsidiary guarantors (in addition to Mexichem, on a stand-alone basis) accounted for 52.3% of our total assets and 55.1% of our EBITDA on a consolidated basis.

	Six months ended June 30, 2014				
	Parent Company	Guarantor subsidiaries	Non- guarantor subsidiaries	Eliminations	Total Consolidated
	(Thousands of U.S. dollars except as otherwise indicated)				
Statement of Comprehensive Income Data					
Net sales	-	1,759,390	1,858,035	(834,868)	2,782,557
Cost of sales	-	1,399,000	1,452,246	(814,135)	2,037,111
Gross profit	-	360,390	405,789	(20,733)	745,446
Selling and development expenses	-	136,258	188,504	303	325,065
Administrative expenses	10,184	35,794	114,944	(21,036)	139,886
Depreciation and amortization	-	11,949	41,225	-	53,174
Other expenses (income)	(2,698)	(2,229)	(27,143)	-	(32,070)
Exchange gain	(416)	(5,347)	(2,515)	-	(8,278)
Exchange loss	3,116	6,053	30,329	-	39,498
Interest expense	51,886	17,424	36,139	(19,770)	85,679
Interest income	(25,116)	(5,239)	17,618	(6,856)	(19,593)
Monetary position loss	-	-	5,277	-	5,277
Equity in income of associated companies	(3)	(3,136)	967	-	(2,172)
Profit before income taxes	(36,953)	168,863	444	26,626	158,980
Income tax expense	4,634	38,733	10,890	-	54,257
Profit from continuing operations	(41,587)	130,130	(10,446)	26,626	104,723
(Loss), gain from discontinued operations, net	-	639	(1,254)	-	(615)
Consolidated profit	(41,587)	130,769	(11,700)	26,626	104,108
Other comprehensive (income) loss:					
Exchange differences on translating foreign operations	-	-	20,962	27,764	48,726
Net (gain) loss on available-for-sale financial assets	-	-	24,776	-	24,776
Actuarial (gain) loss	-	-	(1,411)	-	(1,411)
Income taxes on net (gain) loss on cash flow	(4,211)	-	(7,960)	-	(12,171)
Hedging instruments and net (gain) loss on available-for-sale financial assets	14,038	-	-	-	14,038
Consolidated comprehensive income	(31,760)	130,769	24,667	54,390	178,066

	As of June 30, 2014				
	Parent Company	Guarantor subsidiaries	Non- guarantor subsidiaries	Eliminations	Total Consolidated
	(Thousands of U.S. dollars except as otherwise indicated)				
Statement of Financial Position Data					
Assets:					
Current assets:					
Cash and cash equivalents	611,561	76,488	355,624	-	1,043,673
Accounts receivable, net	561,305	673,672	103,585	-	1,338,562
Related parties	312,437	632,295	1,179,536	(2,118,743)	5,525
Inventories, net	-	341,802	473,567	-	815,369
Prepaid expenses.....	382	23,414	31,666	-	55,462
Derivative financial instruments.....	3,677	-	-	-	3,677
Assets held for sale.....	-	-	12,946	-	12,946
Total current assets.....	1,489,362	1,747,671	2,156,924	(2,118,743)	3,275,214
Non-current assets.....					
Property, plant and equipment, net.....	-	1,532,718	1,788,888	-	3,321,606
Other assets, net.....	4	29,504	48,783	-	78,291
Investment in shares of associated companies...	2,482,948	995,134	31,400	(3,478,082)	31,400
Intangible assets, net	17,435	123,542	1,043,083	-	1,184,060
Deferred income taxes.....	-	12,382	109,931	-	122,313

As of June 30, 2014

	Parent Company	Guarantor subsidiaries	Non- guarantor subsidiaries	Eliminations	Total Consolidated
	(Thousands of U.S. dollars except as otherwise indicated)				
Goodwill.....	-	96,462	462,057	-	558,519
Total non-current assets.....	2,500,387	2,789,742	3,484,142	(3,478,082)	5,296,189
Total assets.....	3,989,749	4,537,413	5,641,066	(5,596,825)	8,571,403
Liabilities:					
Current liabilities:					
Bank loans and current portion of long-term debt.....	-	36,926	33,852	-	70,778
Suppliers.....	17	492,475	582,443	-	1,074,935
Related parties	163,885	845,844	1,110,763	(2,118,743)	1,749
Other accounts payable and accrued liabilities..	26,093	120,328	377,828	-	524,249
Provisions.....	111	712	17,299	-	18,122
Employee benefits	-	2,572	925	-	3,497
Assets held for sale.....	-	11,763	5,670	-	17,433
Total current liabilities.....	190,106	1,510,620	2,128,780	(2,118,743)	1,710,763
Non-current liabilities					
Bank loans and long-term debt.....	1,789,408	246,371	96,443	-	2,132,222
Other liabilities	45,950	182,500	72,577	-	301,027
Employee benefits	-	6,106	77,668	-	83,774
Deferred income taxes.....	(60,468)	219,896	317,131	-	476,559
Derivative financial instruments.....	57,738	355	5,458	-	63,551
Total non-current liabilities	1,832,628	655,228	569,277	-	3,057,133
Total liabilities.....	2,022,734	2,165,848	2,698,057	(2,118,743)	4,767,896
Stockholders' equity:					
Paid-in capital					
Nominal.....	256,482	1,052,050	2,865,668	(3,917,718)	256,482
Additional paid-in capital.....	1,706,856	-	-	-	1,706,856
Cumulative effect of restatement.....	23,948	99,895	75,092	(174,987)	23,948
Earned capital					
Retained earnings	(147,708)	863,503	(433,316)	363,814	646,293
Other comprehensive income	(23,739)	273,315	393,873	2,028	645,477
Reserve for reacquisition of shares	151,176	-	-	-	151,176
Controlling interest	1,967,015	2,288,763	2,901,317	(3,726,863)	3,430,232
Non-controlling interest	-	82,802	41,692	248,781	373,275
Total stockholders' equity.....	1,967,015	2,371,565	2,943,009	(3,478,082)	3,803,507
Total liabilities and stockholders' equity	3,989,749	4,537,413	5,641,066	(5,596,825)	8,571,403

Year ended December 31, 2013

	Parent Company	Guarantor subsidiaries	Non- guarantor subsidiaries	Eliminations	Total Consolidated
	(Thousands of U.S. dollars except as otherwise indicated)				
Statement of Comprehensive Income Data					
Net sales	-	3,557,046	3,205,290	(1,585,337)	5,176,999
Cost of sales.....	-	2,761,319	2,426,131	(1,540,699)	3,646,751
Gross profit	-	795,727	779,159	(44,638)	1,530,248
Selling and development expenses.....	-	282,339	360,354	2,679	645,372
Administrative expenses.....	20,812	89,368	200,285	(47,317)	263,148
Depreciation and amortization	-	27,473	82,159	-	109,632
Other expenses (income)	(67,028)	94,791	(77,973)	-	(50,210)
Exchange gain	-	(965)	(28,459)	-	(29,424)
Exchange loss	56,288	4,921	20,043	-	81,252
Interest expense	109,470	33,013	79,455	(47,046)	174,892
Interest income	(76,411)	(15,167)	(21,278)	47,046	(65,810)
Monetary position loss.....	-	-	13,831	-	13,831
Equity in income of associated companies.....	(85,519)	(232,727)	317,541	-	(705)
Profit before income taxes	42,388	512,681	(166,799)	-	388,270
Income tax expense.....	6,959	105,862	43,979	-	156,800
Profit from continuing operations	35,429	406,819	(210,778)	-	231,470
(Loss), gain from discontinued operations, net	-	(105,090)	(43,325)	-	(148,415)
Consolidated profit	35,429	301,729	(254,103)	-	83,055

	Year ended December 31, 2013				
	Parent Company	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Total Consolidated
	(Thousands of U.S. dollars except as otherwise indicated)				
Other comprehensive income (loss):					
(Loss), gain from discontinued operations.....	-	(33,255)	23,520	-	(9,735)
Net gain (loss) on cash flow hedging instruments .	(49,047)	-	-	-	(49,047)
Net gain (loss) on available-for-sale financial assets	-	177,050	133,258	-	310,308
Actuarial gain (loss)	(2,618)	(248)	(2,866)	-	(86,323)
Available-for-sale financial assets	(14,224)	(49,040)	(23,059)	-	(86,323)
Consolidated comprehensive income.....	(27,842)	393,866	(120,632)	-	245,392
	As of December 31, 2013				
	Parent Company	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Total Consolidated
	(Thousands of U.S. dollars except as otherwise indicated)				
Statement of Financial Position Data					
Assets:					
Current assets:					
Cash and cash equivalents	629,212	95,469	507,880	-	1,232,561
Accounts receivable, net	(24,219)	593,752	463,193	-	1,032,726
Related parties	911,783	361,856	853,208	(2,115,679)	11,168
Inventories, net	-	323,818	404,987	-	728,805
Prepaid expenses.....	700	6,019	20,818	-	27,537
Assets held for sale.....	-	-	20,181	-	20,181
Total current assets	1,517,476	1,380,914	2,270,267	(2,115,679)	3,052,978
Non-current assets					
Property, plant and equipment, net.....	-	1,543,593	1,609,155	-	3,152,748
Other assets, net	4	26,734	45,901	-	72,639
Investment in shares of associated companies...	2,477,293	913,507	2,468,737	(5,826,156)	33,381
Intangible assets, net	-	128,301	1,079,885	-	1,208,186
Deferred income taxes.....	-	16,429	108,928	-	125,357
Goodwill.....	-	96,462	440,051	-	536,513
Total non-current assets.....	2,477,297	2,725,026	5,752,657	(5,826,156)	5,128,824
Total assets.....	3,994,773	4,105,940	8,022,924	(7,941,835)	8,181,802
Liabilities:					
Current liabilities:					
Bank loans and current portion of long-term debt	-	46,584	15,537	-	62,121
Suppliers.....	-	442,213	510,934	-	953,147
Related parties	157,692	521,932	1,437,665	(2,115,679)	1,610
Other accounts payable and accrued liabilities..	26,339	113,562	301,521	-	441,422
Provisions.....	111	652	25,200	-	25,963
Employee benefits	-	5,119	2,815	-	7,934
Assets held for sale.....	-	15,921	6,827	-	22,748
Total current liabilities.....	184,142	1,145,983	2,300,499	(2,115,679)	1,514,945
Non-current liabilities					
Bank loans and long-term debt.....	1,786,399	259,007	57,680	-	2,103,086
Other liabilities	-	178,204	81,918	-	260,122
Long term income tax	45,794	-	-	-	45,794
Employee benefits	-	5,666	74,530	-	80,196
Deferred income taxes.....	(67,626)	243,213	336,326	-	511,913
Derivative financial instruments	67,045	(119)	7,763	-	74,689
Total non-current liabilities	1,831,612	685,971	558,217	-	3,075,800
Total liabilities.....	2,015,754	1,831,954	2,858,716	(2,115,679)	4,590,745
Stockholders' equity:					
Paid-in capital					
Nominal.....	256,482	1,063,111	2,837,658	(3,900,769)	256,482
Additional paid-in capital.....	1,709,628	-	-	-	1,709,628
Cumulative effect of restatement.....	23,948	99,895	6,650	(106,545)	23,948
Earned capital					
Retained earnings	251,922	845,446	1,653,565	(2,069,012)	681,921
Other comprehensive income	(319,273)	242,534	646,000	1,004	570,265

As of December 31, 2013

	Parent Company	Guarantor subsidiaries	Non- guarantor subsidiaries	Eliminations	Total Consolidated
	(Thousands of U.S. dollars except as otherwise indicated)				
Reserve for reacquisition of shares	56,312	-	-	-	56,312
Controlling interest.....	1,979,019	2,250,986	5,143,873	(6,075,322)	3,298,556
Non-controlling interest	-	23,000	20,335	249,166	292,501
Total stockholders' equity	1,979,019	2,273,986	5,164,208	(5,826,156)	3,591,057
Total liabilities and stockholders' equity	3,994,773	4,105,940	8,022,924	(7,941,835)	8,181,802

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,		
	2014	2013	2013	2012	2011
	(Thousands of U.S. dollars)				
Chlorine-Vinyl Division⁽¹⁾					
Income Statement Data:					
Net sales	998,831	886,336	1,813,871	1,780,507	1,865,841
Cost of sales	849,186	701,082	1,478,546	1,415,776	1,497,319
Gross profit	149,645	185,254	335,325	364,731	368,522
Operating expenses ⁽²⁾	53,865	56,482	121,256	117,299	115,372
Other Data:					
EBITDA ⁽³⁾	159,271	157,041	298,277	314,233	321,110
Volume (thousands of tons)	848,402	888,514	1,796,812	1,848,872	1,842,027
Integral Solutions Division ⁽¹⁾					
Income Statement Data:					
Net sales	1,568,789	1,500,557	3,049,817	2,570,012	1,521,724
Cost of sales	1,136,235	1,069,714	2,185,497	1,760,839	994,860
Gross profit	432,554	430,843	864,320	809,173	526,864
Operating expenses ⁽²⁾	330,278	325,836	655,532	613,298	360,413
Other Data:					
EBITDA ⁽³⁾	190,955	184,521	376,302	335,792	242,788
Volume (thousands of tons)	477,437	459,686	931,625	807,882	494,262
Fluorine Division⁽¹⁾					
Income Statement Data:					
Net sales	339,903	373,330	672,980	810,942	810,825
Cost of sales	185,389	197,771	360,399	401,157	415,716
Gross profit	154,514	175,559	312,581	409,785	395,109
Operating expenses ⁽²⁾	75,942	54,610	133,915	177,209	132,701
Other Data:					
EBITDA ⁽³⁾	112,170	157,762	240,119	319,948	318,130
Volume (thousands of tons)	533,686	622,793	1,166,819	1,236,555	1,204,799
Holding Company					
Income Statement Data:					
Net sales	12,429	13,327	35,903	42,197	39,931
Cost of sales	—	—	—	—	—
Gross profit	12,429	13,327	35,903	42,197	39,931
Operating expenses ⁽²⁾	29,666	33,917	75,120	75,635	124,522
Other Data:					
EBITDA ⁽³⁾	(8,003)	(9,440)	(15,806)	(7,487)	(52,772)
Eliminations					
Income Statement Data:					
Net sales	(137,395)	(204,021)	(395,572)	(435,915)	(471,982)
Cost of sales	(133,699)	(196,643)	(377,691)	(399,609)	(409,870)
Gross profit	(3,696)	(7,378)	(17,881)	(36,306)	(62,112)
Operating expenses ⁽²⁾	(3,696)	(7,378)	(17,881)	(36,306)	(62,112)
Other Data:					
EBITDA ⁽³⁾	—	—	—	—	—

(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).

(3) EBITDA is a measure we use to monitor our consolidated operating performance and consists of gross profit, less operating expenses (selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other income and 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.

The following tables set forth, for the periods indicated, a reconciliation of gross profit to EBITDA for our consolidated operations and for our three operating divisions.

	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
(Thousands of U.S. dollars)					
Consolidated Operations					
Gross profit	745,446	797,605	1,530,248	1,589,580	1,268,314
Less: Operating expenses ⁽¹⁾	486,055	463,467	967,942	947,135	670,896
Plus: Depreciation and amortization ⁽²⁾	195,002	155,746	336,586	320,041	231,838
EBITDA	454,393	489,884	898,892	962,486	829,256

⁽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.

	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
(Thousands of U.S. dollars)					
Chlorine-Vinyl Division⁽¹⁾					
Gross profit	149,645	185,254	335,325	364,731	368,522
Less: Operating expenses ⁽²⁾	53,865	56,482	121,256	117,299	115,372
Plus: Depreciation and amortization ⁽³⁾	63,491	28,269	84,208	66,801	67,960
EBITDA	159,271	157,041	298,277	314,233	321,110
Integral Solutions Division⁽¹⁾					
Gross profit	432,554	430,843	864,320	809,173	526,864
Less: Operating expenses ⁽²⁾	330,278	325,836	655,532	613,298	360,413
Plus: Depreciation and amortization ⁽³⁾	88,679	79,514	167,514	139,917	76,337
EBITDA	190,955	184,521	376,302	335,792	242,788
Fluorine Division⁽¹⁾					
Gross profit	154,514	175,559	312,581	409,785	395,109
Less: Operating expenses ⁽²⁾	75,942	54,610	133,915	177,209	132,701
Plus: Depreciation and amortization ⁽³⁾	33,598	36,813	61,453	87,372	55,722
EBITDA	112,170	157,762	240,119	319,948	318,130
Holding Company					
Gross profit	12,429	13,327	35,903	42,197	39,931
Less: Operating expenses ⁽²⁾	29,666	33,917	75,120	75,635	124,522
Plus: Depreciation and amortization ⁽³⁾	9,234	11,150	23,411	25,951	31,819
EBITDA	(8,003)	(9,440)	(15,806)	(7,487)	(52,772)
Eliminations					
Gross profit	(3,696)	(7,378)	(17,881)	(36,306)	(62,112)
Less: Operating expenses ⁽²⁾	(3,696)	(7,378)	(17,881)	(36,306)	(62,112)
Plus: Depreciation and amortization ⁽³⁾	—	—	—	—	—
EBITDA	—	—	—	—	—

⁽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.

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 the 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 believe that we are one of the largest chemical companies in Latin America based on average annual production capacity and net sales. We are also a worldwide leader in plastic pipes and solutions with a presence in the Americas, Asia and Europe. We produce a diverse portfolio of chemical products in over 100 plants, which are strategically located in 18 countries across Latin America, the United States, Canada, Japan, Taiwan, China and 23 European countries, such as the United Kingdom, Germany, the Netherlands, Italy, France and Poland, among others. We also sell products in more than 50 countries. According to IHS, we are the largest producer of plastic 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. We have the largest production capacity for HF in the world in addition to the world's largest fluorspar mine, according to Roskill Consulting. This makes us the only fully-integrated HF producer in the Americas.

Our principal products include PVC resin, compounds and pipe, fluid transportation solutions, chlorine, caustic soda, fluorspar and HF, aluminum fluoride, phosphates and refrigerant gases, which are widely used in the construction, housing, infrastructure, agriculture, potable water, sewage, irrigation, automotive, medical and air conditioning industries. In 2013, we had an approximate 31% market share in the sale of PVC resin and an approximate 31% market share in the sale of PVC pipes in Latin America, based on market studies from IHS, WVA and ANIQ. In addition, we believe that we have a leading market share in our plastic piping business in several European countries, such as Belgium, the Czech Republic, Denmark, Germany, Hungary, the Netherlands and Poland. In 2013, 2012 and 2011, our consolidated net sales, excluding intracompany sales, were \$5.2 billion, \$4.8 billion and \$3.8 billion, respectively, with annual increases of 8.6% and 26.3% in 2013 and 2012, respectively. Our EBITDA for 2013, 2012 and 2011 was \$898.9, \$962.5 and \$829.2 million, respectively.

In recent years, we have secured a strong competitive position and market share throughout the Latin American, North American, 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 gradually increase the supply of the main raw materials that we produce in order to vertically integrate our divisions to: (i) produce specialized products with higher margins, (ii) manage the production of our raw materials directly and (iii) reduce our operating costs and improve our margins. We have proven experience in integrating and operating acquired companies. Since 2011, we acquired AlphaGary, a manufacturer of compounds; FDM, including fluorine mineral concessions from the Las Sabinas mining unit; and, Wavin, a manufacturer of plastic pipes headquartered in the Netherlands. More recently, during 2013, we acquired 100% of PolyOne's specialty PVC resin operations in the United States and entered into two joint ventures, the first with Pemex Petroquímica to generate value for our Chlorine-Vinyl division and the second with OxyChem, to construct an ethylene cracker with an annual capacity of 1,200 million pounds (550,000 tons). In 2014, we signed agreements to acquire Vestolit, a specialty resin producer based in Germany, with an annual resin capacity of 415,000 tons, and Dura-Line, a data, telecommunication and gas polyethylene pipe producer with operations in the United States, Mexico, the Czech Republic, Oman, India and South Africa.

Our business consists of three operating divisions:

- *Chlorine-Vinyl Division.* This division consists of four manufacturing processes: (i) the chlor-alkali process, which produces chlorine, caustic soda, sodium hypochlorite and phosphate; (ii) ethylene and VCM production; (iii) the vinyl process, which produces PVC resins; and (iv) the compounds process, which produces PVC compounds used in different manufacturing processes such as piping, fittings, cables, medical applications and window frames. Our Chlorine-Vinyl Division had net sales of \$998.8 million for

the six months ended June 30, 2014 and \$1.8 billion in 2013 (including intra-company sales), which accounted for approximately 35.9% and 35.0% of our consolidated net sales in those periods, respectively. We own the rights to a salt dome in Mexico with over 30 years of potential reserves. We also operate modern chlorine, caustic soda and PVC resin and compound production facilities.

- *Integral Solutions Division.* This division produces plastic pipes, fittings and pipe systems for the conveyance of fluids, mainly water, surface heating and cooling systems and water treatment systems, 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 \$1.6 billion for the six months ended June 30, 2014 and \$3.0 billion in 2013 (including intra-company transactions), which accounted for approximately 56.4% and 58.9% of our consolidated net sales in those periods, respectively.
- *Fluorine Division.* This division consists of one mining and three manufacturing processes: (i) the extraction and sale of fluorspar process, which is the raw material used in the production of all fluorinated products that is further used in the cement, ceramics, steel and glass industries; (ii) the production and sale of acid fluorspar to HF producers, (iii) the HF process, which encompasses the production of HF, which is a chemical precursor to numerous pharmaceuticals and plastics, refrigerant gas and aluminum fluoride, which is used for the production of aluminum by electrolysis; and (iv) refrigerant gas production, which is used in the pharmaceutical, automotive, air conditioning and refrigerant industries. This division includes the mining concession to the world's largest fluorspar mine with installed annual production capacity of approximately 1.3 million tons, an approximate extraction rate of 20% of the global fluorspar needs per year and potential reserves of 32 million tons for the next 28 years, according to the 2013 Roskill report. Our Fluorine Division had net sales, including intra-company transactions, of \$340 million for the six months ended June 30, 2014 and \$673 million in 2013, which accounted for approximately 12.2% and 13.0%, 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, 2014 and 2013 and the years ended December 31, 2013, 2012 and 2011, including the analysis by operating division contained therein, are not necessarily comparable due to, among others, the following reasons:

Six months ended June 30 2014 vs. six months ended June 30, 2013

- The acquisition of 100% of PolyOne's specialty PVC resin operations in the United States in March 2013. See "—Growth through acquisitions and joint ventures" for information regarding this acquisition.
- The joint ventures entered into with OxyChem and PMV during 2013. See "—Growth through acquisitions and joint ventures" for information regarding these joint ventures.

2013 vs. 2012

- In May 2012, we acquired 95.7% of the shares of Wavin, a leading supplier of plastic pipe systems and solutions in Europe. In the first quarter of 2013, we acquired the remaining 4.3% of Wavin's outstanding shares and the acquisition of FDM in January 2012. See "—Growth through acquisitions and joint ventures" for information regarding these acquisitions.
- The acquisition of 100% of PolyOne's specialty PVC resin operations in the United States in March 2013. See "—Growth through acquisitions and joint ventures" for information regarding this acquisition.

2012 vs. 2011

- In May 2012, we acquired 95.7% of the shares of Wavin, a leading supplier of plastic pipe systems and solutions in Europe. In the first quarter of 2013, we acquired the remaining 4.3% of Wavin's outstanding shares and the acquisition of FDM in January 2012. See "—Growth through acquisitions and joint ventures" for information regarding these acquisitions.

- The acquisition of AlphaGary completed during 2011. See “— Growth through acquisitions and joint ventures” for information regarding these acquisitions.

Also, 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. In contrast, the financial information provided for each of our operating divisions under “—Results of operations by operating division—Results of operations by division” only gives effect to the elimination of intra-division (but not inter-division) transactions.

Other factors affecting our results of operations

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 20 countries in the Americas, including primarily Mexico, Colombia, Brazil and the United States, and 23 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 real GDP growth for the last three years, reported by the countries that contribute most significantly to our results of operations:

	2013	2012	2011
Mexico	1.1	4.0	4.0
United States	1.9	2.8	1.8
Brazil	2.5	1.0	2.7
Colombia.....	4.3	4.0	6.6
Euro Zone (27 countries)	0.1	(0.4)	1.7
United Kingdom.....	1.7	0.3	1.1
Germany	0.4	0.7	3.3
Netherlands	(0.8)	(1.2)	0.9
France	0.2	0.0	2.0
Belgium	0.2	(0.1)	1.8
Denmark	0.4	0.0	1.1
Norway	0.6	2.9	1.3
Sweden	1.5	0.9	2.9
Finland.....	(1.4)	(1.0)	2.8
Ireland.....	(0.3)	0.2	2.2

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 natural gas, energy, sulfur, ethane, ethylene, petroleum and petroleum derivatives, our key raw materials, 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. During 2013, 2012 and 2011, many countries in which we operate depreciated against the U.S. dollar, which had a negative impact on our financial statements in the form of lower revenues from export sales. For example, in 2013, the Venezuelan government devaluated the Bolivar against the U.S. dollar by 46%; however, our operations in Venezuela are not significant.
- 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 euros and pesos (not including the U.S. dollar, given that it is our functional currency). A benefit of these U.S. dollar-denominated revenues is that they serve as a natural hedge to service our foreign-currency denominated debt, which as of June 30, 2014, was \$963.7 million out of our total debt of \$2.2 billion. See “Risk factors—Risk factors related to our business and industry—We have a significant amount of indebtedness and we may be able to incur more debt which could further exacerbate the risks associated with our 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, irrigation systems and automotive 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 the largest producer of PVC pipe in Latin America and Europe. In addition, we are one of the world’s largest integrated producers of HF. 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 2013 accounted for nearly 58.9% of our net sales. The economies of countries such as Brazil, Colombia, Ecuador and Peru are expected 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 five 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.

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

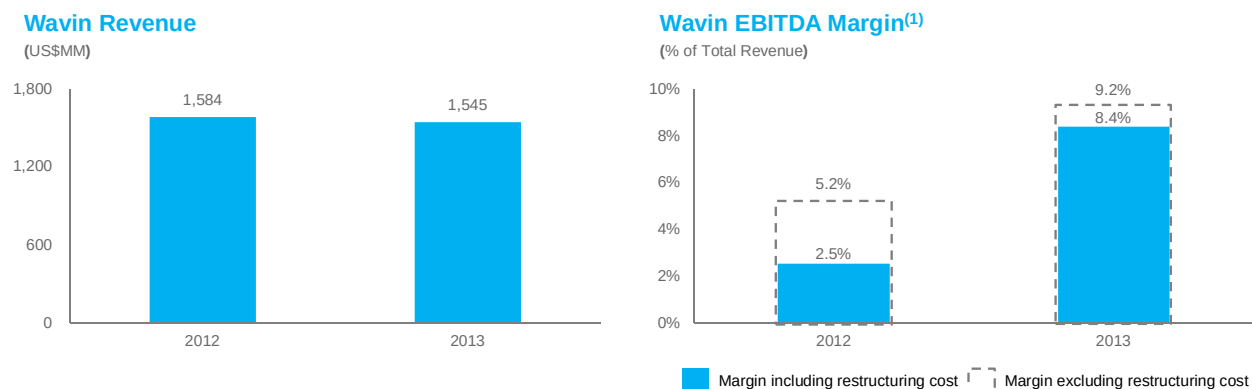
- activity in the construction sector, resulting from population increases in Europe, the increase in the number of single-person homes and the real estate development to meet this increase in demand, as well as a strong tendency toward creating environmentally friendly living and working spaces;
- the 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;
- increases in the cost of raw material and a restriction in our ability to pass on these increases to consumers; and
- geopolitical conditions that impact the economy in those regions in which we operate.

Growth through acquisitions and joint ventures

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 and Europe. The acquisition completed in 2011 contributed \$272 million and \$35 million to net sales and EBITDA, respectively, which represented approximately 6.5% and 4.2% of total net sales and EBITDA for 2011; the acquisitions completed in 2012 contributed \$1,091 million and \$83 million to net sales and EBITDA, respectively, which represented approximately 24.9% and 8.6% of total net sales and EBITDA for 2012; and the acquisitions completed in 2013, which were primarily intended to further increase our access to raw materials through vertical integration, contributed \$72 million and \$12 million to net sales and EBITDA, respectively, which represented approximately 1.4% and 1.3% of total net sales and EBITDA for 2013.

The below chart illustrates Wavin's increased margins in revenue and EBITDA shortly following its acquisition.



(1) EBITDA figures include restructuring costs of \$13 million and \$43 million for 2013 and 2012, respectively.

Chlorine-Vinyl Division

Mexichem and OxyChem joint venture

On October 31, 2013, we and OxyChem formalized a joint venture, each with an equal stake, named Ingleside, to construct an ethylene cracker with an annual capacity of 550,000 tons. This new plant represents a total investment of \$1.5 billion, and will be located at the installations of OxyChem in Ingleside, Texas. The cracker is expected to utilize OxyChem's duct and storage system located in Markham, Texas. The cracker will supply ethylene to OxyChem's VCM production facility in Texas, which, in turn, will supply VCM to us. The total amount invested into Ingleside as of June 30, 2014 and December 31, 2013 was \$206 million and \$46 million, respectively. We expect that the cracker will be fully operational in 2017.

Mexichem and Pemex Petroquímica joint venture

On September 11, 2013, we and Pemex Petroquímica formalized a joint venture in PMV. As a result of this strategic alliance, our vinyl chain (from salt-ethylene to PVC resin and our fluids conduction systems) will be fully vertically integrated, allowing the Mexican industry to become more competitive compared to that of the United States and allowing Mexico to benefit from the shale gas revolution. As part of this joint venture, Pemex Petroquímica is contributing an ethylene cracker, an EDC and VCM plant, two electricity cogeneration units and maritime facilities. Our contributions to PMV include salt deposits, the chlorine-caustic soda plant located in Coatzacoalcos, and \$200 million for the VCM capacity expansion from the approximate 125,000 tons a year that we produced prior to the formation of PMV to the designed capacity of approximately 400,000 tons a year. We are currently determining the fair value of the net assets that we acquired, which is expected to take effect one year after the acquisition in conformity with IFRS 3. Consequently, the amounts relating to the fair values of our net assets reported in the consolidated financial statements accompanying this offering memorandum are provisional and are subject to change. Our property, plant and equipment were revalued as a result of the application of our accounting policies, which led to an increase in the value of our assets by \$256 million as a contribution in kind.

Through the formation of PMV, we intend to secure the supply of VCM needed for our PVC plants. We also expect that this plant will (1) provide for the further vertical integration of our Chlorine-Vinyl Division by allowing us to produce one of the main raw materials that we use in this division and (2) improve our competitive position in the manufacturing of PVC products.

PolyOne acquisition

On March 25, 2013, we reached an agreement with PolyOne to acquire 100% of its specialty PVC resin operations in the United States, allowing us to enter into the specialty resins market with higher margins. We now have two production plants and one research and development center. By means of this acquisition, we concentrated our sales in one key site and improved our cost efficiencies. The approximate value of this acquisition was \$250 million.

AlphaGary acquisition

On January 7, 2011, we 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, we have consolidated our presence in the compound markets in which we operate and we have combined both the research and development potential, and the innovative knowledge, of AlphaGary into our operations. The approximate value of this acquisition was \$322 million.

Integral Solutions Division

Wavin acquisition

In May 2012, we acquired 95.7% of the shares of Wavin, which 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 gas and telecom operations. In the first quarter of 2013, we acquired the remaining 4.3% of Wavin's outstanding shares. Wavin has its headquarters in Zwolle, the Netherlands and operates in 25 European countries and China. The approximate value of this acquisition was €533 million. We have been able to optimize Wavin synergies and its results partially due to its restructuring in 2013. During this restructuring, Wavin closed over 10 plants in Europe without affecting its sales volume, which allowed us to improve our overall margins.

Fluorine Division

FDM acquisition

On January 26, 2012, we acquired 100% of the shares of FDM from Amati, located in Múzquiz, Coahuila, Mexico. This acquisition provides us with access to some of the purest fluorspar available in the world, and enables us to ensure that we meet the continuous supply of some of the raw materials required for our United Kingdom operations. The FDM mine that we acquired by means of this acquisition has potential reserves in excess of 13 million tons and has an estimated annual extraction of 100,000 tons. The approximate value of this acquisition was \$68 million.

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	Net sales in 2013 (millions of dollars)	Percentage of our total net sales in 2013	Market Share (in %)	
PVC resin.....	1,019	18	Mexico	53
			Colombia	74
Compounds.....	509	9	Mexico	36
Pipe.....	3,050	55	Latin America	32
Chlorine and caustic soda	286	4	Chlorine, Mexico	72
			Caustic Soda, Mexico	46
Fluorspar and hydrofluoric acid	673	13	Fluorspar, Worldwide	19
			Hydrofluoric acid,	26

Source: IHS and WVA 2013, except for PVC resin and Pipe with 2013 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, 2014 and 2013 and our consolidated financial statements as of December 31, 2013, 2012 and 2011, 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 and fittings, which are produced by Amanco's 24 plants located in 10 Latin American countries and sold to end consumers in 23 countries within the region, primarily in the construction, infrastructure and agricultural industries, through approximately 62,000 points of sale;
- PVC pipes and fittings of the highest quality with over 480 patented products, which are produced and sold by us;
- 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;
- chlorine, which is the raw material used in the production of VCM and which we sold to Pemex until we and Pemex Petroquímica entered into a joint venture agreement to form PMV;
- caustic soda, which is used in the production of pulp and paper, organic chemicals, soaps and detergents, textiles, oils and aluminum;
- 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
- HF, which is used in the production of refrigerant gases 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,		
	2014	2013	2012	2011
Chlorine-Vinyl Division	34.5	32.7	34.6	45.3
Integral Solutions Division	55.2	54.6	50.0	35.7
Fluorine Division	10.3	12.7	15.4	19.0

Expenditures

Costs of sales

The principal components of our cost of sales are our raw materials, the depreciation of our plants and industrial equipment. In 2013, our cost of sales, as a percentage of our sales, increased to 70.4% as compared with 66.6% in 2012 and as compared to 66.3% in 2011. This increase was primarily a result of our acquisition of Wavin in May 2012, thereby reducing our historical margins, and a decrease in the average price of refrigerant gases.

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

Our Mexican subsidiaries are subject to income tax. 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 according to the table below. Tax losses may be used to offset taxable profits in future years.

The following table shows the statutory income tax rates in effect for 2013 in each of the countries in which we operate:

	<u>Tax Rate (%)</u>		<u>Tax Rate (%)</u>
Argentina	35	Italy	28
Austria	25	Japan	38
Belgium	33	Latvia	15
Brazil	34	Lithuania	15
Bulgaria	10	Mexico	30
Canada	15	Netherlands	25
China	25	Nicaragua	30
Colombia	34	Norway	28
Costa Rica	30	Panama	25
Croatia	20	Peru	30
Czech Republic	19	Poland	19
Denmark	25	Romania	16
Ecuador	22	Russia	20
El Salvador	30	Serb Republic	15
Finland	20	Sweden	22
France	33	Switzerland	22
Guatemala	31	Taiwan	17
Germany	30	United Kingdom	23
Ireland	13	United States	35

Recent changes to Mexican tax law

The Mexican government has, in recent years, implemented various changes to the tax laws applicable to Mexican companies, including us. In December 2013, the Mexican Government enacted various federal tax reforms that entered into effect on January 1, 2014. Among other changes, these reforms: (1) maintained a corporate income tax rate of 30%; (2) eliminated the corporate flat tax, or IETU; (3) imposed withholding taxes at a 10% rate on the payment of dividends and capital gains from the sale of shares by and to Mexican and foreign shareholders; (4) eliminated deductions previously allowed in respect of payments between related parties or certain foreign

corporations; (5) limited the tax deductions for certain benefits paid to employees; (6) increased the value-added tax in certain areas of Mexico; and (7) increased the tax for mining activities.

Alternative minimum tax

Some of the countries in which we operate, including Argentina, Colombia, Guatemala and Nicaragua, have implemented an alternative minimum 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 alternative minimum 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 (%)
Argentina	1.00
Colombia	1.00
Guatemala.....	1.00
Nicaragua.....	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:

Change in functional currency

Until January 1, 2013, we issued our financial statements in Mexican pesos, the functional currency applicable to certain of our subsidiaries. However, in 2013, we decided to change our reporting currency to U.S. dollars because it is the currency with which our operational and financial decisions are made. The financial statements for the years ended December 31, 2012 and 2011, although initially issued in Mexican pesos, were thereafter restated in U.S. dollars to make these financial statements comparable to those as of and for the year ended December 31, 2013. Consequently, all of the figures included in our financial statements are now represented in U.S. dollars.

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 the 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 the 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, 2014					
	Net sales	Cost of sales	Gross profit	Operating expenses ⁽¹⁾	EBITDA
	(Thousands of U.S. dollars)				
Chlorine-Vinyl Division	998,831	849,186	149,645	53,865	159,271
Integral Solutions Division	1,568,789	1,136,235	432,554	330,278	190,955
Fluorine Division	339,903	185,389	154,514	75,942	112,170
Eliminations ⁽²⁾	(137,395)	(133,699)	(3,696)	(3,696)	—
Holding Company	12,429	—	12,429	29,666	(8,003)
Consolidated	2,782,557	2,037,111	745,446	486,055	454,393

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

(2) Eliminations are used to calculate third party sales, with the remaining \$3,696 constituting income from services which corresponded to the operative expenses of the operating company.

Six months ended June 30, 2013					
	Net sales	Cost of sales	Gross profit	Operating expenses ⁽¹⁾	EBITDA
	(Thousands of U.S. dollars)				
Chlorine-Vinyl Division	886,336	701,082	185,254	56,482	157,041
Integral Solutions Division	1,500,557	1,069,714	430,843	325,836	184,521
Fluorine Division	373,330	197,771	175,559	54,610	157,762
Eliminations ⁽²⁾	(204,021)	(196,643)	(7,378)	(7,378)	—
Holding Company	13,327	—	13,327	33,917	(9,440)
Consolidated	2,569,529	1,771,924	797,605	463,467	489,884

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

(2) Eliminations are used to calculate third party sales, with the remaining \$7,378 constituting income from services which corresponded to the operative expenses of the operating company.

Year ended December 31, 2013					
	Net sales	Cost of sales	Gross profit	Operating expenses ⁽¹⁾	EBITDA
	(Thousands of U.S. dollars)				
Chlorine-Vinyl Division	1,813,871	1,478,546	335,325	121,256	298,277
Integral Solutions Division	3,049,817	2,185,497	864,320	655,532	376,302
Fluorine Division	672,980	360,399	312,581	133,915	240,119
Eliminations ⁽²⁾	(395,572)	(377,691)	(17,881)	(17,881)	—
Holding Company	35,903	—	35,903	75,120	(15,806)
Consolidated	5,176,999	3,646,751	1,530,248	967,942	898,892

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

(2) Cost of sales should be reduced to Chlorine-Vinyl Division in order to get sales to third parties, the remaining \$17,881 constituting income from services which corresponded to the operative expenses of the operating company.

Year ended December 31, 2012					
	Net sales	Cost of sales	Gross profit	Operating expenses ⁽¹⁾	EBITDA
	(Thousands of U.S. dollars)				
Chlorine-Vinyl Division	1,780,507	1,415,776	364,731	117,299	314,233
Integral Solutions Division	2,570,012	1,760,839	809,173	613,298	335,792
Fluorine Division	810,942	401,157	409,785	177,209	319,948
Eliminations ⁽²⁾	(435,915)	(399,609)	(36,306)	(36,306)	—
Holding Company	42,197	—	42,197	75,635	(7,487)
Consolidated	4,767,743	3,178,163	1,589,580	947,135	962,486

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

(2) Eliminations are used to calculate third party sales, with the remaining \$36,306 constituting income from services which corresponded to the operative expenses of the operating company.

Year ended December 31, 2011					
	Net sales	Cost of sales	Gross profit	Operating expenses ⁽¹⁾	EBITDA
	(Thousands of U.S. dollars)				
Chlorine-Vinyl Division	1,865,841	1,497,319	368,522	115,372	321,110
Integral Solutions Division	1,521,724	994,860	526,864	360,413	242,788
Fluorine Division	810,825	415,716	395,109	132,701	318,130
Eliminations ⁽²⁾	(471,982)	(409,870)	(62,112)	(62,112)	—
Holding Company	39,931	—	39,931	124,522	(52,772)
Consolidated	3,766,339	2,498,025	1,268,314	670,896	829,256

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

(2) Eliminations are used to calculate third party sales, with the remaining \$62,112 constituting income from services which corresponded to the operative expenses of the operating company.

Six months ended June 30, 2014 compared with the six months ended June 30, 2013

Consolidated results of operations

The following table sets forth our results of operations for the six months ended June 30, 2014 and 2013.

	Six months ended June 30,	
	2014	2013
	(Thousands of U.S. dollars)	
Net sales	2,782,557	2,569,529
Cost of sales	2,037,111	1,771,924
Gross profit	745,446	797,605
Operating expenses ⁽¹⁾	486,055	463,467
Net financial expense and exchange rate variation ⁽²⁾	102,583	79,723
Equity in income of associated companies	(2,172)	(1,588)
Income taxes	54,257	93,383
Income from continuing operations	104,723	162,620
Discontinued operations net	(615)	(13,685)
Consolidated net income	104,108	148,935

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

(2) Net financial expense and exchange rate variation includes monetary position loss of \$5,277 and \$6,466 for the first six months ended June 30, 2014 and 2013, respectively.

Net sales

Our net sales increased 8.3%, to \$2,783 million for the six months ended June 30, 2014 from \$2,570 million for the six months ended June 30, 2013. This increase was mainly the result of: (i) the consolidation of PolyOne's specialty resins business that we acquired in March 2013 and an increase in sales relating to our acquisition of Wavin; (ii) the consolidation of PMV since September 2013; and (iii) the increase in the production capacity of our Chlorine-Vinyl Division in Mexico.

Cost of sales

Our cost of sales increased 15.0%, to \$2,037 million for the six months ended June 30, 2014, from \$1,772 million for the six months ended June 30, 2013. This increase was mainly the result of: (i) an increase in sales relating to our acquisition of Wavin; (ii) the acquisition of PolyOne's specialty resins business in March 2013; (iii) costs related to PMV; (iv) higher natural gas prices; and (v) higher VCM prices due to production shortages by one of our VCM suppliers.

Gross profit

As a result, our gross profit decreased 6.6%, to \$745 million for the six months ended June 30, 2014, from \$798 million for the six months ended June 30, 2013. Our gross margin, which is calculated by dividing gross profit by net sales, decreased from 31.0% in the first six months ended June 30, 2013, to 26.8% in the first six months ended June 30, 2014. This was due to the factors referenced above, along with (i) decreases in the market prices of fluorspar and refrigerant gases due to the entry of Chinese competitors and (ii) a decrease in our historical margins relating to our acquisition of Wavin.

Operating expenses

Our operating expenses increased 5.0%, to \$486 million for the six months ended June 30, 2014, from \$463 million for the six months ended June 30, 2013. This increase was primarily attributable to amortization expenses in the Chlorine-Vinyl Division. This was mainly the result of an increase in intangible assets relating to the acquisition of PolyOne's specialty resins business in May 2013 and the addition of PMV's ethylene and VCM plants in September 2013. Our operating expenses represented 17.5% of our net sales during the first six months ended June 30, 2014, compared to 18.0% during the first six months ended June 30, 2013.

Net financial expense and exchange rate variation

Our net financial expense and exchange rate variation increased 28.7%, to \$103 million for the six months ended June 30, 2014, from \$80 million for the six months ended June 30, 2013. This increase was mainly the result of expenses related to the fluctuation of the Mexican peso against the U.S. dollar, and a \$32.8 million loss resulting from foreign exchange operations in Venezuela for the six months ended June 30, 2014.

Income tax

Our income taxes amounted to \$54 million for the six months ended June 30, 2014 and \$93 million for the six months ended June 30, 2013. This decrease was the result of lower profits, a change in the proportion of income that was taxable, and a change in the tax regime for mining companies in Mexico. See "Business—Regulation" for additional information.

Consolidated net income

Consolidated net income decreased 30.2%, to \$104 million for the six months ended June 30, 2014 from \$149 million for the six months ended June 30, 2013, due to the factors discussed above. See also "—Taxes."

Results of operations by division

Chlorine-Vinyl Division

	Six months ended June 30,	
	2014	2013
	(Thousands of U.S. dollars)	
Net sales	998,831	886,336
Cost of sales	849,186	701,082
Gross profit	149,645	185,254
Operating expenses ⁽²⁾	53,865	56,482
EBITDA	159,271	157,041

- (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 12.7%, to \$999 million for the six months ended June 30, 2014, from \$886 million for the six months ended June 30, 2013. This increase was mainly due to: (i) higher resins volumes caused by an increase in capacity in Mexico and Colombia and the acquisition of PolyOne's specialty resins business; (ii) an increase in ethylene sales; (iii) higher VCM prices as a result of a force majeure event of one of our main VCM suppliers, Axiall; and (iv) unstable PMV production and natural gas prices.

Cost of sales. Our Chlorine-Vinyl Division's cost of sales increased 21.1%, to \$849 million for the six months ended June 30, 2014, from \$701 million for the six months ended June 30, 2013. This increase was primarily attributable to higher raw materials and energy prices, including higher VCM and natural gas prices, much of which we were able to pass on in the form of higher sales prices for our finished products.

Gross profit. As a result, our Chlorine-Vinyl Division's gross profits decreased 18.9%, to \$150 million for the six months ended June 30, 2014, from \$185 million for the six months ended June 30, 2013.

Operating expenses. Our Chlorine-Vinyl Division's operating expenses decreased 3.6%, to \$54 million for the six months ended June 30, 2014, from \$56 million for the six months ended June 30, 2013. This decrease was primarily attributable to the incorporation of PMV's ethylene and VCM plants in September 2013 and the acquisition in May 2013 of PolyOne's specialty resins business.

EBITDA. Our Chlorine-Vinyl Division's EBITDA increased 1.3%, to \$159 million for the six months ended June 30, 2014, from \$157 million for the six months ended June 30, 2013. This increase was primarily attributable to the results discussed above.

Integral Solutions Division

	Six months ended June 30,	
	2014	2013
	(Thousands of U.S. dollars)	
Net sales	1,568,789	1,500,557
Cost of sales	1,136,235	1,069,714
Gross profit	432,554	430,843
Operating expenses ⁽²⁾	330,278	325,836
EBITDA	190,955	184,521

- (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 4.5%, to \$1,569 million for the six months ended June 30, 2014, from \$1,501 million for the six months ended June 30, 2013. This increase was primarily

attributable to an increase in sales in Europe of approximately 9.0% and flat sales in Latin America due to currency fluctuations and slow economic growth in countries such as Mexico and Peru.

Cost of sales. Our Integral Solutions Division's cost of sales increased 6.2%, to \$1,136 million for the six months ended June 30, 2014, from \$1,070 million for the six months ended June 30, 2013. This increase was primarily attributable to: (1) a dollar-euro exchange rate devaluation from an average of \$1.34 per €1.00 during the first six months of 2013 to \$1.37 per €1.00 during the first six months of 2014; (2) a variable manufacturing cost increase due to higher sales; and (3) an increase in PVC resins costs.

Gross profit. As a result, our Integral Solutions Division's gross profit increased 0.5%, to \$433 million for the six months ended June 30, 2014, from \$431 million for the six months ended June 30, 2013.

Operating expenses. Our Integral Solutions Division's operating expenses increased 1.2%, to \$330 million for the six months ended June 30, 2014, from \$326 million for the six months ended June 30, 2013, due primarily to a higher depreciation in asset valuation in our Latin America operations at the end of 2013.

EBITDA. Our Integral Solutions Division's EBITDA increased 3.2%, to \$191 million for the six months ended June 30, 2014, from \$185 million for the six months ended June 30, 2013. This increase was primarily attributable to the results described above and restructuring efforts carried out since 2013 in Europe.

Fluorine Division

	Six months ended June 30,	
	2014	2013
	(Thousands of U.S. dollars)	
Net sales	339,903	373,330
Cost of sales	185,389	197,771
Gross profit	154,514	175,559
Operating expenses ⁽²⁾	75,942	54,610
EBITDA	112,170	157,762

(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 decreased 8.8%, to \$340 million for the six months ended June 30, 2014, from \$373 million for the six months ended June 30, 2013. This decrease was primarily due to lower sales volume of fluorspar and lower prices of refrigerant gases compared to 2013.

Cost of sales. Our Fluorine Division's cost of sales decreased 6.6%, to \$185 million for the six months ended June 30, 2014, from \$198 million for the six months ended June 30, 2013. This decrease was primarily attributable to a decrease in sales volume and an increase in energy prices.

Gross profit. As a result, our Fluorine Division's gross profit decreased 11.9%, to \$155 million for the six months ended June 30, 2014, from \$176 million for the six months ended June 30, 2013.

Operating expenses. Our Fluorine Division's operating expenses increased 38.2%, to \$76 million for the six months ended June 30, 2014, from \$55 million for the six months ended June 30, 2013. This increase was primarily attributable to an increase in costs for certain products produced for the refrigerant gases industry and a reversal of an environmental contingency of \$18 million relating to our acquisition of FDM during the first six months of 2013.

EBITDA. Our Fluorine Division's EBITDA decreased 29.1%, to \$112 million for the six months ended June 30, 2014, from \$158 million for the six months ended June 30, 2013. This decrease was primarily attributable to the results discussed above.

Year ended December 31, 2013 compared with the year ended December 31, 2012

Consolidated results of operations

The following table sets forth our results of operations for the years ended December 31, 2013 and 2012.

	Year ended December 31,	
	2013	2012
	(Thousands of U.S. dollars)	
Net sales	5,176,999	4,767,743
Cost of sales	3,646,751	3,178,163
Gross profit	1,530,248	1,589,580
Operating expenses ⁽¹⁾	967,942	947,135
Net financial expense and exchange rate variation ⁽²⁾	174,741	225,319
Equity in income of associated companies	(705)	(1,795)
Income taxes	156,800	119,535
Income from continuing operations	231,470	299,386
Discontinued operations net	(148,415)	19,527
Consolidated net income	83,055	318,913

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

(2) Net financial expenses and exchange rate variation includes monetary position loss by \$13.8 million and \$3.0 million for the year ended December 31, 2013 and 2012, respectively.

Net sales

Our net sales increased 8.6%, to \$5.2 billion in 2013, from \$4.8 billion in 2012. This increase was mainly attributable to (i) a full year of consolidation of Wavin's net sales compared to only eight months in 2012, representing an additional contribution of \$466 million to our results; (ii) nine months of consolidation of the acquisition of PolyOne's specialty PVC resins business which added \$73 million of sales to our Chlorine-Vinyl Division compared to 2012; and (iii) an increase in sales volume. These increases were partially offset by factors including: (i) a stoppage at the Pemex Petroquímica VCM facility during the first six months of 2013; (ii) the declaration of a force majeure event by Axiall, one of our main VCM suppliers, in December 2012; and (iii) a decrease in the sales of our refrigerant gases businesses due to an increase in supply from Chinese competitors and a delay in infrastructure spending by the governments of certain Latin American countries in which we operate.

Cost of sales

Our cost of sales increased 14.8%, to \$3.6 billion in 2013, from \$3.2 billion for 2012. This increase was primarily due to: (i) the full-year consolidation of Wavin in 2013 compared to only eight months in 2012; (ii) the full-year consolidation of PolyOne in 2013 compared to only nine months in 2012; and (iii) an increase in the prices of our main raw materials.

Gross profit

Our gross profit decreased 3.8%, to \$1.5 billion in 2013, from \$1.6 billion for 2012. Our gross margin, which is calculated by dividing gross profit by net sales, decreased from 33.3% in the year ended December 31, 2012 to 29.6% in the year ended December 31, 2013. These decreases reflected the proportionally greater increase in cost of sales in 2013 relative to 2012.

Operating expenses

Our operating expenses increased 2.2%, to \$968 million in 2013, from \$947 million for 2012. Our operating expenses represented 18.7% of our net sales in 2013, a decrease from 19.9% of our net sales in 2012, 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 \$175 million in 2013 compared to a loss of \$225 million in 2012. The decrease in the loss was primarily due to the early settlement of a \$350 million bond in September 2012, as well as gains related to the swap of Wavin's Mexican peso-denominated debt into Euro-denominated debt.

Income tax

Income taxes increased 30.8%, to \$157 million in 2013, from \$120 million for 2012. This increase was primarily caused by an increase in deferred taxes.

Consolidated net income

Our consolidated net income decreased 74.0%, to \$83 million in 2013, from \$319 million in 2012. This decrease was mainly due to costs relating to our Fluorine division in the amount of \$148 million, which was partially offset by a \$50 million decrease in our financial cost in 2013.

Results of operations by division

Chlorine-Vinyl Division

	Year ended December 31,	
	2013	2012
	(Thousands of U.S. dollars)	
Net sales	1,813,871	1,780,507
Cost of sales	1,478,546	1,415,776
Gross profit	335,325	364,731
Operating expenses ⁽²⁾	121,256	117,299
EBITDA	298,277	314,233

(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 1.9%, to \$1,814 million in 2013, from \$1,781 million for 2012. This increase was mainly a result of the consolidation of nine months of PolyOne's specialty PVC resins business' net sales and an increase in sales volume, which was partially offset by: (i) an extended halt of PMV's VCM facility operations and the related decrease in chlorine sales; (ii) a force majeure event which interrupted our VCM supply and the related decrease in PVC production and sales; and (iii) an increase in VCM production through PMV, which increased our internal consumption of chlorine and reduced our sales to third parties during the first six months of 2013 (which is also expected to consistently decrease in the future as a result).

Cost of sales. Our Chlorine-Vinyl Division's cost of sales increased 4.4%, to \$1,479 million in 2013, from \$1,416 million for 2012. 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 profit decreased 8.2%, to \$335 million in 2013, from \$365 million for 2012, reflecting the proportionally greater increase in cost of sales.

Operating expenses. Our Chlorine-Vinyl Division's operating expenses increased 3.4%, to \$121 million in 2013, from \$117 million for 2012. This increase was due in part to the acquisition of PolyOne and maintenance cost of the PMV plant.

EBITDA. Our Chlorine-Vinyl Division's EBITDA decreased 5.1%, to \$298 million in 2013, from \$314 million in 2012. This decrease was due to the factors described above.

Integral Solutions Division

	Year ended December 31,	
	2013	2012
	(Thousands of U.S. dollars)	
Net sales	3,049,817	2,570,012
Cost of sales	2,185,497	1,760,839
Gross profit	864,320	809,173
Operating expenses (2)	655,532	613,298
EBITDA	376,302	335,792

- (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 18.7%, to \$3,050 million in 2013, from \$2,570 million for 2012. This increase was mainly from the full-year consolidation of Wavin's results in 2013, compared to only eight months in 2012, as well as from increased expenditures in housing projects in Latin America. These factors were partially offset by lower government spending in infrastructure and currency fluctuations in Latin America.

Cost of sales. Our Integral Solutions Division's cost of sales increased 24.1%, to \$2,185 million in 2013, from \$1,761 million for 2012. This increase was primarily attributable to the full-year consolidation of Wavin in 2013 compared to only eight months in 2012 and the related increase in sales volume.

Gross profit. Our Integral Solutions Division's gross profit increased 6.8%, to \$864 million in 2013, from \$809 million for 2012.

Operating expenses. Our Integral Solutions Division's operating expenses increased 7.0%, to \$656 million in 2013, from \$613 million for 2012, mainly caused by the full year contribution of Wavin's operations as compared to only eight months in 2012.

EBITDA. Our Integral Solutions Division's EBITDA increased 11.9%, to \$376 million in 2013, from \$336 million for 2012. This increase was due to the factors discussed above.

Fluorine Division

	Year ended December 31,	
	2013	2012
	(Thousands of U.S. dollars)	
Net sales	672,980	810,942
Cost of sales	360,399	401,157
Gross profit	312,581	409,785
Operating expenses(2)	133,915	177,209
EBITDA	240,119	319,948

- (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 decreased 17.0%, to \$673 million in 2013, from \$811 million for 2012. This decrease was primarily attributable to (i) a decline in sales volume by 6.0% and of average prices by 2.0%, in each case particularly of refrigerant gases; (ii) a lower average price of acid grade fluorite as a result of a changing client mix; and (iii) the impact of discontinued operations.

Cost of sales. Our Fluorine Division's cost of sales decreased 10.2%, to \$360 million in 2013, from \$401 million for 2012. This decrease was primarily attributable to decreased sales volume and the impact of discontinued operations.

Gross profit. Our Fluorine Division's gross profit decreased 23.7%, to \$313 million in 2013, from \$410 million for 2012, principally reflecting the decline in net sales.

Operating expenses. Our Fluorine Division's operating expenses decreased 24.3%, to \$134 million in 2013, from \$177 million for 2012. This decrease was primarily attributable to discontinued operations and a decrease in selling expenses and external services.

EBITDA. Our Fluorine Division's EBITDA decreased 25.0%, to \$240 million in 2013, from \$320 million for 2012. This decrease was mainly attributable to the factors discussed above.

Year ended December 31, 2012 compared with the year ended December 31, 2011

Consolidated results of operations

The following table sets forth our results of operations for 2012 and 2011.

	Year ended December 31,	
	2012	2011
	(Thousands of U.S. dollars)	
Net sales	4,767,743	3,766,339
Cost of sales	3,178,163	2,498,025
Gross profit	1,589,580	1,268,314
Operating expenses ⁽¹⁾	947,135	670,896
Net financial expense and exchange rate variation (2)	225,319	74,503
Other taxes	—	17,064
Equity in income of associated companies	(1,795)	—
Income taxes	119,535	149,299
Income from continuing operations	299,386	356,552
Discontinued operations net	19,527	(6,335)
Consolidated net income	318,913	350,217

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

(2) Net financial expense and exchange rate variation includes monetary position loss by \$3.0 million and \$3.6 million for the year 2012 and 2011 respectively.

Net sales

Our net sales increased 26.6%, to \$4,768 million in 2012, from \$3,766 million for 2011. This increase was primarily attributable to an increase in the average price of our products and an increase in sales volume, particularly driven by the organic growth of our existing business lines and the incorporation of Wavin and FDM to our businesses during the first half of 2012.

Cost of sales

Our cost of sales increased 27.2%, to \$3,178 million in 2012, from \$2,498 million for 2011. This increase was primarily attributable to the acquired companies noted above that were integrated to our business during 2012.

Gross profit

Our gross profit increased 25.4%, to \$1,590 million in 2012, from \$1,268 million for 2011. This increase was primarily attributable to acquisitions that contributed to our operating results.

Operating expenses

Our operating expenses increased 41.1%, to \$947 million in 2012, from \$671 million for 2011. This increase was primarily attributable to an increase in expenses associated with our operation of new plants resulting from our

acquisitions of Wavin and FDM. Our operating expenses represented 19.9% of our net sales in 2012, compared to 17.8% of our net sales in 2011, which principally reflected the lower profitability of the acquired companies.

Net financial expense and exchange rate variation

Our net financial expenses and exchange rate variation was a loss of \$225 million in 2012 compared to a loss of \$75 million in 2011. The increase in the loss was primarily due to the payment of an interest premium derived from the anticipated amortization of a \$350 million bond due in 2019, and an increase in our debt that was needed to acquire Wavin.

Income tax

Income taxes decreased 19.5%, to \$120 million in 2012, from \$149 million for 2011. This decrease was the result of a 20% lower taxable income.

Consolidated net income

Our consolidated net income decreased 8.9%, to \$319 million in 2012, from \$350 million for 2011 due to the reasons described above.

Results of operations by division

Chlorine-Vinyl Division

	Year ended December 31,	
	2012	2011
	(Thousands of U.S. dollars)	
Net sales	1,780,507	1,865,841
Cost of sales	1,415,776	1,497,319
Gross profit	364,731	368,522
Operating expenses ⁽²⁾	117,299	115,372
EBITDA	314,233	321,110

(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 decreased 4.6%, to \$1,781 million in 2012, from \$1,866 million for 2011. This decrease was primarily attributable to: (i) a 7% depreciation of the peso against the U.S. dollar, to \$13.2022 in 2012 from \$12.3352 in 2011; and (ii) the change in our functional currency to U.S. dollars (in pesos our sales increased from year to year).

Cost of sales. Our Chlorine-Vinyl Division's cost of sales decreased 5.4%, to \$1,416 million in 2012, from \$1,497 million for 2011. This decrease was primarily attributable to the same depreciation on the exchange rate as a result of our functional currency change.

Gross profit. Our Chlorine-Vinyl Division's gross profit decreased 1.1%, to \$365 million in 2012, from \$369 million for 2011. This decrease was primarily attributable to the decreases mentioned above in net sales.

Operating expenses. Our Chlorine-Vinyl Division's operating expenses increased 1.7%, to \$117 million in 2012, from \$115 million for 2011. This increase was primarily attributable to inflation index adjustments in Mexico and Colombia of approximately of 3.5% and 2.4%, respectively.

EBITDA. Our Chlorine-Vinyl Division's EBITDA decreased 2.2%, to \$314 million in 2012, from \$321 million for 2011, due to the factors discussed above.

Integral Solutions Division

	Year ended December 31,	
	2012	2011
	(Thousands of U.S. dollars)	
Net sales	2,570,012	1,521,724
Cost of sales	1,760,839	994,860
Gross profit	809,173	526,864
Operating expenses ⁽²⁾	613,298	360,413
EBITDA	335,792	242,788

(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 68.9%, to \$2,570 million in 2012, from \$1,522 million for 2011. This increase was primarily attributable to the acquisition of Wavin.

Cost of sales. Our Integral Solutions Division's cost of sales increased 77.0%, to \$1,761 million in 2012, from \$995 million for 2011. This increase was primarily attributable to the acquisition of Wavin, which resulted in increases in resin consumption and the transfer of technologies.

Gross profit. Our Integral Solutions Division's gross profit increased 53.5%, to \$809 million in 2012, from \$527 million for 2011.

Operating expenses. Our Integral Solutions Division's operating expenses increased 70.3%, to \$613 million in 2012, from \$360 million for 2011, which was primarily attributable to the acquisition of Wavin since our costs increased as a result of the operation of Wavin's plants.

EBITDA. Our Integral Solutions Division's EBITDA increased 38.3%, to \$336 million in 2012, from \$243 million for 2011, due to the factors discussed above.

Fluorine Division

	Year ended December 31,	
	2012	2011
	(Thousands of U.S. dollars)	
Net sales	810,942	810,825
Cost of sales	401,157	415,716
Gross profit	409,785	395,109
Operating expenses ⁽²⁾	177,209	132,701
EBITDA	319,948	318,130

(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 in 2012 remained at \$811 million, similar to that of 2011.

Cost of sales. Our Fluorine Division's cost of sales decreased 3.6%, to \$401 million in 2012, from \$416 million for 2011. This decrease was mostly caused by increased efficiency and added cost controls.

Gross profit. Our Fluorine Division's gross profit increased 3.7% to \$410 million in 2012 from \$395 million for 2011. This increase was mainly due to the lower cost of sales.

Operating expenses. Our Fluorine Division's operating expenses increased 33.1%, to \$177 million in 2012, from \$133 million for 2011, which represented 50.5% of our net sales for 2012, compared to 48.7% of our net sales

for 2011. This increase was attributable to higher depreciation and amortization, as well as an increase in operating expenses.

EBITDA. Our Fluorine Division's EBITDA was substantially the same in both years, having increased 0.6%, to \$320 million in 2012, from \$318 million for 2011.

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 that 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.

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 Income Tax 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.

For the first six months of 2014 and in 2013, our operating cash flows were used primarily for acquisitions, capital expenditures, working capital and our debt service requirements. As of June 30, 2014, we had cash, cash equivalents and other investments of \$1,044 million, and working capital of \$1,079 million.

Cash flows

Cash flows provided by (used in) operating activities

In 2013, 2012 and 2011, cash flows provided by our operating activities amounted to \$802.7 million, \$879.7 million and \$436.3 million, respectively.

In the six months ended June 30, 2014, cash flows provided by our operating activities were derived primarily from:

- \$158.4 million from income before taxes on income;

- \$(289.0) million from net changes in working capital; and
- \$258.7 million from other items.

In 2013, cash flows provided by our operating activities were derived primarily from:

- \$388.3 million from income before taxes on income;
- \$38.1 million from net changes in working capital; and
- \$376.3 million from other items.

In 2012, cash flows provided by our operating activities were derived primarily from:

- \$418.9 million from income from continuing operations;
- \$15.7 million from net changes in working capital; and
- \$445.1 million from other items.

In 2011, cash flows provided by our operating activities were derived primarily from:

- \$505.9 million from income from continuing operations;
- \$(95.7) million from net changes in working capital; and
- \$26.1 million from other items.

Cash flows provided by (used in) financing activities

In 2013, 2012 and 2011, cash flows provided by (used in) financing activities amounted to \$(535.4) million, \$1,221.1 million and \$(81.3) million, respectively.

In the six months ended June 30, 2014, our cash flows provided by financing activities amounted to \$(98.2) million from net loan proceeds of \$(34.5) and share purchases of \$45.6 million, offset by the repayment of interest on our outstanding debt in the amount of \$87.1 million.

In 2013, our principal uses of cash flows in financing activities consisted of:

- \$182.6 million in interest paid;
- \$158.6 million in dividends paid;
- \$62.5 million from purchases of shares;
- \$153.6 million from net loan proceeds; and
- \$(21.9) million from non-controlling equity derived from business acquisitions.

In 2012, the cash flows provided by financing activities were as follows:

- \$229.4 million in interest paid;
- \$152.4 million in dividends paid;
- \$12.7 million from purchases of shares;
- \$(346.2) million from net loan proceeds; and
- \$(1,269.4) million in capital increases.

In 2011, our principal sources of cash flows provided by financing activities consisted of:

- \$113.2 million in interest paid;
- \$41.6 million in dividends paid;
- \$10.1 million from purchases of shares; and
- \$(83.6) million from net loan proceeds.

Cash flows provided by (used in) investing activities

In 2013, 2012 and 2011, cash flows used in our investing activities were \$396.6 million, \$1,194.2 million and \$350.8 million, respectively.

For the six months ended June 30, 2014, our cash flows used in investing activities consisting of:

- the acquisition of machinery and equipment in the amount of \$205.0 million;
- other assets in the amount of \$5.7 million; and
- the sale of machinery and equipment in the amount of \$(7.5) million.

In 2013, our cash flows used in investing activities consisted of:

- the acquisition of machinery and equipment in the amount of \$420.3 million;
- the acquisition of subsidiaries, net of cash acquired in the amount of \$250.2 million;
- the sale of machinery and equipment in the amount of \$(43.1) million;
- trade investments of \$(250.0) million; and
- other assets in the amount of \$19.2 million.

In 2012, our cash flows used in investing activities consisted of:

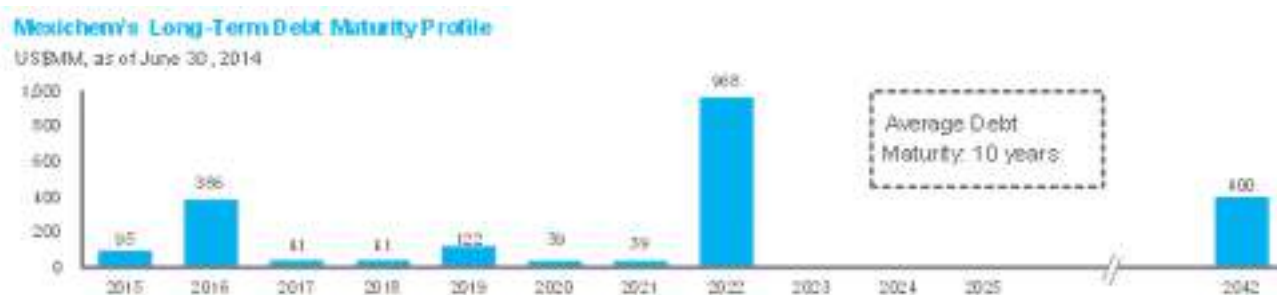
- the acquisition of machinery and equipment in the amount of \$263.3 million;
- the acquisition of subsidiaries, net of cash acquired in the amount of \$718.5 million;
- sales of machinery and equipment in the amount of \$(57.1) million;
- the sale of available for sale securities in the amount of \$(25.5) million;
- trade investments of \$250.0 million; and
- other assets in the amount of \$45.0 million.

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

- the acquisition of machinery and equipment in the amount of \$92.1 million;
- sales of machinery and equipment in the amount of \$(86.4) million;
- the sale of available for sale securities in the amount of \$(17.8) million;
- other assets in the amount of \$6.8 million; and
- the acquisition of subsidiaries, net of cash, acquired in the amount of \$356.1 million.

Indebtedness and financing strategy

As of June 30, 2014, we had outstanding consolidated debt of \$2,203.0 million, consisting of short-term debt of \$70.8 million (including the current portion of our long-term debt) and long-term debt of \$2,132.2 million, with unrelated parties. The below charts illustrates our current debt maturity profile, our debt and revenue breakdowns by currency and our debt breakdown by operating company, respectively:



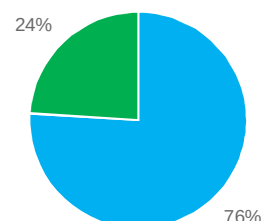
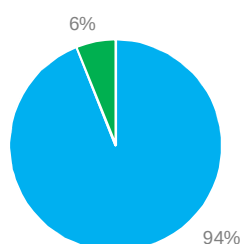
Alignment of Debt to Revenue Currency

Debt by Currency (LTM 2Q14)

Revenues by Currency (LTM 2Q14)

■ US\$ - Euro ■ Others

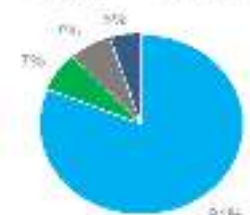
■ US\$ - Euro ■ Others



Most Debt at HoldCo Level

Debt by Division (LTM 2Q14)

■ Holding ■ Resins
■ Fluor ■ Wavin



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 2013 were financed by our own funds.

The acquisitions made in 2012 and 2011 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 €91 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 2012 and 2011, 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 2014, some of our leverage ratios increased principally due indebtedness assumed in the acquisition of PolyOne.

Leverage Ratios	At June 30,	At December 31,		
	2014	2013	2012	2011
Total liabilities/total assets (%).....	55.6	56.1	57.8	59.4
Total liabilities/stockholders' equity	1.3	1.3	1.4	1.5
Interest-bearing liabilities(consolidated debt)/stockholders' equity	0.6	0.6	0.7	0.8

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, 2014, this ratio was 1.3 to 1.0.

The following table shows the amount and scheduled maturities of our interest-bearing liabilities as of June 30, 2014:

Maturing in	Amount
	(Thousands of U.S. dollars)
2015.....	75,486
2016.....	392,542
2017.....	41,360
2018.....	41,360
2019	122,778
Thereafter.....	1,458,706
Total	2,132,222

Our net debt increased from \$932.6 million as of December 31, 2013, to \$1,159.3 million as of June 30, 2014, mainly as a result of the acquisition of PolyOne. 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,		
	2014	2013	2013	2012	2011
	(Thousands of U.S. dollars)				
Interest-bearing liabilities	2,203,000	2,300,526	2,165,207	2,330,490	1,478,998
Current portion.....	70,778	58,297	62,121	125,321	271,908
Long-term debt.....	2,132,222	2,242,229	2,103,086	2,205,169	1,207,090
Cash and cash equivalents	1,043,673	1,329,308	1,232,561	1,645,197	549,464
Net debt	1,159,327	971,218	932,646	685,293	929,534

We expect to finance our capital expenditure programs primarily through cash flows provided by our operating activities and through the incurrence of additional debt

Short-term debt

We have committed credit facilities available for up to \$407 million, of which approximately \$221 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 \$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, 2014, 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, 2014:

Contractual obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
		(Millions of U.S. dollars)			
Long-term debt obligations.....	2,203.0	70.8	563.9	122.1	1,446.2
Operating lease obligations.....	234.1	49.1	23.7	85.7	75.6
Total	<u>2,437.1</u>	<u>119.9</u>	<u>587.6</u>	<u>207.8</u>	<u>1,521.8</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,		
	2014	2013	2012	2011
	(Thousands of U.S. dollars)			
Permanent investments	—	250,154	718,513	356,140
Plant and equipment	205,066	420,294	263,297	92,056
Proceeds from sale of machinery and equipment	(7,495)	(43,147)	(57,078)	(86,362)
Total	197,571	627,301	924,732	361,834

Our capital expenditures program from 2011 to June 30, 2014, included the following:

- *Hydrofluoric Acid Plant.* We invested \$41 million in a second hydrofluoric acid plant, with annual production capacity of 22,000 tons.
- *New PVC Pipe facility.* We invested \$17 million to build a new PVC pipe and fitting plant in Guatemala.
- *New PVC Pipe facility.* We invested \$28 million to build a new PVC pipe and fitting plant in Peru.
- *New GRP Pipe facility.* We invested \$16 million to build a new GRP line in Colombia. This is the only GRP line in Latin America.
- *Plant Automation.* We invested \$130 million to modernize and automate certain of our production facilities.
- *Fluorite Division Expansion.* We invested \$30 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 six months ended June 30, 2014 and the past three years included:

- *PolyOne.* In March 25, 2013, we reached an agreement with PolyOne to acquire 100% of its specialty PVC resin operations in the United States, where it has two production plants and one research and development center.
- *Wavin.* During the first quarter of 2013, 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 €533 million.
- *FDM.* In the first quarter of 2012, we completed the acquisition of FDM, which produces some of the purest fluorspar in the world. We expect that this acquisition will ensure a continuous supply of fluorspar raw materials for our United Kingdom operations. The FDM mine has potential reserves in excess of 13 million tons and has an annual extraction of approximately 70,000 tons.
- *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.

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

For the remainder of 2014, we expect to make capital expenditures, not including financing capital requirements, in an aggregate amount of approximately \$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 2013, 2012 and 2011, we invested \$25 million, \$27 million and \$25 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 and continue to maintain risk management policies 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 38.0% of our outstanding debt as of June 30, 2014 is denominated in Mexican pesos. Our revenues are denominated in various 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.

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, 2014, an increase in interest rates of 1% on outstanding loans and financing and debentures would have resulted in a variation in interest expense of \$7.4 million for that period.

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.

On December 31, 2013, we held the following derivative instruments:

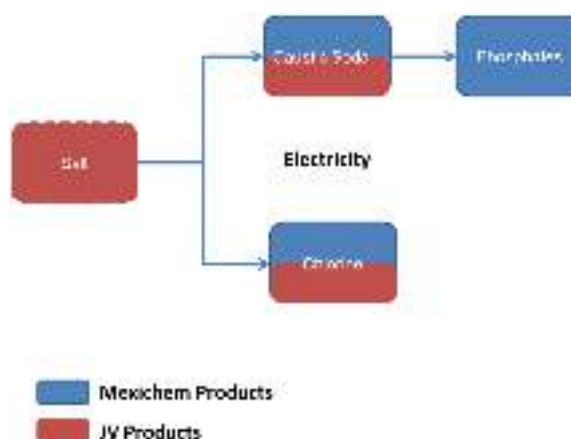
Derivative	Effective Date	Maturity Date	Notional Amount	Interest Rate Paid / Exchange Rate Agreed	Interest Rate / Exchange Rate at Closing	Fair Value at December 31, 2013
Fixed interest rate swap	November 18, 2010	October 16, 2015	£20,000,000	3.08%	0.67%	(1,300)
Fixed interest rate swap	July 10, 2008	October 19, 2015	€50,000,000	4.55%	0.24%	(5,270)
Fixed interest rate swap	September 14, 2010	October 16, 2015	€25,000,000	2.29%	0.33%	(1,192)
Exchange rate and interest rate swap	April 8, 2013	March 9, 2022	€29,976,019	8.12% / 16.6800	4.98% /17.57244	(7,323)
Exchange rate and interest rate swap	April 24, 2013	March 9, 2022	€31,446,541	8.12% / 15.9000	4.38% /17.57244	(7,812)
Exchange rate and interest rate swap	May 24, 2013	March 9, 2022	€30,879,447	8.12% / 16.1920	4.55% /17.57244	(7,430)
Exchange rate and interest rate swap	May 29, 2013	September 2, 2016	€30,562,347	4.39% / 16.3600	1.95% /17.57244	(3,994)
Exchange rate and interest rate swap	May 29, 2013	September 2, 2016	€30,525,030	4.39% / 16.3800	1.95% /17.57244	(3,973)
Exchange rate and interest rate swap	May 30, 2013	September 2, 2016	€30,068,858	4.39% / 16.6285	1.95% /17.57244	(3,416)
Exchange rate and interest rate swap	May 30, 2013	September 2, 2016	€29,988,604	4.39% / 16.6730	1.95% /17.57244	(3,301)
Exchange rate and interest rate swap	May 30, 2013	September 2, 2016	€30,024,260	4.39% / 16.6532	1.93% /17.57244	(3,218)
Exchange rate and interest rate swap	April 1, 2013	March 9, 2022	€90,525,045	8.12% / 16.5700	5.10% /17.57244	(22,572)
Exchange rate and interest rate swap	September 27, 2013	September 2, 2016	€28,088,310	4.39% / 17.8010	2.25% /17.57244	(887)
Exchange rate and interest rate swap	September 27, 2013	September 2, 2016	€14,044,944	4.39% / 17.8000	2.24% /17.57244	(439)
Exchange rate and interest rate swap	September 27, 2013	September 2, 2016	€42,134,831	4.39% / 17.8000	2.20% /17.57244	(1,254)
Exchange rate and interest rate swap	September 27, 2013	September 2, 2016	€28,089,888	4.39% / 17.8000	2.20% /17.57244	(601)
Exchange rate and interest rate swap	October 9, 2013	March 5, 2021	\$113,550,340	4.89% / 13.2100	3.88% /13.3671	(826)
Exchange rate and interest rate swap	Various	Various	Various	Various	Various	119

INDUSTRY

We focus our core business on manufacturing products which are used in the construction, housing, infrastructure, portable water, automotive, sewage, irrigation, refrigerants gases and air conditioning industries. We are particularly focused on industries that use chlorine, caustic soda, chlorine derivatives and resins, and we also manufacture transformed products, including pipes and fittings for the conveyance of fluids such as water and other PVC compounds. We also participate in the extraction of fluorspar and the production of hydrofluoric acid, or HF, which are used in the production of fluorinated or fluorochemical products. Our operating divisions are oriented around two different sectors of the chemical industry and we classify these industries according to the applicable type of product that we develop. Below is a brief description of these two industries in which we participate and the products that 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 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.

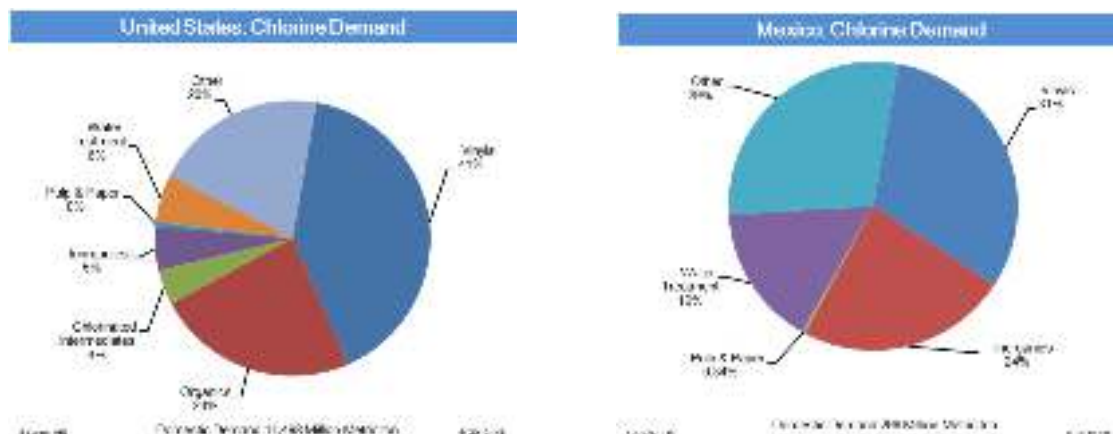
The chlor-alkali industry is cyclical, as economic growth directly influences demand, and periods of low profitability and growth are often followed by periods where attractive margins justify capacity expansion. In general, demand for chlorine is driven by the construction sector and demand for caustic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

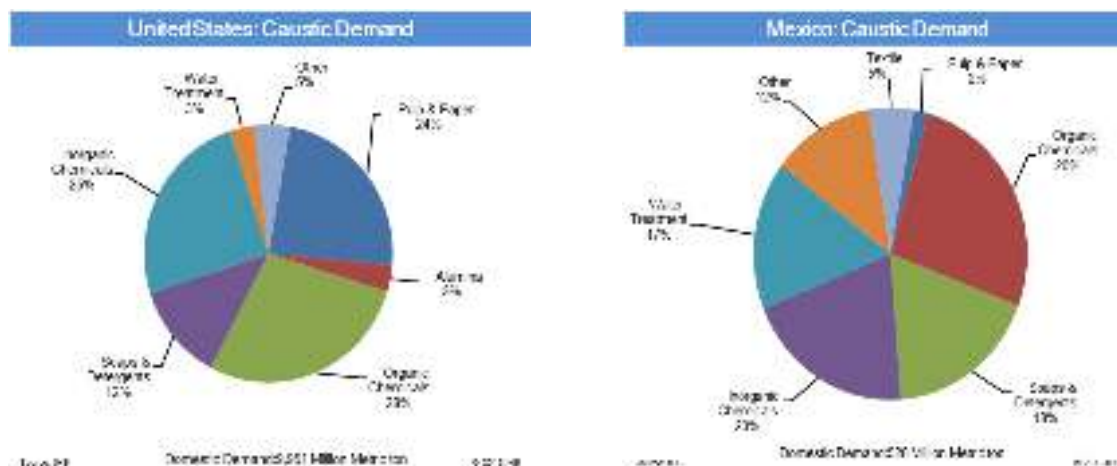
According to IHS Chemical, Chlor-Alkali Analysis 2014, chlorine consumption has increased in recent years and there is demand for chlorine in approximately 75% of the world's economies. Future worldwide growth in chlorine is expected to be in the range of 3% per year.

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.

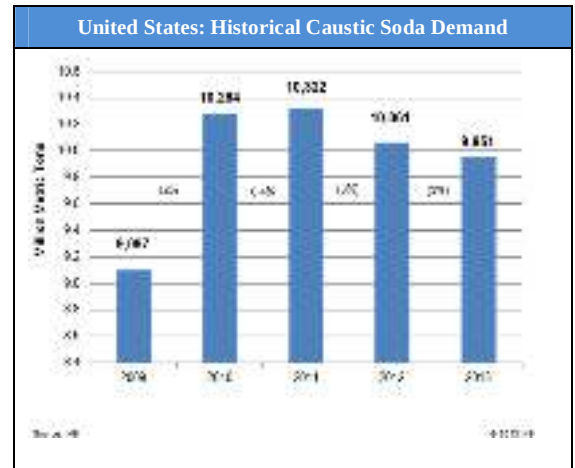
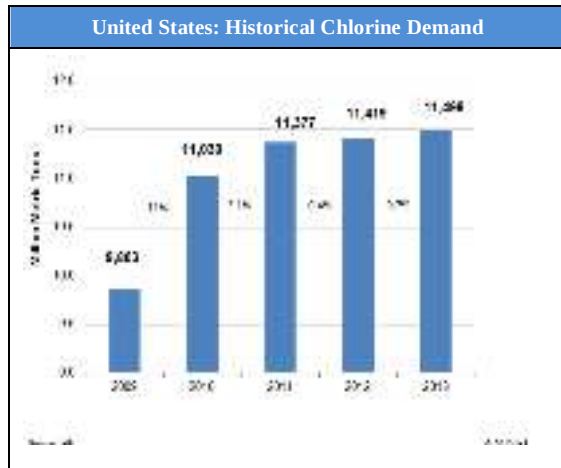
In the United States and Mexico, the production of vinyl, particularly PVC resin, represents the largest single use of chlorine. In 2013, as shown in the table below, vinyl production, which includes production of PVC resin, represented 41% and 31% of chlorine consumption in the United States and Mexico, 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.



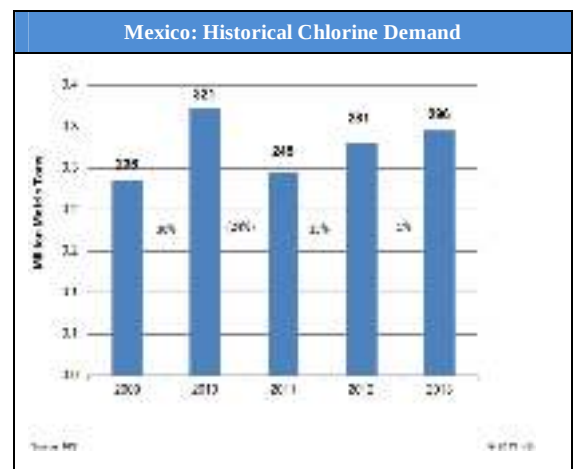
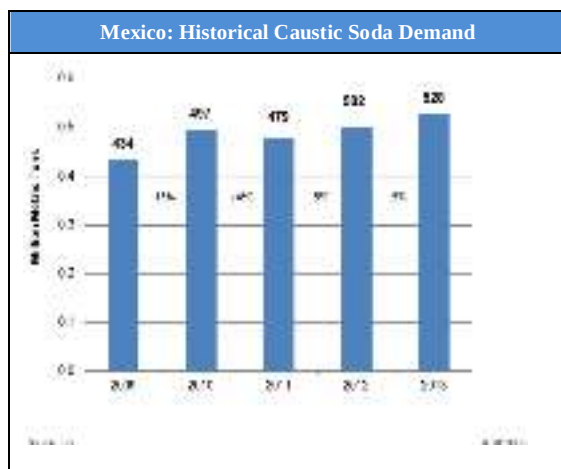
Caustic soda in the United States is used in a number of industrial applications in the production of organic chemical products (mainly propylene oxide, epichlorohydrin, and phosgene-isocyanates) and inorganic chemical products (mainly titanium dioxide) and in the production of pulp and paper. As indicated below, these uses represented 28%, 25% and 24% of consumption in 2013 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 26%, 20% and 18% of consumption in 2013 in Mexico, as indicated below.



From 2009 to 2013, the demand for caustic soda in the United States increased by 9%, while the demand for chlorine increased by 16% as a result of the recent economic recovery.



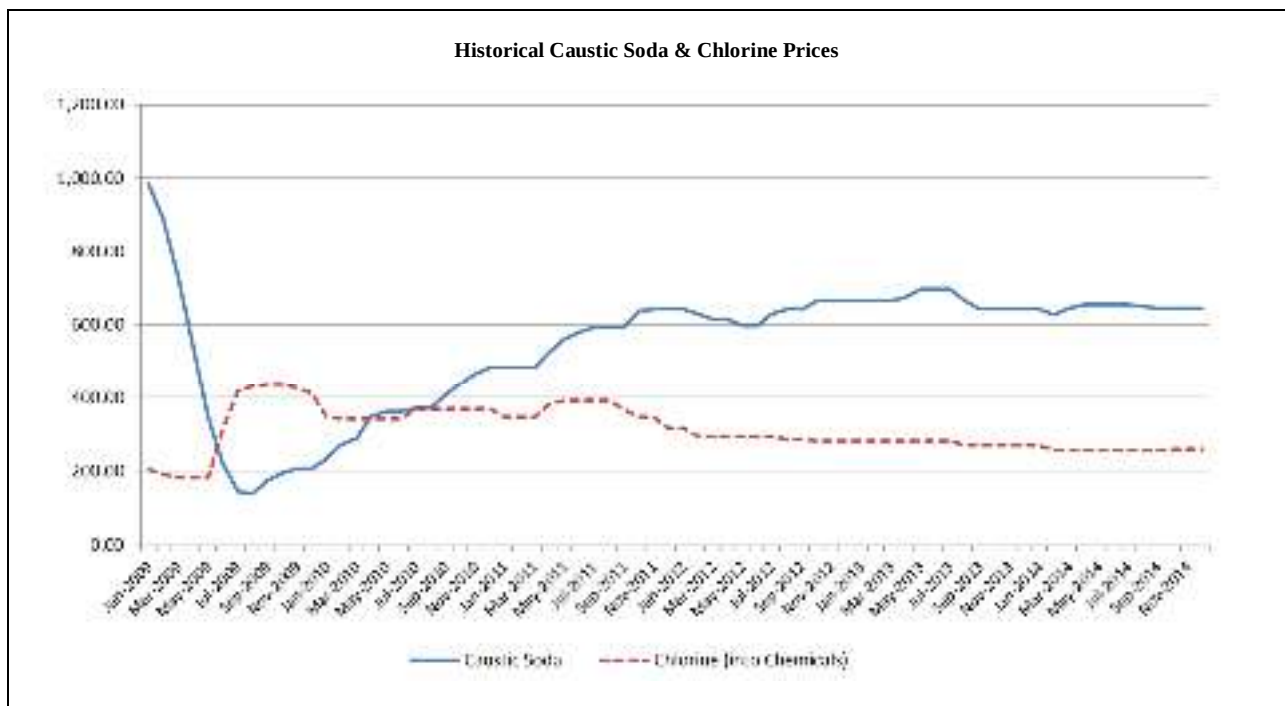
From 2009 to 2013, the demand for chlorine in Mexico has grown by 25% while the demand for caustic soda has grown by 22%. As a result of the Mexican government's support of the housing and infrastructure sectors during 2011 and 2012, demand for chlorine in Mexico increased by 1% during 2013 and demand for caustic soda increased 5% during the same period, as indicated in the tables below.



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.

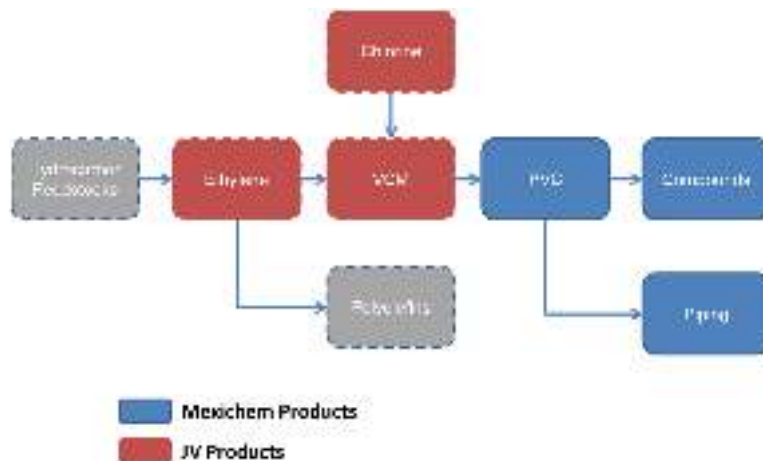
In the last two years, demand for PVC increased by 12% due to the recovery of the housing sector in the United States. As a result, producers of chlor-alkali are increasing total capacity in order to meet the demand for PVC and to stabilize prices.



Source: IHS 2014; for caustic soda, average contract liquid index \$/dmt; for chlorine, average contract-market price.

PVC resin

PVC is a powder that is ground to form plastic resin. PVC is manufactured via the polymerization of 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.

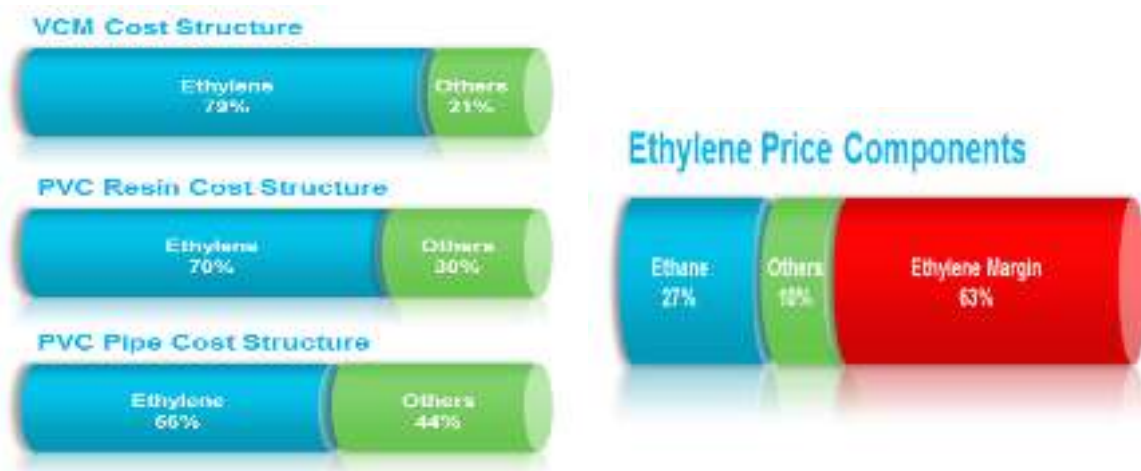


PVC is one of the most widely used plastics in the world today. According to IHS, worldwide PVC demand is expected to reach approximately 40 million metric tons in 2014. From 2009 to 2013, worldwide PVC demand has grown at an average of 5% per year.

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.

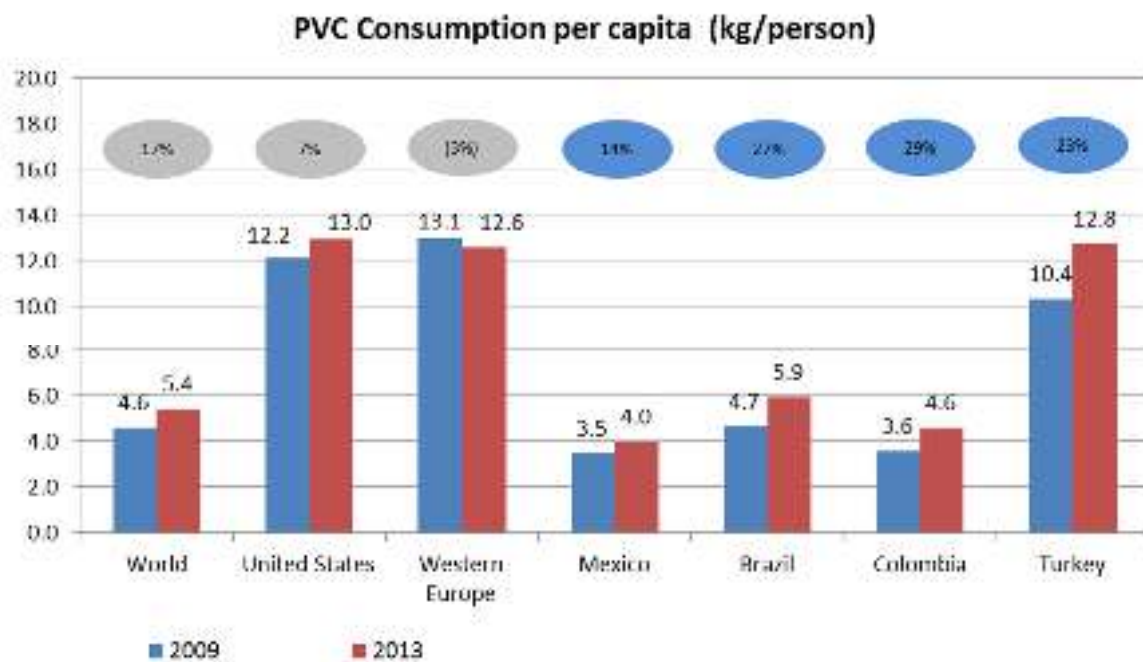
The PVC industry is affected in a meaningful way by changes in energy prices, in particular crude oil and natural gas (including shale gas), which are used in the production of ethane. This ethane is thereafter transformed into ethylene, the key component of the PVC production chain.

The below charts illustrate the cost impact of ethylene in PVC and polyethylene products:



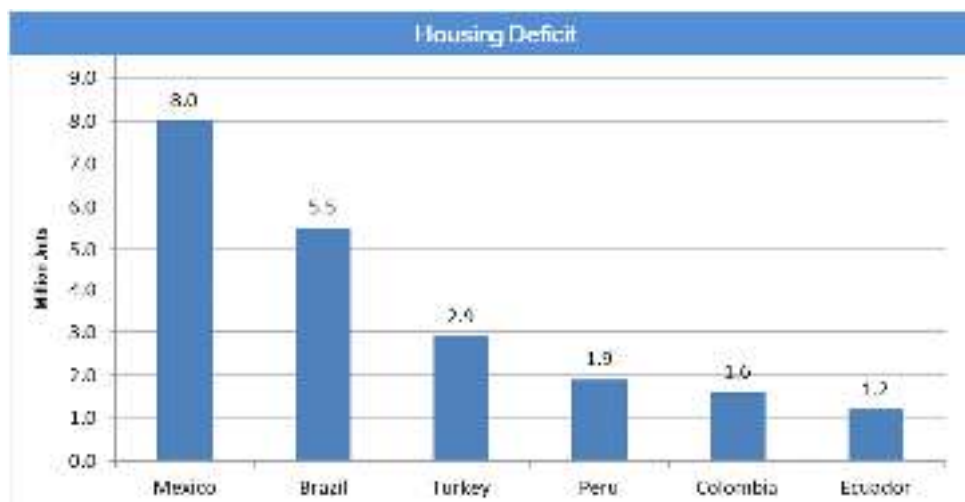
According to IHS, the PVC industry from 2009 through 2013 experienced strong demand growth of 5% per year, as indicated in the table below. PVC demand is expected to be driven by developing countries as infrastructure investments and housing are needed in order to keep pace with population growth. Uncompetitive 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 the United States, Mexico, the majority of South American countries, in particular Brazil and Colombia, Western Europe and the Middle East.

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



Source: IHS 2014 World Analysis Vinyls

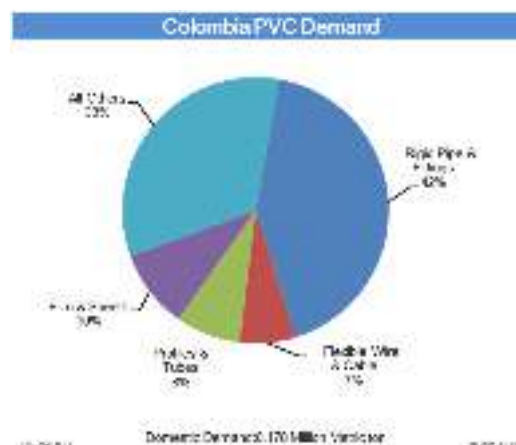
Unlike the United States and Western European chlor-alkali and PVC industries, our key end-markets enjoy attractive infrastructure and construction growth prospects related to high housing deficits, particularly in Mexico, Brazil, Turkey, Peru, Colombia and Ecuador, according to the Statistic & Census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

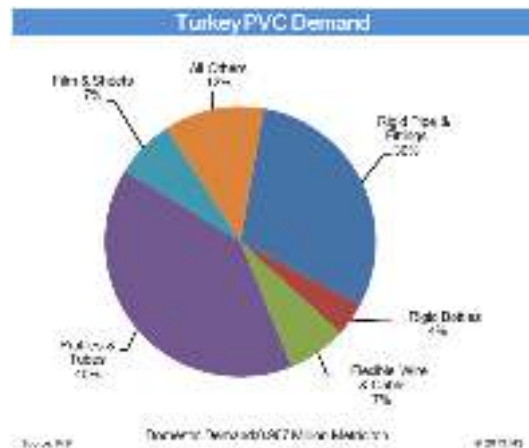
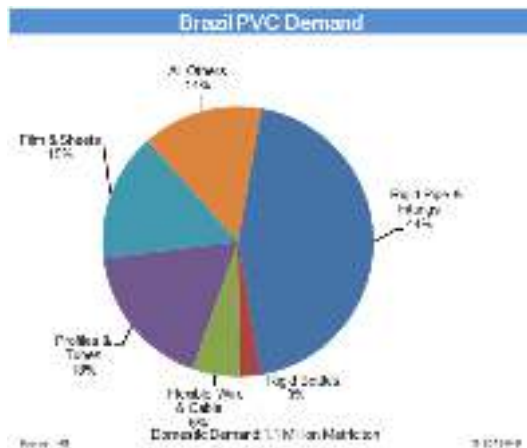


Source: Statistic & Census Bureau figures from each country for 2013 and various government reports.

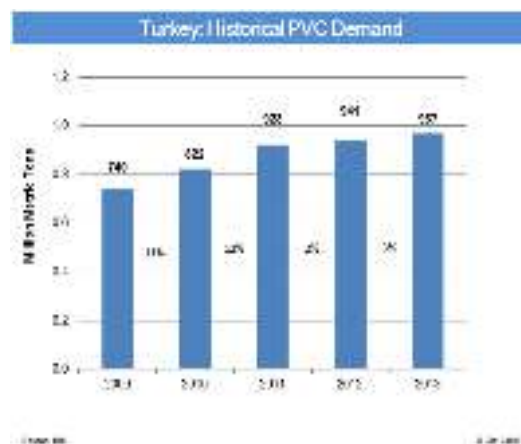
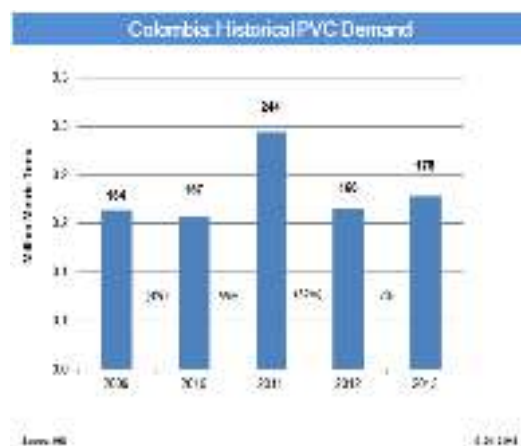
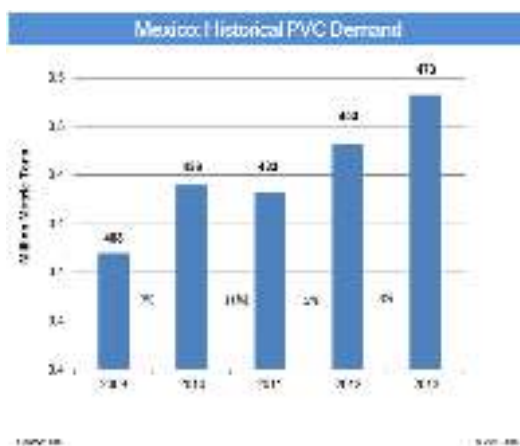
PVC resin growth is generally a function of GDP in each end market, however, consumption metrics can vary in emerging economies. In many South American countries, such as Brazil and Colombia, it is common to find PVC resin growth rates equal to two times GDP growth.

The largest single use of PVC in Mexico, Brazil and Colombia is in the production of pipe and fittings. The largest single use of PVC in Turkey is in construction, profiles and tubes. In 2013, the production of pipe and fittings accounted for 48%, 42%, 44% and 30% of PVC applications in Mexico, Colombia, Brazil and Turkey, respectively. Also, in the same year, the production of profiles and tubes accounted for 10%, 8%, 18% and 40% of PVC applications in Mexico, Colombia, Brazil and Turkey, respectively, as indicated in the tables below.



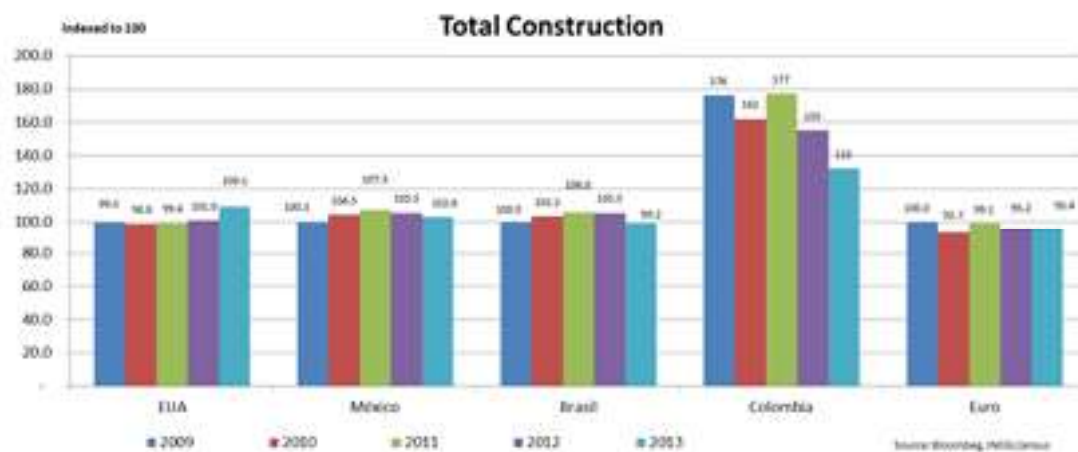


In Mexico, the average demand for PVC from 2009 to 2013 has grown at 4% per year and, during 2013, demand grew by 4%. In Colombia, PVC demand from 2009 to 2013 grew at an average annual rate of 7% and, during 2013, demand grew by 7%. In Brazil, PVC demand from 2009 to 2013 has grown at an average annual rate of 7% and, during 2013, demand grew by 2%. Infrastructure and housing have been the drivers of this growth. In Turkey, the average demand for PVC from 2009 to 2013 has grown at an average annual rate of 8% per year and, during 2013, demand grew by 3%.

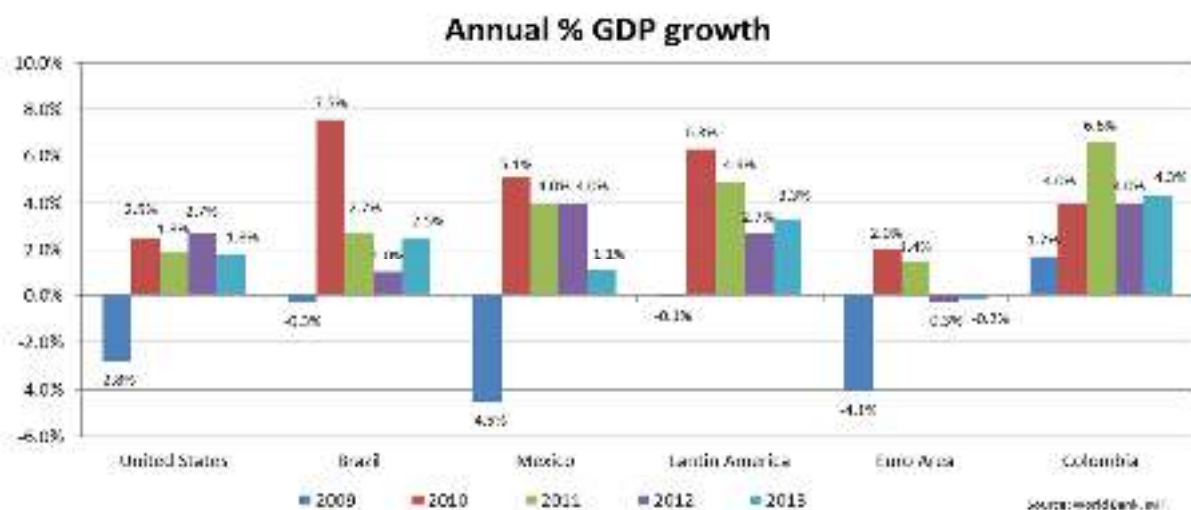


The plastic pipe industry supplies plastic pipes, fittings and related products for a variety of applications in commercial construction and infrastructure. The primary input is PVC resin, which is molded to create pipes of various sizes to meet customer specifications.

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. In the developed economies, especially in Europe, construction activity has stabilized since the decline from peak levels in 2009 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.

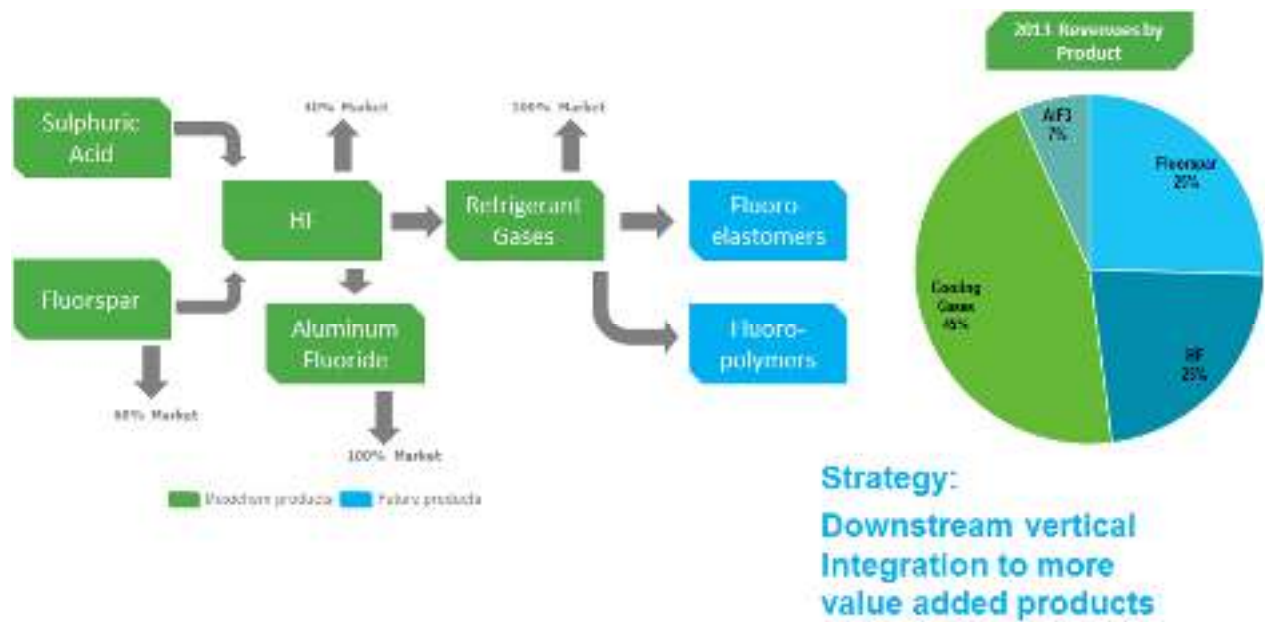


In addition, the overall demand for PVC is also dependent on real GDP growth in key markets. On average, as indicated by the table below, from 2009 to 2013, the Mexican economy grew by 4%, the Brazilian economy grew by 3%, the Colombian economy grew by 5%, and the Latin American economy, as a whole, grew by 4%. In particular, during 2013, the Mexican economy grew by 1%, the Brazilian economy grew by 3%, the Colombian economy grew by 4%, and the Latin American economy, as whole, grew by 3%. Both 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 2013.

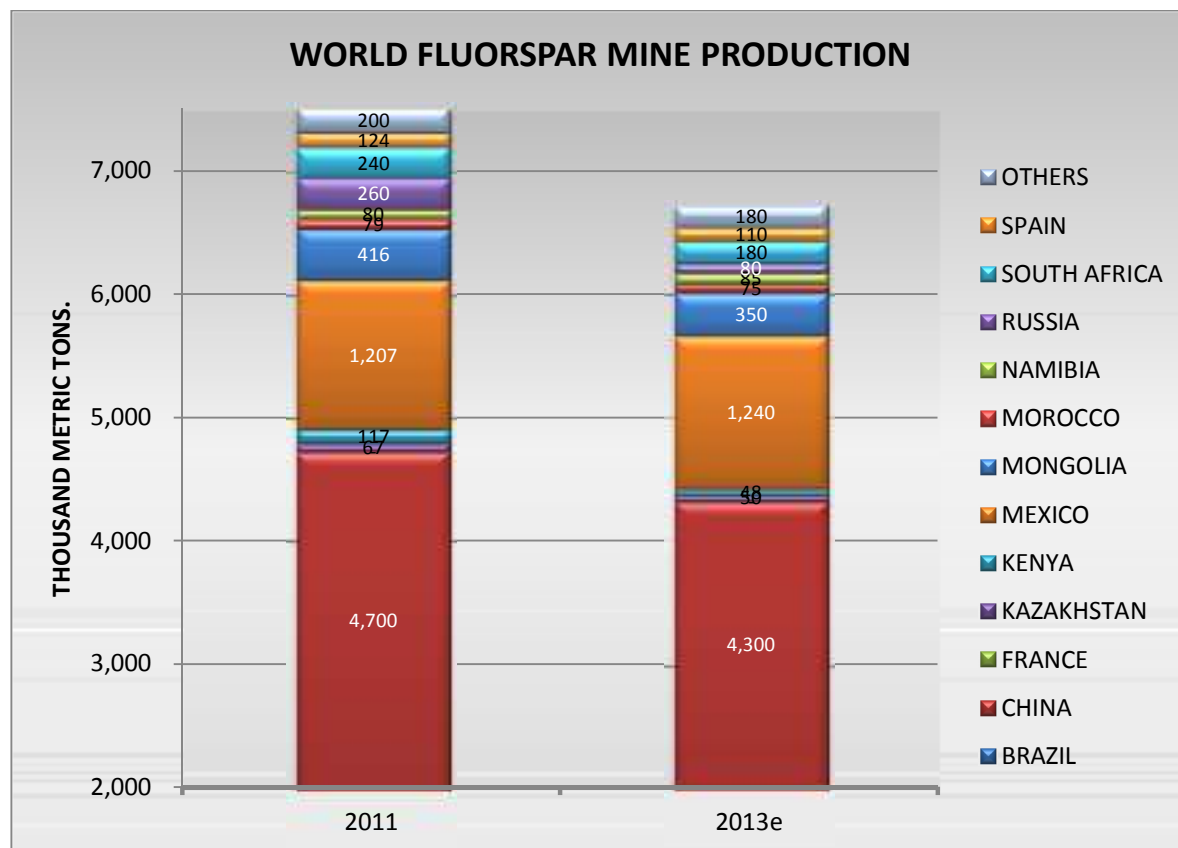


Fluorochemicals

Fluorochemicals are compounds containing the chemical element fluorine, which is obtained through the mining and processing of fluorspar. Fluorochemicals are used in refrigerant gases, fluoropolymers and fluoroelastomers.



In 2013, world production of fluorspar was 6.7 million metric tons according to USGS. World fluorspar production has grown at an average annual rate of 5% from 2011 through 2013.



In 2013, the leading fluorspar producing nation was China, which accounted for 64% of the annual world production. The majority of fluorspar is consumed in the production of HF, followed by use for aluminum smelting and steel manufacturing. Fluorspar consumption between 2011 and 2013 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. The rest of the world's fluorspar production is predominantly concentrated in Mexico, Mongolia and South Africa, which together contributed an additional 26% of world production in 2013.

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 HF, fluorocarbons and fluoropolymers rather than exporting the mineral.

We are the world's largest fluorspar-producing company, and we have about 91% of Mexico's active fluorspar production capacity, approximately equal to 18% of the world's current supply of fluorspar. Mexico's acid-spar is used in the production of 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)

	2011	2013	Annual Growth %
China	434	438	0.9%
North America	364	369	1.4%
Europe	205	205	0%
Other Asia.....	126	120	(4.7%)
Rest of the world	56	51	(8.9%)
Total	1,185	1,183	(0.2%)

Source: Roskill 11th Edition 2013.

We are the world's largest producer of HF with production in Mexico as well as in the United Kingdom. Dongyue is the world's second-largest producer of HF with production in China. Most of our production is exported to the United States where it is consumed in fluorocarbon production and other applications.

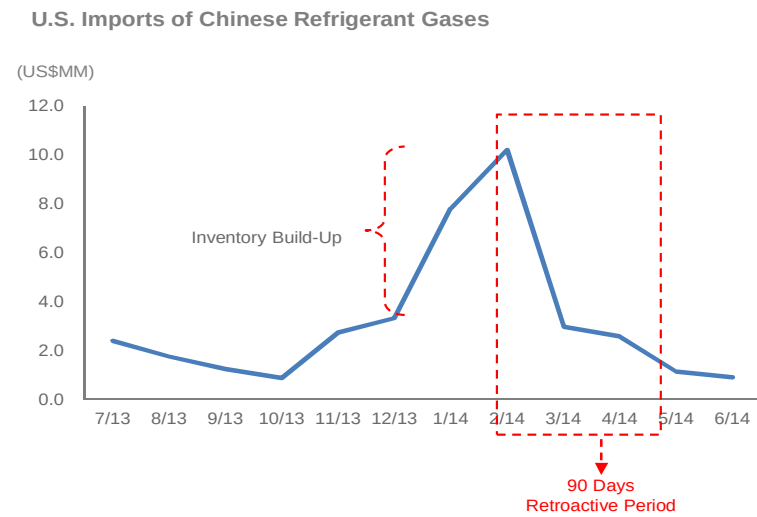
Global fluorochemicals competitive landscape⁽¹⁾

	Fluorspar		Hydrofluoric Acid		Fluorocarbons		Fluoropolymers		Fluoroelastomers	
	Rank	Capacity	Rank	Capacity	Rank	Capacity	Rank	Capacity	Rank	Capacity
Mexichem.....	#1	1,100	#1	180	#7	85	—	—	—	—
Solvay	#15	130	#4	94	N/A	12	#4	20	#2	21
DuPont	—	—	#5	90	#1	180	#1	64	#8	3
Honeywell	—	—	#3	136	N/A	54	N/A	2	—	—
Daikin	—	—	#16	40	#5	100	#2	43	#10	2
Arkema	—	—	#40	26	#4	141	N/A	1	#1	24
Dongyue.....	#2	300	#2	170	#2	156	#3	26	—	—

(1) Total capacity (KMT).

Since 2011, the smaller Chinese HF plants have closed but there still remains significant HF overcapacity in China. Production of the hydrofluorocarbon R22 increased rapidly in China between 2007 and 2012. This resulted in an increase in fluoropolymer manufacturing in China, especially polytetrafluoroethylene, which uses hydrofluorocarbon R22 as feedstock. Chinese production of other fluorocarbons has also increased rapidly between 2008 and 2013, with Chinese manufacturers now ranking 2nd, 3rd, 6th and 8th in fluorocarbons.

The below chart illustrates total U.S. imports of Chinese refrigerant gases from July 2013 to June 2014.



Source: United States Census Bureau via Zepol Trade View.

BUSINESS

Mexichem

We believe that we are one of the largest chemical companies in Latin America based on average annual production capacity and net sales. We are also a worldwide leader in plastic pipes and solutions with a presence in the Americas, Asia and Europe. We produce a diverse portfolio of chemical products in over 100 plants, which are strategically located in 18 countries across Latin America, the United States, Canada, Japan, Taiwan, China and 23 European countries, such as the United Kingdom, Germany, the Netherlands, Italy, France and Poland, among others. We also sell products in more than 50 countries. According to IHS, we are the largest producer of plastic 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. We have the largest production capacity for HF in the world in addition to the world's largest fluorspar mine, according to Roskill Consulting. This makes us the only fully-integrated HF producer in the Americas.

Our principal products include PVC resin, compounds and pipe, fluid transportation solutions, chlorine, caustic soda, fluorspar and HF, aluminum fluoride, phosphates and refrigerant gases, which are widely used in the construction, housing, infrastructure, agriculture, potable water, sewage, irrigation, automotive, medical and air conditioning industries. In 2013, we had an approximate 31% market share in the sale of PVC resin and an approximate 31% market share in the sale of PVC pipes in Latin America, based on market studies from IHS, WVA and ANIQ. In addition, we believe that we have a leading market share in our plastic piping business in several European countries, such as Belgium, the Czech Republic, Denmark, Germany, Hungary, the Netherlands and Poland. In 2013, 2012 and 2011, our consolidated net sales, excluding intracompany sales, were \$5.2 billion, \$4.8 billion and \$3.8 billion, respectively, with annual increases of 8.6% and 26.3% in 2013 and 2012, respectively. Our EBITDA for 2013, 2012 and 2011 was \$898.9, \$962.5 and \$829.2 million, respectively.

In recent years, we have secured a strong competitive position and market share throughout the Latin American, North American, 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 gradually increase the supply of the main raw materials that we produce in order to vertically integrate our divisions to: (i) produce specialized products with higher margins, (ii) manage the production of our raw materials directly and (iii) reduce our operating costs and improve our margins. We have proven experience in integrating and operating acquired companies. Since 2011, we acquired AlphaGary, a manufacturer of compounds; FDM, including fluorine mineral concessions from the Las Sabinas mining unit; and, Wavin, a manufacturer of plastic pipes headquartered in the Netherlands. More recently, during 2013, we acquired 100% of PolyOne's specialty PVC resin operations in the United States and entered into two joint ventures, the first with Pemex Petroquímica to generate value for our Chlorine-Vinyl division and the second with OxyChem, to construct an ethylene cracker with an annual capacity of 1,200 million pounds (550,000 tons). In 2014, we signed agreements to acquire Vestolit, a specialty resin producer based in Germany, with an annual resin capacity of 415,000 tons, and Dura-Line, a data, telecommunication and gas polyethylene pipe producer with operations in the United States, Mexico, the Czech Republic, Oman, India and South Africa.

Our business consists of three operating divisions:

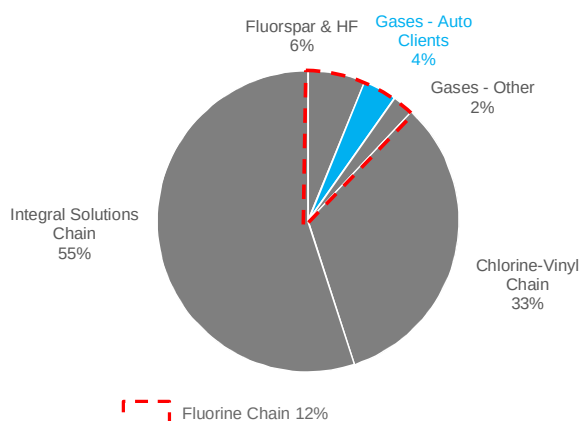
- *Chlorine-Vinyl Division.* This division consists of four manufacturing processes: (i) the chlor-alkali process, which produces chlorine, caustic soda, sodium hypochlorite and phosphate; (ii) ethylene and VCM production; (iii) the vinyl process, which produces PVC resins; and (iv) the compounds process, which produces PVC compounds used in different manufacturing processes such as piping, fittings, cables, medical applications and window frames. Our Chlorine-Vinyl Division had net sales of \$998.8 million for the six months ended June 30, 2014 and \$1.8 billion in 2013 (including intra-company sales), which accounted for approximately 35.9% and 35.0% of our consolidated net sales in those periods, respectively. We own the rights to a salt dome in Mexico with over 30 years of potential reserves. We also operate modern chlorine, caustic soda and PVC resin and compound production facilities.
- *Integral Solutions Division.* This division produces plastic pipes, fittings and pipe systems for the conveyance of fluids, mainly water, surface heating and cooling systems and water treatment systems, 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 \$1.6 billion for the six months ended June 30, 2014 and \$3.0 billion in 2013 (including intra-company transactions), which accounted for approximately 56.4% and 58.9% of our consolidated net sales in those periods, respectively.

- Fluorine Division.** This division consists of one mining and three manufacturing processes: (i) the extraction and sale of fluorspar process, which is the raw material used in the production of all fluorinated products that is further used in the cement, ceramics, steel and glass industries; (ii) the production and sale of acid fluorspar to HF producers, (iii) the HF process, which encompasses the production of HF, which is a chemical precursor to numerous pharmaceuticals and plastics, refrigerant gas and aluminum fluoride, which is used for the production of aluminum by electrolysis; and (iv) refrigerant gas production, which is used in the pharmaceutical, automotive, air conditioning and refrigerant industries. This division includes the mining concession to the world's largest fluorspar mine with installed annual production capacity of approximately 1.3 million tons, an approximate extraction rate of 20% of the global fluorspar needs per year and potential reserves of 32 million tons for the next 28 years, according to the 2013 Roskill report. Our Fluorine Division had net sales, including intra-company transactions, of \$340 million for the six months ended June 30, 2014 and \$673 million in 2013, which accounted for approximately 12.2% and 13.0%, respectively, of our consolidated net sales in those periods.

The following table sets forth our total revenue breakdown by operating division.

Mexichem's 2013 Net Sales Breakdown ⁽¹⁾



(1) Excludes transactions within the same division and includes transactions with other divisions.

Further, the following table sets forth our principal products sold in 2013, together with our market position and market share for each of these products by country.

Country/Region	Product	Position	% Market Share
Integral Solutions			
Argentina	Pipe	2	13
Baltics ⁽¹⁾	Pipe	2	10
Belgium	Pipe	1	20
Brazil	Pipe	2	33
Colombia	Pipe	1	50
Costa Rica.....	Pipe	1	48
Czech Republic	Pipe	1	24
Denmark	Pipe	1	44
Ecuador.....	Pipe	1	52
El Salvador	Pipe	1	59
France.....	Pipe	2	13
Germany	Pipe	2	9

Country/Region	Product	Position	% Market Share
Guatemala.....	Pipe	1	37
Honduras.....	Pipe	1	34
Hungary.....	Pipe	1	30
Italy.....	Pipe	3	5
Mexico.....	Pipe	1	30
Netherlands.....	Pipe	1	27
Nicaragua.....	Pipe	1	47
Norway.....	Pipe	2	24
Panama.....	Pipe	1	32
Peru.....	Pipe	1	25
Poland.....	Pipe	1	22
Romania.....	Pipe	5	6
Sweden.....	Pipe	3	16
Turkey.....	Pipe	5	5
United Kingdom.....	Pipe	2	21
Venezuela.....	Pipe	2	29
Fluorine Division			
United States.....	Fluorspar (acid grade)	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 (acid grade)	1	30
Canada.....	Fluorspar (metallurgic)	1	79
Canada.....	Fluorspar (acid grade)	1	38
Japan.....	Fluorspar (metallurgic)	1	79
Japan.....	Fluorocarbons	2	30
Chlorine-Vinyl Division			
United States.....	Compounds	8	7
Mexico.....	Chlorine	1	68
Mexico.....	Compounds	1	28
Mexico.....	PVC Resin	1	47
Mexico.....	Caustic Soda	1	46
Colombia.....	Compounds	1	53
Colombia.....	PVC Resin	1	78

(1) Includes Estonia, Latvia and Lithuania.

Source: IHS, IHS 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 into the higher value-added products market 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 a salt dome in Mexico, which according to our internal estimates, has over 30 years of potential reserves, and we operate modern chlorine, caustic soda and PVC resin production facilities. In addition, we are the only fully integrated HF producer in the Americas. We hold the rights to the world's largest fluorspar mine, according to Roskill, with over 32 million tons or 28 years of potential fluorspar reserves.

We have recently acquired new companies or formed joint ventures with various companies to fully vertically integrate our operations and to increase our access to the raw materials needed for our operations. These acquisitions and joint ventures include:

- Acquisition of Dura-Line: On August 18, 2014, we reached an agreement with CHS to acquire Dura-Line. Based in Knoxville, Tennessee, Dura-Line is a global leader in HDPE conduit, duct and pressure-pipe solutions for telecom and data communications, energy and infrastructure industries. Dura-Line has manufacturing facilities in the U.S., Mexico, India, Oman, Europe and South Africa. The Dura-Line acquisition will allow us to naturally hedge our ethylene production by stabilizing our piping prices even if the price of ethylene decreases.
- Acquisition of Vestolit: On August 4, 2014, we reached an agreement with Strategic to acquire Vestolit, the sixth largest producer of PVC resin in Europe. Vestolit is the only European producer of HIS-PVC and the second largest European producer of PVC paste. Vestolit has an aggregated annual capacity of 415,000 tons.
- Mexichem and OxyChem Joint Venture: On October 31, 2013, we and OxyChem formalized a joint venture, each with an equal stake, named Ingleside, to construct an ethylene cracker with an annual production capacity of 550,000 tons. Ingleside will supply ethylene to OxyChem's VCM production facilities, which, in turn, will supply VCM to us.
- Mexichem and Pemex Petroquímica Joint Venture: On September 11, 2013, we formalized a joint venture with Pemex Petroquímica in PMV in order to secure the supply of VCM needed for our PVC plants. PMV is expected to increase competition in the domestic petrochemicals industry and to generate additional value in our Chlorine-Vinyl Division.
- Acquisition of PolyOne: On March 25, 2013, we reached an agreement with PolyOne to acquire 100% of its specialty PVC resin operations in the United States, allowing us to enter into the specialty items resins market with higher margins. We now have two production plants and one research and development center.
- Acquisition of Wavin: In May 2012, we acquired 95.7% of the shares of Wavin, a leading supplier of plastic pipe systems and solutions in Europe. In the first quarter of 2013, we acquired the remaining 4.3% of Wavin's outstanding shares.
- Acquisition of FDM: On January 26, 2012, we acquired 100% of the shares of FDM from Amati. This acquisition has provided us with access to the purest fluorite available in the world and has enabled us to ensure a continuous supply of the raw materials required for our United Kingdom operations.
- Acquisition of AlphaGary: On January 7, 2011, we 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, we have consolidated our presence in the compound markets in which we operate and we have combined both, the research and development potential and the innovative knowledge of AlphaGary into our operations.

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 plastic 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 IHS. We

believe that the primary markets for these products, the infrastructure and construction industries, should experience sustained growth over the coming years. Our consolidated net sales in 2013 were principally concentrated in Mexico, Brazil and Colombia, which represented 23.9%, 10.6%, 11.0%, respectively. 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 June 2014, several other 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, and Mexico, based on data from the World Economic Forum and its World Competition Report 2012-2013. We expect that 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 IHS.

We believe that we are also uniquely positioned as a key producer of fluorochemicals. We have a particularly strong market presence in Mexico, the United States and Canada, as the only provider of fluorspar. We hold the rights to the world's largest fluorspar mine, with modern HF and refrigerant gas 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 over our competitors. We typically enter into long-term, U.S. dollar-denominated contracts with reputable international customers for the sale of the fluorspar and HF we produce. We believe that our unique global position will allow us to explore opportunities 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 22 acquisitions (for an aggregate of 78 acquired companies) since 2003. See “—Recent acquisitions.” The acquisition completed in 2011 contributed \$272 million and \$35 million to net sales and EBITDA, respectively, which represented approximately 6.5% and 4.2% of total net sales and EBITDA for 2011; the acquisitions completed in 2012 contributed \$1,091 million and \$83 million to net sales and EBITDA, respectively, which represented approximately 24.9% and 8.6% of total net sales and EBITDA for 2012; and the acquisitions completed in 2013, which were primarily intended to further increase our access to raw materials through vertical integration, contributed \$72 million and \$12 million to net sales and EBITDA, respectively, which represented approximately 1.4% and 1.3% of total net sales and EBITDA for 2013.

As noted above, 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. From 2003 through December 31, 2013, we have invested over \$3.7 billion in acquisitions.

Experienced management team with significant industry experience.

A significant part of our senior management team has meaningful experience in the Latin American chemicals industry, with an average of over 11 years of experience in the industry. We believe that 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.

Strong relationships and long-term agreements with main suppliers.

We operate under long-term supply agreements with OxyChem and we entered into a joint venture with Pemex Petroquímica for the procurement of VCM, which we use to make PVC. We believe that these arrangements 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 with a distinct advantage over our competitors who do not have similar strategic arrangements.

Significant economies of scale with strategically located facilities that results 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 Roskill in 2013, and, with the acquisition of FDM, we have increased our potential reserves of the highest purity fluorspar, (2) have the world's highest HF production capacity according to the latest survey conducted by Roskill in 2013, (3) have established strong

relationships with key market participants, (4) have become the world leader in fluorine chemical segment, especially in the production of refrigerant gas, 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 industry with more value-added products, either through joint ventures with established producers, or through direct acquisitions. The Chlorine-Vinyl Division begins its process by extracting salt from our own mines to make PVC resin, which is the main raw material used in making pipes for our Integral Solutions Division. Also, in September 2013 and October 2013, we formalized our joint venture with Pemex Petroquímica and with OxyChem, respectively. We believe that both joint ventures allow us, and will allow us, to integrate ourselves into the ethylene market, which represents 79% of the cost of VCM and 56% of the cost of PVC piping. We believe that these joint ventures will allow us to reduce our VCM production costs, will seek to guarantee our supply of VCM and will allow us to directly manage the production and supply of one of our main raw materials.

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 in Altamira, 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 HF production facilities are located near the United States border and the Mexican gulf coast. This provides us with 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 2011, we have invested approximately \$775 million to construct and upgrade our facilities and equipment. Our EBITDA margin for the year ended December 31, 2013 was 17.4%, which we believe compares favorably to industry margins.

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

We are constantly conducting research and development. Our patented production processes provide us with a competitive advantage over global competitors. Our eight research centers in Mexico, the United States, the Netherlands 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 HF production by treating raw fluorine with sulfuric acid. This innovation has reduced the annual cost of production of HF by an estimated \$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. In total, we have over 480 patented products.

Strategy

Our business strategy emphasizes expanding our presence in new and existing markets through organic growth as well as 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:

A continued focus on high value-added products.

We will continue to focus on developing value-added products. We have developed a state-of-the-art process to purify fluorspar from our mine at a significantly decreased cost in order to manufacture HF, which is generally sold at ten times the average price of fluorspar. Moreover, the acquisition of Wavin and PolyOne, as well as our recent agreements to acquire Dura-Line and Vestolit, are part of our strategy to further integrate ourselves into higher value-added products through strategic acquisitions. Value-added products (principally pipes systems and compounds) accounted for approximately 68.8% of our consolidated net sales in 2013 and 65.3% in 2012.

We will continue to leverage our competitive advantage in developing new and advanced production processes through Mexichem Research and Development Center (Mexichem CID), which develops new products geared towards addressing the needs of our customers, making them available through our extensive distribution network in the markets that we serve. We will also 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, plastic pipes, compounds, plasticizers and fluorspar purification. This technology allows us to produce a unique pipe that meets the requirements of most infrastructure projects and HF at lower cost, giving us an important competitive advantage. The improvements that we have made to our fluorspar purification process have significantly changed the global HF industry and positioned us as a leader in this industry.

A continued 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, each 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.

A continued 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 through the continued vertical integration of our operations with a focus on our high value-added products. Our vertical integration strategy also decreases our exposure to any price volatility of our main raw materials, helps improve our profit margins through cost synergies and helps us increase the diversity of the products which we offer. 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 our 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 2:1. We have also secured liquidity through a revolving credit line of up to \$1.5 billion. We continue to implement other financial strategies, including a conservative maturity profile for our debt facilities, a conservative hedging strategy and additional strategies to match our currency exposure that allow us to maintain the financial flexibility that we require in order to continue executing our growth strategies.

Implement our business culture.

Our current operations are the result of 22 acquisitions of 78 companies since 2003 from different parts of the world, bringing diverse cultures, ways of thinking and different personalities and perspectives into our business. As such, we believe that a unified business culture is important for meeting our goals. We take pride in establishing and disseminating among our companies our unique mission, vision and values as part of this unified culture so that our employees are not only aware of our mission, vision and values, but so they may also apply them in their daily routines.

Commit to social and environmental responsibility.

We continue to focus not only on our economic development, but also on our responsibility for social and environmental sustainability. As part of this, we have established our Global Reporting Initiative (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 and Deloitte's subsequent audit of our GRI initiative confirmed this result and further conferred a "+" distinction for our efforts. We have continued to

maintain this “A+” rating through 2013. We believe that we are among the few companies in the world in this sector that not only fulfill our social and environmental responsibility, but do so with the greatest level of commitment.

Recent acquisitions

The following table sets forth our acquisitions carried out in 2013, 2012 and 2011, together with installed capacity and sales (in thousands dollars) for each company for the six months ended June 30, 2014 and for 2013.

Date of acquisition	Company	Product	Operating Division	Annual installed production capacity (tons) ⁽¹⁾	Net sales in the six months ended June 30, 2014 (thousands of dollars)	Net sales in 2013 (thousands of dollars)
September 11, 2013	PMV	VCM	Chlorine-Vinyl	400,000	123,743	63,927
March 25, 2013	PolyOne	PVC-Resins	Chlorine-Vinyl	100,599	74,323	73,251
May 7, 2012	Wavin	Plastic Pipe	Integral Solutions	620,000	820,717	1,544,220
January 26, 2012	FDM	Fluorspar	Fluorine	100,000	3,431	9,215
January 7, 2011	AlphaGary	Compounds	Chlorine-Vinyl	106,100	145,605	261,898

(1) Includes all products.

Other recent acquisitions and joint ventures by division include the following below:

Chlorine-Vinyl Division

Vestolit Acquisition

On August 4, 2014, we reached an agreement with Strategic to acquire Vestolit, the sixth largest producer of PVC resin in Europe. Vestolit, headquartered in Marl, Germany, is the only European producer of HIS-PVC and the second largest European producer of PVC paste. Vestolit has an aggregated annual capacity of 415,000 tons. This acquisition is expected to strengthen our market position in Europe and to allow us to enter into new segments of the European market. Also, this acquisition is expected to provide us with access to new technologies and better practices that will enhance our global operations in the Chlorine-Vinyl Division. The transaction is expected to close in the fourth quarter of 2014 and is subject to regulatory approvals in order to close. The approximate value of this acquisition is €219 million in cash and assumed liabilities.

Mexichem and OxyChem joint venture

On October 31, 2013, we and OxyChem formalized a joint venture, each with an equal stake, named Ingleside, to construct an ethylene cracker with an annual capacity of 550,000 tons. This new plant represents a total investment of \$1.5 billion, and will be located at the installations of OxyChem in Ingleside, Texas. The cracker is expected to utilize the OxyChem duct and storage system located in Markham, Texas. The cracker will supply ethylene to the OxyChem VCM production facility in Texas, which, in turn, will supply VCM to us. The total amount invested into Ingleside as of June 30, 2014 and December 31, 2013 is \$206 million and \$46 million, respectively. We expect that the cracker will be fully operational in 2017.

Mexichem and Pemex Petroquímica joint venture

On September 11, 2013, we and Pemex Petroquímica formalized a joint venture in PMV. As a result of this strategic alliance, our vinyl chain (from salt-ethylene to PVC resin and our fluids conduction systems) will be fully vertically integrated, allowing the Mexican industry to become more competitive compared to that of the United States and allowing Mexico to benefit from the shale gas revolution. As part of this joint venture, Pemex Petroquímica is contributing an ethylene cracker, an EDC and VCM plant, two electricity cogeneration units and maritime facilities. Our contributions to PMV include salt deposits, the chlorine-caustic soda plant located in Coatzacoalcos, and \$200 million for the VCM capacity expansion from the approximate 125,000 tons a year that we produced prior to the formation of PMV to the designed capacity of approximately 400,000 tons a year. We are

currently determining the fair value of the net assets that we acquired, which is expected to take effect one year after the acquisition in conformity with IFRS 3. Consequently, the amounts relating to the fair values of our net assets reported in the consolidated financial statements accompanying offering memorandum are provisional and subject to change. Our property, plant and equipment were revalued as a result of the application of our accounting policies, which led to an increase in the value of our assets by \$256 million as a contribution in kind.

Through the formation of PMV, we intend to secure the supply of VCM needed for our PVC plants. We also expect that this plant will provide for the further vertical integration of our Chlorine-Vinyl Division by allowing us to produce one of the main raw materials used in this division and that it will improve our competitive position in the manufacturing of PVC products.

PolyOne Acquisition

On March 25, 2013, we reached an agreement with PolyOne to acquire 100% of its specialty PVC resin operations in the United States, allowing us to enter into the specialty resins market with higher margins. We now have two production plants and one research and development center. By means of this acquisition, we concentrated our sales in one key site and improved our cost efficiencies. The approximate value of this acquisition was \$250 million.

AlphaGary Acquisition

On January 7, 2011, we 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, we have consolidated our presence in the compound markets in which we operate and we have combined both the research and development potential and the innovative knowledge of AlphaGary into our operations. The approximate value of this acquisition was \$322 million.

Integral Solutions Division

Dura-Line Acquisition

On August 18, 2014, we reached an agreement with CHS to acquire Dura-Line, advancing our global growth strategy in high-end specialty products. Based in Knoxville, Tennessee, Dura-Line is a global leader in HDPE conduit, duct and pressure-pipe solutions for telecom and data communications, energy and infrastructure industries. Dura-Line has manufacturing facilities in the U.S. and Mexico, as well as in Asia (India), the Middle East (Oman), Europe (the Czech Republic) and Africa (South Africa). This acquisition is expected to provide us with access to new markets, including India, and to continue our growth in the high value-added products market. The acquisition is expected to close in the near term and is subject to regulatory approvals in order to close. This transaction has an approximate value of \$630 million.

Wavin Acquisition

In May 2012, we acquired 95.7% of the shares of Wavin, which 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 gas and telecom operations. In the first quarter of 2013, we acquired the remaining 4.3% of Wavin's outstanding shares. Wavin has its headquarters in Zwolle, the Netherlands and operates in 25 European countries and in China. The approximate value of this acquisition was €533 million. We have been able to optimize both Wavin's synergies and its results partially due to its restructuring in 2013. During this restructuring, Wavin closed over 10 plants in Europe without affecting its sales volume, allowing us to improve our overall margins.

Fluorine Division

FDM Acquisition

On January 26, 2012, Mexichem acquired 100% of the shares of FDM from Amati, located in Múzquiz, Coahuila, Mexico. This acquisition provides us with access to the purest fluorspar available in the world, and enables us to ensure that we meet the continuous supply of some of the raw materials required for our United Kingdom operations. The FDM mine that we acquired has potential reserves in excess of 13 million tons and has an estimated annual extraction of 100,000 tons. The approximate value of this acquisition was \$68 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 use our chlorine production to produce VCM and, as a consequence, we also produce PVC resin. We also obtain VCM through our joint ventures with OxyChem and Pemex Petroquímica to the extent already operational. 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., Mexichem Derivados Colombia, S.A.S. and Derivados Andinos S.A.S. which produce chlorine, caustic soda and specialized chlorinated products as sodium hypochlorite, ferric chloride and other specialty chemicals;
- PMV, which produces chlorine, caustic soda, ethylene and VCM;
- Mexichem Resinas Vinilicas, S.A. de C.V. and Mexichem Resinas Colombia, S.A.S, Latin American leaders in the production of PVC resins;
- Mexichem Specialty Resins Inc., a leader in the production and commercialization of specialty resins;
- Quimir, S.A. de C.V., a producer of industrial and food phosphates;

- Mexichem Compuestos, S.A. de C.V. and Mexichem Compuestos Colombia S.A.S., producers of compounds; and
- AlphaGary Corporation and AlphaGary Ltd., compound manufacturers.

We have recently made the following acquisitions and entered into the following joint ventures:

- *Vestolit*. On August 4, 2014, we reached an agreement with Strategic to acquire Vestolit, the sixth largest producer of PVC resin in Europe, subject to regulatory approvals in order to close. Vestolit is the only European producer of HIS-PVC and the second largest European producer of PVC paste. Vestolit has an aggregated annual capacity of 415,000 tons.
- *Mexichem and OxyChem joint venture*. On October 31, 2013, we and OxyChem entered into a joint venture to form Ingleside, in which we each hold a 50% equity participation. The main purpose of this joint venture is to construct an ethylene cracker with an annual capacity of 550,000 tons with an expected total investment of \$1.5 billion.
- *Mexichem and Pemex Petroquímica joint venture*. On September 11, 2013, we and Pemex Petroquímica formalized PMV, a joint venture which is expected to increase the competitiveness of the Mexican petrochemicals industry in the global market and is expected to generate value in our Chlorine-Vinyl Division. As a result of this strategic alliance, our vinyl production chain (from salt-ethylene to PVC resin and the fluids conduction systems) is expected to become fully vertically integrated. In addition, the Mexican petrochemical industry is expected to become more competitive compared to that of the United States since it should be able to benefit from the shale gas revolution.
- *PolyOne*. On March 25, 2013, we reached an agreement with PolyOne to acquire 100% of its specialty PVC resin operations in the United States, where it has two production plants and one research and development center.
- *FDM*. On January 26, 2012, we acquired 100% of the shares of FDM from Amati. FDM is located in Múzquiz, Coahuila, Mexico and has some of the purest fluorite available in the world. This acquisition is expected to enable us to meet the continuous supply of raw materials required for our United Kingdom operations. The FDM mine has potential reserves in excess of 13 million tons and has an expected annual extraction of 100,000 tons.
- *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, Canada and the United Kingdom.

See “Management’s discussion and analysis of financial condition and results of operations—Growth through acquisitions and joint ventures” for more detailed information.

For the six months ended June 30, 2014, our Chlorine-Vinyl Division had net sales of \$1.0 billion and an EBITDA of \$159 million (including intra-company transactions), a 12.7% and 1.4% increase, respectively, from 2013, contributing 35.9% of our net sales and 35.1% of our EBITDA.

In 2013, our Chlorine-Vinyl Division had net sales of \$1.8 billion and EBITDA of \$298 million. In 2013, 2012 and 2011, our Chlorine-Vinyl Division contributed 29.1%, 37.3% and 33.6% of our net sales and 33.1%, 32.6% and 38.7% of our EBITDA, respectively.

Sales

The following table shows the production and sales volumes of our Chlorine-Vinyl Division during 2013, 2012, 2011 and the six months ended June 30, 2014 and 2013.

Chlorine-Vinyl Division(1)	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
Volume (in thousands of tons)	848,402	888,514	1,796,812	1,848,872	1,842,027
Net sales (2)	998,831	886,336	1,813,871	1,780,507	1,924,786
EBITDA	159,271	157,041	298,277	314,232	32,110
EBITDA margin (%) (3).....	16.0	17.7	16.4	17.6	17.2

- (1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-division) transactions.
(2) In millions of dollars.
(3) EBITDA margin represents the EBITDA for our Chlorine-Vinyl Division divided by the net sales for that division. Further, the below chart illustrates the revenue breakdown in 2013 by product.



Chlor-Alkali manufacturing process

Products

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

- **Chlorine** and **Ethylene** are 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.

- **VCM** is primarily used as a raw material in the production of PVC.

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,					
	2013		2012		2011	
	Sales Volume(1)	Net Sales(3)	Sales Volume(1)	Net Sales(3)	Sales Volume(1)	Net Sales(3)
Chlorine	142,548	33,028	197,036	49,290	207,124	59,600
Caustic soda	196,249	104,146	230,401	126,214	232,801	114,932
Derivatives ⁽²⁾	354,430	148,382	310,434	121,950	335,228	144,806

(1) In thousands of tons.

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

(3) In millions of dollars.

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 586,000 tons per year of chlorine, caustic soda and chlorine derivatives. Its strategic location allows for significant export activity and places it in close proximity to PMV's VCM plant.
- **El Salto (Jalisco).** This plant serves Mexico's western and northeastern markets with an installed annual capacity of 204,000 tons of chlorine, caustic soda, sodium hypochlorite and hydrochloric acid.
- **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 50,000 tons, including 4,000 tons of ferric chloride, 10,000 tons of specialties and 36,000 tons of sodium hypochlorite.
- **Mexichem Derivados Andinos.** This plant, located in Cajica, Colombia, produces sodium hypochlorite. It has an installed annual production capacity of 28,000 tons.
- **PMV.** This facility, located in Jáltipan, Veracruz, includes a salt dome in Mexico, with an annual production capacity of 730,000 tons of salt. This salt dome has potential reserves for an estimated period of approximately 30 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 146,000 tons.

The following table shows the chlor-alkali manufacturing process' annual production in 2013, 2012 and 2011 by principal product and plant:

Plant/Product	Year ended December 31,		
	2013	2012	2011
Mexico			
Chlorine	143	197	49
Caustic soda	196	230	233
Derivatives ⁽¹⁾	354	310	335
Mexichem Colombia			
Derivatives ⁽¹⁾	31	31	31
Quimir			
Phosphates	60	68	99

(1) Hypochlorite, hydrochloric acid and other.

Raw materials

The principal raw materials used in the chlor-alkali manufacturing process are water, salt, energy, and natural gas which accounted for 61%, 10% and 23%, respectively, of our cost of sales in 2013. In Mexico, we procure these raw materials from our salt dome, the CNA, the CFE and Pemex. In Colombia, we procure water from Aguas de Cartagena, natural gas from Ecopetrol and Chevron and energy from Electricaribe, S.A. We consume all of our salt requirements from PMV, 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 main 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 IHS 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.

Main 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) the 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 (4) industries such as the water treatment, bottling and metal-mechanic industries.

Distribution agreements

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

Cyclicalilty

The chemical industry is impacted by changes in the international economy. On September 11, 2013, we formalized the PMV joint venture with Pemex Petroquímica which is expected to stabilize the demand for our Chlorine-Vinyl Division products.

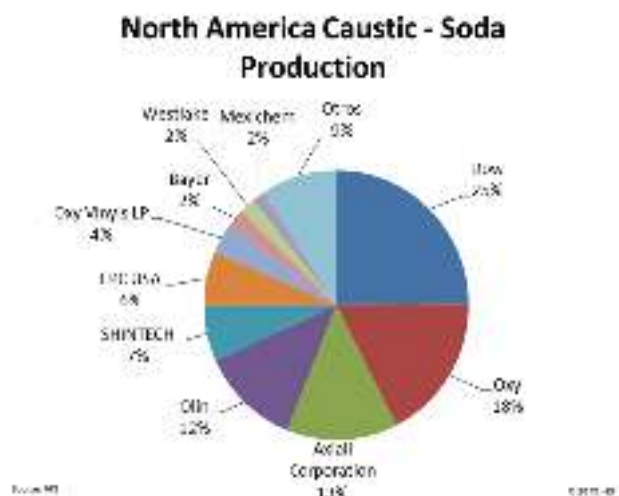
Competition

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.

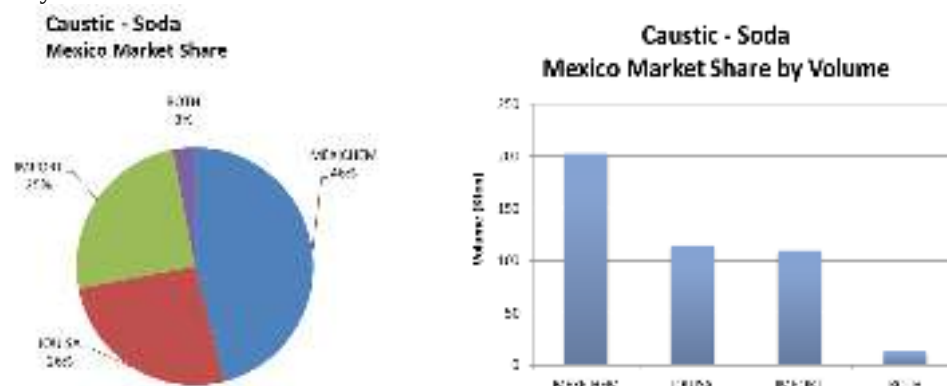
Long-running underperformance and maintenance-related shutdowns at Pemex Petroquímica's Pajaritos VCM plant led to a decrease and suspension of VCM production, which reduced the demand for our consumption of chlorine, and, at a certain point, the contemporaneous stoppage of our chlorine-caustic soda plant and the related decrease of our production and sale of caustic-soda. Currently, our joint venture with Pemex Petroquímica for the production of VCM, PMV, is expected to provide us with greater certainty with respect to meeting the demand for chlorine in the chlor-alkali process and the raw material supply for our vinyl process. See "Recent acquisitions—Chlorine-Vinyl Division—Mexichem and Pemex Petroquímica joint venture."

Market share

The following charts show our market share in Mexico for caustic soda during 2013:



The total capacity in the caustic soda market in North America is 15.6 million metric tons.



Source: Mexichem 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.

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 cars, in the manufacture of wires, flexible frames, shoe insoles, in the production of window frames, sliding doors for closets, window blinds, hard pipelines, computer circuits, pipelines and in 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,					
	2013		2012		2011	
	Sales Volume(1)	Net Sales(2)	Sales Volume(1)	Net Sales(2)	Sales Volume(1)	Net Sales(2)
PVC resin.....	884,639	1,019,046	872,838	934,975	899,697	1,061,467
Compounds.....	218,946	509,269	238,163	548,078	167,177	543,981

(1) In thousands of tons.

(2) In millions of dollars.

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 876,000 tons, including: (i) a PVC resin line with annual capacity for 500,000 tons for the production of suspensions; (ii) an additional 180,000 tons of resins; and (iii) 196,000 tons for compounds, including 36,000 tons for phthalic anhydride acid and 105,000 tons for plasticizers. In addition, the plant has annual capacity for 55,000 tons for compounds.
- **Tlaxcala (Tlaxcala).** The Tlaxcala plant contains production lines with a combined annual capacity of 65,000 tons of PVC resins, including: (i) 36,500 tons for suspensions; and (ii) 13,500 tons for emulsions and 15,000 tons for compounds. The size of its reactors and the design of its facilities enable it to produce specialty PVC resins.
- **La Presa.** This plant has an annual production capacity of 43,000 tons of PVC resins.
- **Mexichem Specialty Resins.** We have two plants in the United States, one in Henry, Ohio and one in Pedricktown, New Jersey. The Henry plant has an annual production capacity of 57,000 tons, while the Pedricktown plant has an annual capacity of 59,000 tons. We also have one Mexichem CID facility in the United States.
- **Mexichem Resinas Colombia (Cartagena).** The Cartagena plant has annual capacity of 500,000 tons of PVC resins, including: i) 421,000 tons for the production of suspensions, ii) 55,000 tons for the production of emulsions, iii) 24,000 tons for the production of copolymers. Also the plant has capacity of 22,000 tons for the production of compounds.
- **AlphaGary Inc.** We have two plants in the United States, one in Leominster, MA and one in Pineville, NC. The Leominster plant has an annual production capacity of 36,000 tons and nine production lines for PVC compounds, while the Pineville plant has an installed annual capacity of 32,000 tons in a total of seven production lines, which gives the plants significant flexibility for producing a wide range of compounds.
- **Melton Mowbray (United Kingdom).** This plant has an annual capacity of 38,000 tons in a total of six production lines, which allows us to reach various markets in which PVC compounds are used.

The following table shows our vinyl manufacturing process' production capacity and production output as of December 31, 2013, and annual production in 2013, 2012 and 2011, by principal product:

Product	Installed Capacity (thousands of tons)	Year ended December 31,		
		2013	2012	2011
		(sales volume in thousands of tons)		
PVC resin.....	1,387	885	873	900
Compounds.....	198	219	238	167

Raw materials

The primary raw material used by the vinyl manufacturing process is VCM, which in 2013 accounted for 71.9% 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 Petroquímica, the municipal water company, Comapa, and, in certain cases, based on concessions for the exploration of our own water wells. Since late 2013 and by means of the creation of PMV, we are able to produce our own VCM. However, PMV's current installed capacity is still insufficient to satisfy all of our VCM needs and thus we continue to purchase VCM from third parties such as Dow Chemical and OxyChem for the amount of VCM that we cannot produce ourselves. We expect that the supply of VCM that we purchase from third parties will decrease as the PMV plant reaches its designed installed capacity. Also, once the PMV and Ingleside ethylene crackers are completed (which we expect will occur in 2017), we will produce VCM at a lower cost. This VCM capacity expansion is expected to provide us with a reliable and steady supply of VCM for our plant operations. In addition, PMV is expected to help ensure a steady supply of the raw material needed for our vinyl production process, further integrating our Chlorine-Vinyl Division. Currently, the supply agreement that we entered into with OxyChem provides 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 OxyChem also allows us to increase our supply from PMV operations. As part of the agreement, OxyChem will provide technical assistance to PMV, allowing us to reach and maintain our VCM production capacity.

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 IHS 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.

Main 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.

Cyclicalilty

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 2013, 2012 and 2011, Mexico registered a GDP increase of 1.1%, 4.0% and 4.0%, respectively, while the United States registered a GDP increase of 1.9%, 2.8% and 1.8%, respectively.

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 that 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. Our vertical integration strategy has allowed us to consume a large percentage of intermediate products for final processes, reducing the impact of a decrease in commodity prices.

Our supply and joint venture agreement with OxyChem and Pemex Petroquímica, 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.

Our main competitors in the Latin American PVC market are Shintech, Inc., Formosa Plastics Corporation, OxyChem, Axiall Corporation, Solvay Corporation, Fluorides, Inc., Braskem S.A. and Petroquímica de Venezuela, S.A.

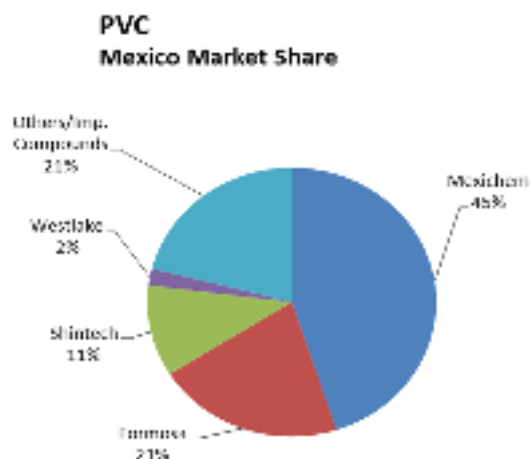
World Polyvinyl Chloride Producers by Company – 2013 Average Annual Capacities

Rank	Company	Capacity	Share
		(in thousands of metric tons)	(% of total)
1	SHINTECH	2,640	4.27
2	FPC	1,793	2.90
3	INEOS Chlor Vinyls	1,780	2.88
4	OxyChem	1,683	2.72
5	Xinjiang Zhongtai	1,525	2.47
6	FPC USA	1,444	2.34
7	Mexichem	1,415	2.29
8	Axiall Corporation	1,204	1.95
9	Solvin	1,200	1.94
10	Xinjiang Tianye Group	1200	1.94
11	Junzheng Technology	1150	1.86
12	Beiyuan Chemical	1100	1.78
13	Yibin Tianyuan	1050	1.70
14	Inner Mongolia Yili	1000	1.62
15	Shin-Etsu	1000	1.62
16	LG Chem	900	1.46
17	Kem One	881	1.43
18	Hanwha Chemical	875	1.42
19	Anhui Huasu	860	1.39
20	Vinnolit	809	1.31
21	Westlake	805	1.30
22	Tianjin Dagu	800	1.29
23	Reliance Industries	735	1.19
24	Braskem	719	1.16
25	Hebei Jinniu Chem.	630	1.02
26	Chiping Xinfa	600	0.97
27	Qilu PC	600	0.97
28	Xiangyun Group	600	0.97
29	Kaneka Corp	580	0.94
30	Tosoh Guangzhou	570	0.92
	Total	32,148	52.01

Source: IHS

Market share

In 2013, our market share in PVC resins was 45% in the Mexican market, as indicated in the graph below:

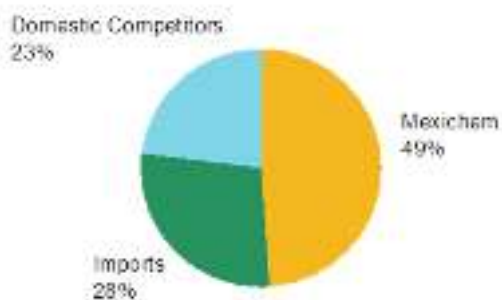


Source: MRC/MRV/Sales included in MRSI totals.

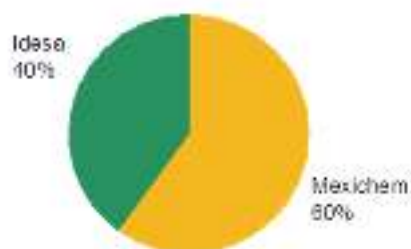
The total market capacity is 531,353 metric tons.

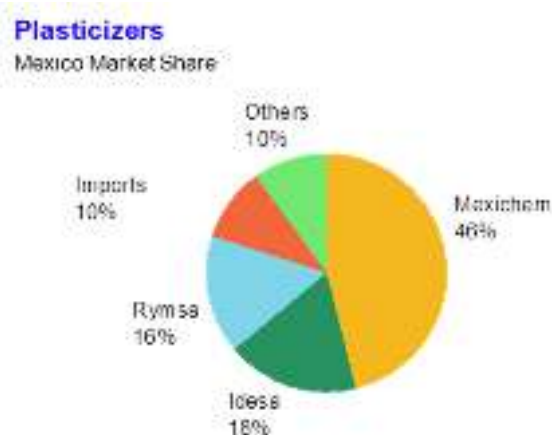
Set forth below is information about our market share in the compounds market, phthalic anhydride and plastics, which have a total capacity of 196,000 tons, 36,000 tons and 105,000 tons, respectively.

Compounds Domestic Market



Phthalic Acid Mexico Market Share





Source: Mexichem estimates based on public information.

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 and fittings, which we produce and sell in all of Latin America, Asia and Europe, improving the development of these countries and the well-being of millions of people by providing them with better access to 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 and Europe, we believe that we have a significant competitive advantage in this industry.

We are leaders in Latin America and Europe in the manufacture and distribution of pipelines, fittings 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.

Our leadership position in this industry increased when, in the second quarter of 2012, we acquired 95.6% of the shares of Wavin, the leading supplier of plastic pipe systems and solutions in Europe. In 2013, we acquired the remaining shares of Wavin. 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 the distribution of drinking water. Wavin is headquartered in Zwolle, The Netherlands and has a presence in 25 European countries. Outside of Europe, Wavin has a global network of agents, licensees and distributors. We have been able to optimize Wavin synergies and Wavin's results partially due to its restructuring in 2013 wherein Wavin closed over 10 plants in Europe without affecting our sales volume. This restructuring allowed us to improve our margins.

In addition, Amanco, the largest producer of integrated PVC pipelines in Latin America has production plants in 10 Latin American countries, including Mexico, and is present in 20 countries through more than 55,000 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.

For the six months ended June 30, 2014, our Integral Solutions Division had net sales of \$1.6 billion and an EBITDA of \$191 million, a 4.5% and 3.5% increase, respectively, from 2013, and constituted 56.4% of our net sales and 37.8% of our EBITDA, respectively (including intra-company sales).

In 2013, the Integral Solutions Division had net sales of \$3.0 billion, an 18.7% increase from 2012, and EBITDA of \$376 million. The Integral Solutions Division contributed 58.9% and 41.8% to our consolidated net sales and EBITDA, respectively (including intra-company sales).

Sales

The following table shows the production and sales volumes of our Integral Solutions Division in 2013 and its production and sales during the first six months of 2014 and 2013:

Integral Solutions Division(1)	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
Volume (in thousands of tons)	477	460	932	808	494
Net sales (in thousands of dollars)	1,569	1,501	3,050	2,570	1,522

(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 fittings 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: (1) rigid, with solid walls; and (2) flexible, with corrugated walls. The main characteristics of the pipes that 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, 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 of 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 incorporated 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 24 plants in 10 countries in North and South America, with installed annual combined production capacity of 670,000 tons for PVC extrusions, PVC and polyethylene injected products and polyethylene, using state-of-the-art transformation technologies. Of these plants, 24 have an ISO-9001 certification, 23 have ISO-14001 certification and 22 have OHSAS 18001 certification. The total sales volume at these plants for 2013, 2012 and 2011 was 499,000 tons, 505,000 tons and 494,000 tons, respectively.
- **Wavin.** The Wavin acquisition added 30 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 2013 accounted for approximately 70.0% 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 70.0% 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 has 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 and agricultural 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 IHS.

Main clients

Our main 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 23 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 2013, 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 62,000 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.

Cyclicalilty

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.

According to our market research, the Latin American PVC pipe market is ranked as follows: we are the largest producer, Tigre S/A is the second largest producer 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 The Aliaxis Group, Aalberts Industries N.V. and GF Piping Systems.

Market share

As illustrated in the following table, we hold an approximate 31% share of the Latin American market for PVC pipes in 2013 and we are among the leaders in each country in which we operate.

Country/Region	Product	Position	% Market Share
Integral Solutions			
Brazil	Pipe	2	33
Mexico.....	Pipe	1	30
Latin America	Pipe	1	32
Argentina	Pipe	2	13
Baltics.....	Pipe	2	10
Belgium	Pipe	1	20
Colombia	Pipe	1	50
Costa Rica.....	Pipe	1	48
Czech Republic	Pipe	1	24
Denmark	Pipe	1	44
Ecuador.....	Pipe	1	52
El Salvador	Pipe	1	59
France	Pipe	2	13
Germany	Pipe	2	9
Guatemala.....	Pipe	1	37
Honduras.....	Pipe	1	34
Hungary	Pipe	1	30
Italy	Pipe	3	5
Netherlands.....	Pipe	1	27
Nicaragua.....	Pipe	1	47
Norway	Pipe	2	24
Panama	Pipe	1	32
Peru	Pipe	1	25
Poland.....	Pipe	1	22
Romania.....	Pipe	5	6
Sweden	Pipe	3	16
Turkey	Pipe	5	5
United Kingdom.....	Pipe	2	21
Venezuela	Pipe	2	29

Source: Mexichem market research.

Fluorine Division

In our Fluorine Division, we extract fluorspar and produce HF, aluminum fluorine and refrigerant gases. 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 HF and is obtained by applying sulfuric acid to fluorspar. This kind of fluorspar competes directly with that which is produced in China, where more than 650 mines are located and where more than 50% of the world's production is found.

HF is used primarily in the production of refrigerant gases 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 refrigerant gases, which in the past created a high demand that resulted in increased price levels.

The acid fluorspar market price gradually decreased from \$500 to \$280 per metric ton due to the combination of a global oversupply condition, mainly caused by Chinese and Mongolian fluorspar producers and the global slowdown of the refrigeration and aluminum industries. During the last few years, aluminum metal prices decreased from \$2,500 to \$1,500 per metric ton, forcing aluminum smelters to operate below production costs and to shut down several aluminum plants.

There was a gradual demand recovery with respect to metallurgical fluorspar grade due to higher steel production in the United States. China imported metallurgical fluorspar grade due to the growth in steel demand in Asia for Mexichem Fluor in the future. Steel production in Europe and Japan remains low.

By the end of January 2012, we announced the acquisition of FDM and the mineral concessions of the Las Sabinas mine. With this acquisition, we have access to higher purity fluorspar, which is expected to lead to many years of viable operations in the United Kingdom. This is part of a series of investments to produce a new generation of refrigerant gases that are more environmentally friendly. The mine has potential reserves of approximately 13 million tons of high purity fluorspar, adding to our current capacity of 32 million tons in our operating mines and making us the largest producer of integrated refrigerant gases in the world.

Consumption in China of domestically produced Fluorspar has increased from 55% in 2004 to 75% in 2013, a tendency that is expected to continue. As a result, the supply of fluorspar is decreasing significantly. Meanwhile, demand for HF has 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 HF. In addition, we are the world’s third-largest producer of HF and the largest supplier to the U.S. spot market.

In the six months ended June 30, 2014, our Fluorine Division had net sales of \$339.9 million and an EBITDA of \$112.2 million. In 2013, our Fluorine Division had net sales of \$673.0 million and an EBITDA of \$239.3 million (this division does not have material intercompany sales).

Fluorspar	Hydrofluoric Acid	Fluorocarbons	Fluoroelastomers	Fluoropolymers

Sales

The following table shows the production and sales volumes of our Fluorine Division during 2013, 2012, 2011 and the six months ended June 30, 2014 and 2013:

Fluorine Division(1)	As of June 30,		As of December 31,		
	2014	2013	2013	2012	2011
Volume (in thousands of tons)	534	623	1,167	1,237	1,205
Net sales (in millions of dollars)	340	373	673	811	811

Further, the below chart illustrates the revenue breakdown in 2013 by product.



Fluorspar Manufacturing Process

The fluorspar manufacturing process consists of the extraction and sale of metallurgical grade fluorspar for its use in the production of steel, ceramic, glass and cement, and metallurgical grade fluorspar for the production of highly concentrated fluorspar called acid grade fluorspar. Acid grade fluorspar is used in the production of HF, 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 offer 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 HF 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,					
	2013		2012		2011	
	Sales Volume(1)	Net Sales(2)	Sales Volume(1)	Net Sales(2)	Sales Volume(1)	Net Sales(2)
Metallurgical grade.....	457	87	519	99	525	78
Acid grade.....	543	112	547	131	527	94
Total Fluorspar.....	1,000	199	1,066	230	1,052	172

(1) In thousands of tons.

(2) In millions of dollars.

Mines and plants

- **Las Cuevas Mine and San Luis Potosi Plant.** We own the rights to and operate the Las Cuevas mine, located in Villa de Zaragoza, San Luis Potosi, which is the world's largest fluorspar mine with a 13% share of global production of fluorspar and estimated potential reserves of 32 million tons, according to the 2013 SRI Report. At our present exploitation capacity of 1.3 million tons per year, these reserves represent 28 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 and acid grade fluorspar is 500,000 tons and 733,000 tons, respectively.

- **Mine and Fluorita de Río Verde Plant** . This complex has one mine and two plants, one in the municipality of Río Verde in the state of San Luis Potosí and the other in Alamos de Martinez in the state of Guanajuato. The estimated potential reserves at this mine will allow the plants to be exploited over the course of 12 years at the current capacity. We also have concessions to exploit other minerals. The annual installed capacity at this mine is 114,000 tons per year.
- **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 fluorspar.

The following table shows our fluorspar extraction and manufacturing process' production capacity as of December 31, 2013 and annual production output in 2013, 2012 and 2011, by principal product:

Product	Installed Capacity (thousands of tons)	Year ended December 31,		
		2013	2012	2011
		(sales volume in thousands of tons)		
Metallurgical grade.....	500	457	519	525
Acid grade.....	733	543	547	527
Total Fluorspar.....	1,233	1,000	1,066	1,052

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 CFE, CNA and Pemex.

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.

Main 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, refrigerant gases, 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 three million tons through 78 producers and more than 650 mines, 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 13.3% share of fluorspar reserves globally and export 80% of our production to a number of countries around the world. The following chart shows the distribution of fluorspar reserves globally in 2013:



Source: Roskill 11th Edition 2013.

Hydrofluoric acid manufacturing process

HF is produced by applying sulfuric acid to fluorspar to provoke a chemical reaction. Thereafter, the HF 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 HF, an aqueous solution that is used primarily (1) as a raw material in the production of refrigerant gases 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 HF during the periods indicated:

Product	Year ended December 31,					
	2013		2012		2011	
	Sales Volume(1)	Net Sales(2)	Sales Volume(1)	Net Sales(2)	Sales Volume(1)	Net Sales(2)
Hydrofluoric acid	96	157	97	163	94	153

(1) In thousands of tons.

(2) In millions of dollars.

Plants

We own and operate the world's largest HF plant, located in Matamoros, Mexico, with annual installed capacity of 100,000 tons. The plant is strategically located to have ease of access to its primary raw materials in Mexico and exports 92% of its production, primarily to the United States. The Matamoros plant utilizes state-of-the-art technology.

The following table shows our installed capacity and production output of HF as of December 31, 2013, 2012 and 2011:

Plant	Installed Capacity	Year ended December 31,		
		2013	2012	2011
	(thousands of tons)	(sales volume in thousands of tons)		
Matamoros	141	95	96	93

Refrigerant gases 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. Most importantly, fluorinated hydrocarbons are used as a refrigerant gas for air conditioning and refrigeration systems. Some fluorinated carbons are especially used as a refrigerant gas 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.
- **Mexichem Fluor UK.** This plant is located in Runcorn, Cheshire, and has an annual production capacity of 80,600 tons.
- **Mexichem Fluor Japan.** This plant is located in Tokyo, Japan, and has an annual production capacity of 26,100 tons.

The following table shows the annual production at these plants for the years ended December 31, 2013 and 2012.

Plant	Installed Capacity	Year ended December 31,	
		2013	2012
	(thousands of tons)	(sales volume in thousands of tons)	
United States	39	36	33
United Kingdom.....	81	24	28
Japan.....	26	17	21

Raw materials

The principal raw materials used in the HF 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.

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 \$41 million in order to prepare this mine for exploitation.

Sales and distribution

We maintain long-term supply contracts with our principal customers of HF. 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.

Main clients

We have entered into a five-year supply agreement with one of our main HF clients in North America. This agreement was entered into in May 2010 and is expected to allow our Matamoros plant to operate at full capacity for the next 5 years.

Competition

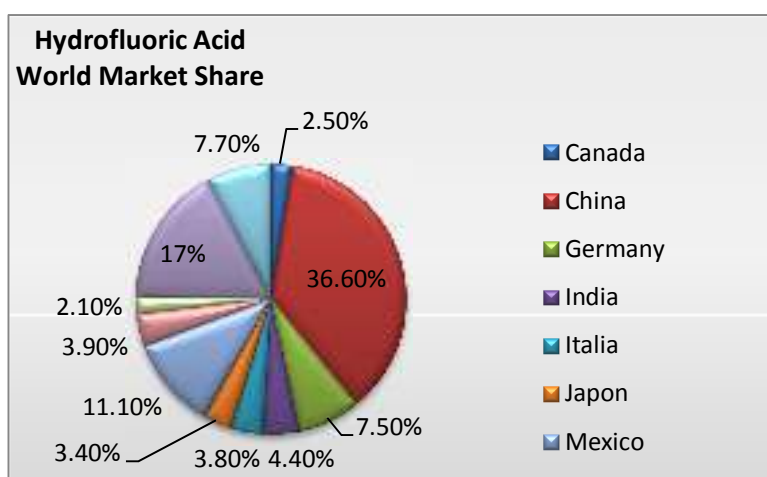
The principal competitive advantages of our HF manufacturing process are its vertical integration with respect to the production of fluorspar and its strategic location. We extract fluorspar from our San Luis Potosi mine, which ensures our long-term viability by providing us with a guaranteed supply of the primary raw material for the production of HF. 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 acquisition of FDM in January 2012 and the mine at Las Sabinas, we have access to some of the purest fluoric acid, thereby 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 HF and fluorinated chemicals. Together with the strict regulatory framework applicable to the transportation of HF and our acquisition of Ineos Fluor, we believe that we have a constant and unparalleled competitive advantage.

Market share

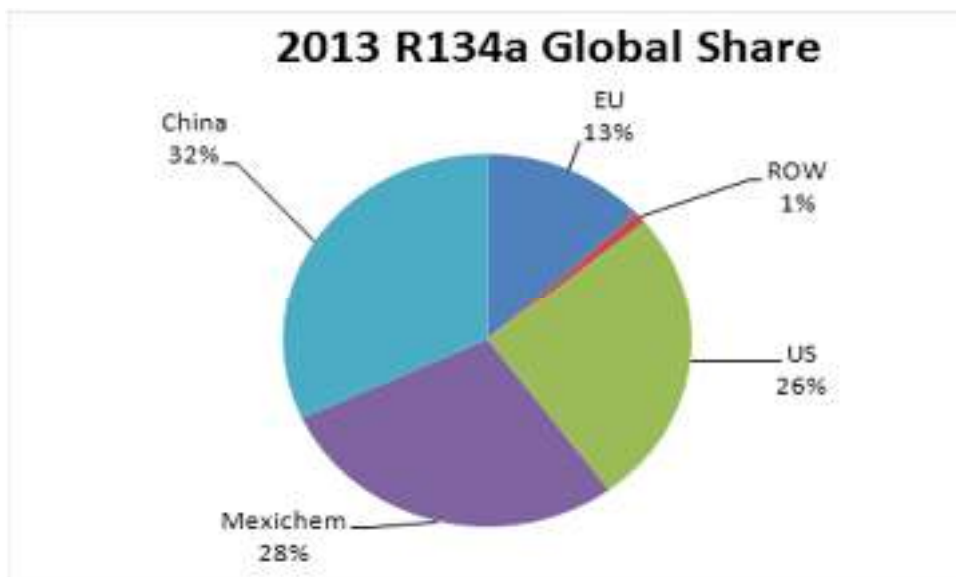
We estimate that HF consumption in North America is approximately 376,000 tons per year, including the total requirements of Mexican, U.S. and Canadian consumers, which are our primary targets. Mexichem Fluor competes in the HF market with Honeywell International and Solvay.

Set forth below is information on our HF market share in North America and globally, for which there is a total production capacity of 1,185,000 metric tons.

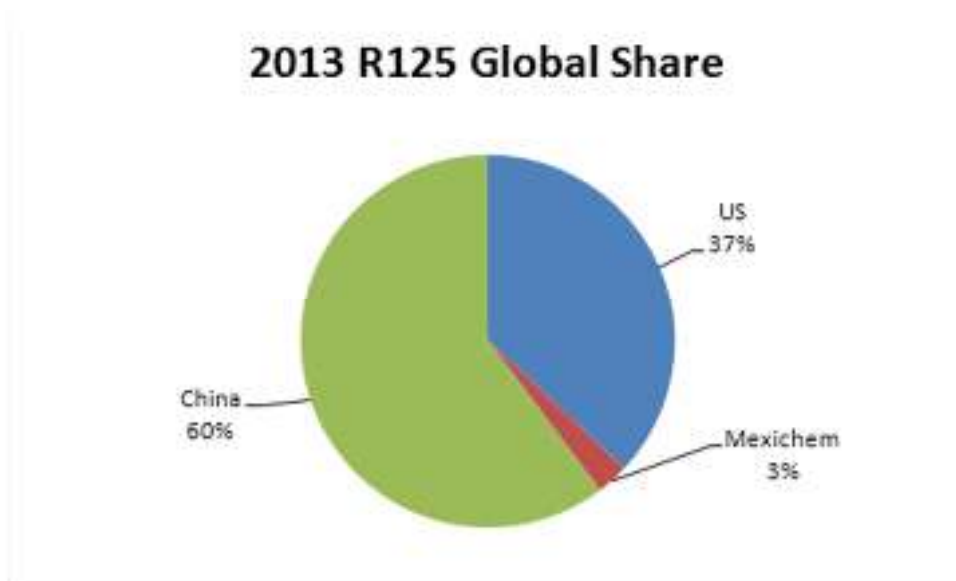


Source: Roskill 11th Edition 2013.

Set forth below is information on our market share for the refrigerant gases HFC-134a and HFC 125, for which there is a global capacity of 175,000 metric tons and 60,000 metric tons.



Source: Roskill 11th Edition 2013.



Source: Roskill 11th Edition 2013.

History and evolution

History

We were 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. (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. On April 26, 2013, our bylaws were amended by our shareholders

in order to further protect the Company against a hostile takeover by implementing a “poison pill” mechanism with a 10% threshold.

Since 2003, we have grown from having operations in two countries, 10 production facilities and approximately 1,800 employees to having operations in 31 countries, over 100 production facilities, eight research and development centers and more than 17,500 employees.

Evolution

Our current corporate organization is the result of a combination of a number of different companies. Our origin dates back 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, 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.

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 (\$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 TIIE 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 \$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 refrigerant gases.

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 HF. The second plant is located in the city of Matamoros, Tamaulipas and produces HF 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 \$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 to 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 TIEE 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 FDM from Amati. With this acquisition, we are expected to have access to the highest purity fluorite available worldwide, which we expect will provide us with a steady supply of the raw materials that are needed for our United Kingdom operations. The mine has estimated potential reserves in excess of 13 million tons, and an annual extraction of 100,000 tons. This transaction was valued at \$68 million, which we financed 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, The Netherlands and has operations in 25 European countries. In the first quarter of 2013, we acquired the remaining outstanding shares of Wavin. The acquisition was valued at approximately €533 million and was financed by our balance sheet, cash and our existing credit facilities.

On September 12, 2012, we issued two series of global notes in the international capital markets in the amount of \$750,000,000 and \$400,000,000 pursuant to Rule 144A and Regulation S. These notes were listed on the Luxembourg Stock Exchange. The notes will mature on September 19, 2022 and September 19, 2042, respectively, and accrue interest at a rate of 4.875% and 6.750%, respectively, which will remain fixed throughout the duration of the notes. Also on September 12, 2012, we increased our capital stock by issuing 226 million new shares, which represented an increase of Ps.13,565 million to our working capital. As a result of this capital increase, our control group held 58% of our capital stock, while 42% of our shares were publicly traded.

On March 25, 2013, Mexichem reached an agreement with PolyOne to acquire 100% of its specialty PVC resin operations in the United States, where it has two production plants and one research and development center. This acquisition had an approximate value of \$250 million.

On September 11, 2013, Mexichem and Pemex Petroquímica formalized the PMV joint venture which is expected to increase the competitiveness of the Mexican petrochemicals industry in the global market and is expected to generate additional value in our Chlorine-Vinyl Division. As a result of this strategic alliance, the vinyl production chain in Mexico (from salt-ethylene to PVC resin and the fluids conduction systems) is expected to be fully vertically integrated. In addition, the Mexican petrochemical industry should become more competitive compared to that of the United States since Mexico should be able to tap into benefits derived from the shale gas revolution as well.

On October 31, 2013, Mexichem and OxyChem entered into a joint venture to form Ingleside, in which we each party holds a 50% equity participation interest. The main purpose of this joint venture is to construct an ethylene cracker with an annual capacity of 550,000 tons.

On June 30, 2014, we entered into a revolving credit line of \$1.5 billion with a five-year term with a rate of LIBOR plus 95 basis points to 1.35 basis points, depending on the utilization level and our S&P and Fitch rating. We expect that this revolving credit facility will allow us to increase our financial flexibility and will allow us to take advantage of opportunities that arise in our markets to consolidate our strategic growth plans.

On July 15, 2014, a consortium formed by us, Enesa Energía and Invenenergy were selected by Pemex to develop a cogeneration plant expected to commence its operations in early 2018 with an expected capacity of 530 megawatts in Pemex's Cactus Gas Processing site and with an estimated total investment of \$650 million.

On August 4, 2014, Mexichem reached an agreement with Strategic to acquire Vestolit, the sixth largest producer of PVC resin in Europe, subject to regulatory approvals in order to close. Vestolit is the only European producer of HIS-PVC and the second largest European producer of PVC paste. Vestolit has an aggregated annual capacity of 415,000 tons.

On August 18, 2014, we reached an agreement with CHS to acquire Dura-Line, subject to regulatory approvals in order to close. Based in Knoxville, Tennessee, Dura-Line is a global leader in HDPE conduit, duct and pressure-pipe solutions for telecom and data communications, energy and infrastructure industries. Dura-Line has manufacturing facilities in the United States and Mexico, as well as in Asia (India), the Middle East (Oman), Europe (the Czech Republic) and Africa (South Africa).

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—Risk factors related to our business and industry—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—Risk factors related to our business and industry—Our inability to effectively manage our growth or our inability to successfully to integrate new acquisitions could adversely affect our business and our operating results."

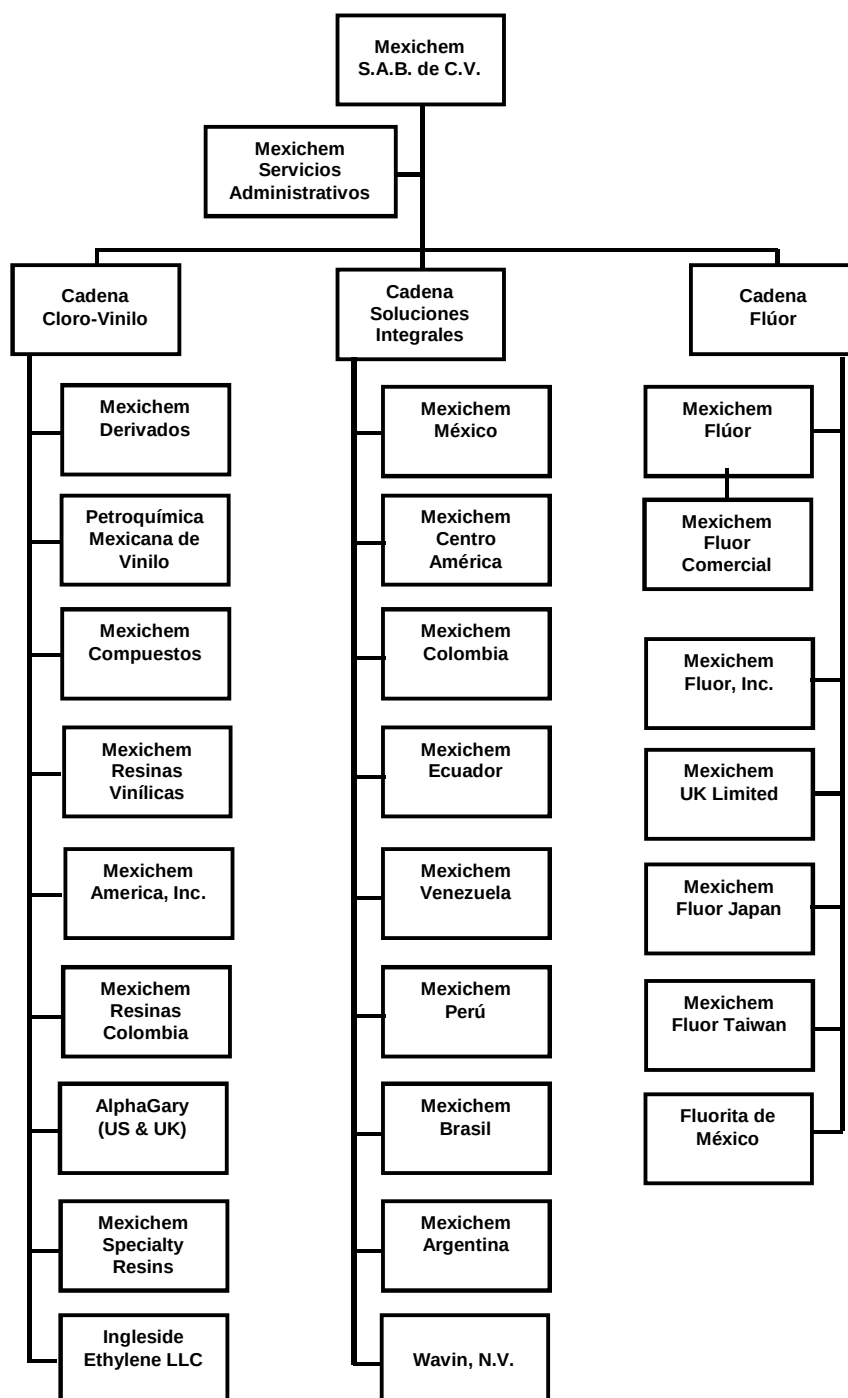
Subsidiaries

The following table contains a list of our main subsidiaries as of June 30, 2014, 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
Mexichem Speciality Resinas, Inc.....	Chlorine-Vinyl
Petroquímica Mexicana de Vinilo, S.A. de C.V.....	Chlorine-Vinyl
Ingleside Ethylene LLC	Chlorine-Vinyl
Mexichem Flúor, S.A. de C.V.....	Fluorine
Mexichem Flúor Comercial, S.A. de C.V.	Fluorine
Mexichem Fluor Inc.	Fluorine
Fluorita de México, S.A. de C.V.	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 Industria de Transformação Plástica, Ltda.	Integral Solutions
Wavin N.V.	Integral Solutions

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 a civil proceeding that began in July 2006, for which we estimate a maximum award amount of \$70,000. This proceeding was filed by ELUMA, S.A. 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.

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 \$9.3 million and the risk of financial loss is less than \$23,000 in expenses. This claim involves the nonpayment of taxes by our subsidiary, which is being sued for a tax return that we believe it was exempt from paying.

Mexico

The relevant tax authorities audited Mexichem Fluor, S.A. de C.V.'s profit sharing calculations corresponding to fiscal years 2004 and 2008. We have been required to present our technical comments in court regarding the calculation documents to the relevant tax authorities. The amounts at issue in this matter are \$700,000 and \$1.8 million, respectively.

Currently, Mexichem Fluor Comercial, S.A. de C.V. is party of a tax proceeding in which tax authorities have denied a valued added tax refund of \$14.3 million. We have provided our technical comments by means of a constitutional appeal.

Mexichem Fluor, S.A. de C.V. is currently part of a dispute in which the CNA alleges that it did not provide sufficient information from 2008 to 2012 with respect to its use of water. The amount at issue is approximately \$1.8 million. Currently, we are challenging these allegations by means of an *amparo* proceeding.

Ecuador

Mexichem Ecuador, S.A. has filed a court trial procedure against tax authorities for their denial in applying certain deductions for the fiscal year 2008 and 2009. The 2008 tax amount at issue is \$1.9 million, which has been paid. The legal claim relates to wrongful payment. The 2009 tax amount at issue is \$1.3 million, which is in the process of being paid and will be challenged by means of the same procedures used with respect to the 2008 claims.

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 \$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 \$16.7 million based on 2011 sales figures.

Other

On October 22, 2013, we filed an anti-dumping complaint before the United States International Trade Commission against China's refrigerant gases (R-134a or HFC-134a or 1,1,1,2-Tetrafluoroethane) imports. On December 18, 2013, such Commission determined that the American refrigerant gases market had been damaged by Chinese imports. Consequently, the United States Department of Commerce initiated relevant investigations. On April 14, 2014, the Department of Commerce released the preliminary resolution of a countervailing compensation duty of 16.39% on average, and, on May 22, 2014, also released the preliminary resolution of an antidumping compensation duty of 187.48% on average to Chinese imports of refrigerant gases.

Due to certain noncompliance with environmental regulations applicable in Europe at our facility located in Runcorn, United Kingdom (formerly owned and sold to us by Iñeos Group), we initiated an arbitration proceeding seeking indemnification from Iñeos Group in accordance with the Business Purchase Agreement. This proceeding is still ongoing. All written submissions have been complete and the final hearing is scheduled to begin at the end of September 2013. A final decision is expected by the first quarter of 2015.

We are also party to certain fiscal and labor proceedings in the ordinary course of our business and which are common in the industry in which we operate. As of December 31, 2013, the total amount at issue is approximately \$29 million, for which we have reserved \$9 million (the balance that corresponds to disputes that have been classified as low risk by counsel).

Intellectual property

We own, license or have rights to over 275 patents, over 480 trademarks, and various patent and trademark applications and technology licenses in Mexico, Brazil, Colombia, the Netherlands 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 2015 and 2025. 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,” mainly a product brand for construction products, registered in several countries around Europe, Asia, Africa and Oceania.

Fluorine Division

- “Klea,” product brand for refrigerant gas containing fluorocarbons.
- “Zephex,” product brand for fluorocarbon propellants, which are used in medical inhalers.
- “Arcton,” product brand for refrigerant gases.

Research and development

Our proprietary production processes provide us with a competitive advantage over our global competitors. 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.”

Since the Wavin acquisition, we have a “state-of-the-art” research and development center and a pilot plant in Zwolle, Netherlands.

Employees

The following table shows our total number of employees during the periods indicated:

	As of June 30, 2014		2013		2012		2011	
	Number of Employees	%	Number of Employees	%	Number of Employees	%	Number of Employees	%
Unionized and temporary	10,476	60	10,224	59	11,347	64	6,456	58
Non-unionized	7,092	40	7,121	41	6,445	36	4,717	42
Total	17,568	100	17,345	100	17,792	100	11,173	100

As of December 31, 2013, approximately 59% 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.

Fiscal Reform

The Mexican government has, in recent years, implemented various changes to the tax laws applicable to Mexican companies, including us. In December 2013, the Mexican Government enacted various federal tax reforms that entered into effect on January 1, 2014. Among other changes, these reforms: (1) maintained a corporate income tax rate of 30%; (2) eliminated the corporate flat tax, or IETU; (3) imposed withholding taxes at a 10% rate on the payment of dividends and capital gains from the sale of shares by and to Mexican and foreign shareholders; (4) eliminated deductions previously allowed in respect of payments between related parties or certain foreign corporations; (5) limited the tax deductions for certain benefits paid to employees; (6) increased the value-added tax in certain areas of Mexico; and (7) increased the tax for mining activities.

Mining regulation

Under the provisions of Article 27 of Mexican Federal Constitution (*Constitución Política de los Estados Unidos Mexicanos*), all minerals located underground within the Mexican territory are owned by the Mexican nation, and private persons may only exploit such minerals under concessions granted by the Mexican Federal Government.

Our mining exploration and exploitation and its production operations are further regulated by the Mexican Mining Law (*Ley de Minas*), 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 and extended the maximum term of the mining concessions from 25 to 50 years during 2013. The Mexican Mining Law permits the issuance of a single mining concession for the performance of both exploration and exploitation activities. Pursuant to a recent reform of the Mexican Mining Law which became effective on January 1, 2014, all entities subject to a mining concession must pay a new mining royalty of 7.5% of the net profits derived by a concession holder from the sale or transfer of extraction activities. Profits for purposes of these royalties will be determined in a manner similar to the calculation of general taxable income— some interest and the annual inflation adjustments are not included in income and some deductions are unavailable for investments in fixed assets, interest and the annual inflation adjustment.

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—Risk factors related to our business and industry—Our concessions could be expropriated or revoked under Mexican law" and "Risk factors— Risk factors related to our business and industry—Our inability to renew our existing concessions would adversely affect us."

Other provisions related to mining activities

In addition to those provisions described above, the Mexican legal system contains many other provisions that are applicable to mining operations in Mexico, including, among others:

- the regulations to the Mining Law (*Reglamento de la Ley Minera*), published in the Federal Official Gazette (*Diario Oficial de la Federación*) on February 15, 1999, as amended;
- the National Waters Law (*Ley de Aguas Nacionales*), published in the Federal Official Gazette on December 1, 1992, as amended, and its regulations (*Reglamento de la Ley de Aguas Nacionales*), published in the Federal Official Gazette on January 12, 1994;
- the Federal Labor Law (*Ley Federal del Trabajo*), published in the Federal Official Gazette on April 1, 1970, as amended and NOM-023-STPS-2012, which is a regulatory provision regarding, among other matters, safety and health conditions in mines;
- the Federal Law of Fire Arms and Explosives (*Ley Federal de Armas de Fuego y Explosivos*), published in the Official Daily of the Federation on January 11, 1972, as amended, and its regulations;
- the General Law on Ecological Balance and Environmental Protection (*Ley General del Equilibrio Ecológico y la Protección al Ambiente*), published in the Federal Official Gazette on January 28, 1988, as amended, and certain regulations and standards derived thereunder;
- the Foreign Investment Law (*Ley de Inversión Extranjera*), published in the Federal Official Gazette, on December 27, 1993, as amended, and its regulations (*Reglamento de la Ley de Inversión Extranjera*), published in the Federal Official Gazette on 1 September 8, 1998;
- the Federal Law on Metrology and Standards (*Ley Federal Sobre Metrología y Normalización*), published in the Federal Official Gazette on July 1, 1992, as amended, and the regulations thereto; and
- the Federal Duties Law (*Ley Federal de Derechos*), published in the Federal Official Gazette on December 31, 1981, as amended.

Concession titles also provide for obligations applicable to the relevant concession holder. Additionally, a significant number of Mexican tax laws, rules, regulations and criteria are applicable to mining activities carried out in Mexico.

The concession system

Mining concessions grant rights to a mine as opposed to granting rights over the surface land where the concession is located. Holders of mining concessions are required to negotiate access to the land under which the mining concession is located with the respective surface land owner or holder or file an application with the General Bureau of Mines to obtain an easement or temporary occupancy of the land, as the case may be. Expropriation of land may occur under the Mexican Agrarian Law (*Ley Agraria*).

A person wishing to apply for a concession must first verify that the relevant land is not located within a federal mining reserve or an area covered by a concession currently in effect. An application for a concession must be filed with the General Bureau of Mines.

Types of mining concessions

As previously discussed mining concessions in Mexico have a term of 50 years from the date on which the relevant title is recorded in the Public Registry of Mining and are renewable for another 50 year term. Renewal of concessions must be requested within the five years prior to their expiration. As a matter of law, mining concessions will remain in full force and effect until the resolution of the renewal request has been issued.

A mining concession allows the concession holder to carry out the exploration, exploitation and processing of minerals, use water from the mine, request the temporary occupation or expropriation of land and transfer its rights under the concession, among other actions.

Principal requirements of concession holders

The Mining Law establishes that mining concessions may only be granted to Mexican individuals, *ejidos*, indigenous communities and companies incorporated under the laws of Mexico (whether controlled by Mexican or non-Mexican investors), whose corporate purpose includes the exploration and exploitation of minerals and which have their legal domicile in the Mexican territory.

Mexican companies that have foreign shareholders must be registered with the National Registry of Foreign Investments (*Registro Nacional de Inversiones Extranjeras*) of the Mexican Ministry of Economy and must file certain financial, corporate and economic information annually. Failure to comply with this obligation does not result in the imposition of any material penalties.

Obligations of concession holders

Holders of mining concessions are required to comply with various obligations, including but not limited to:

- starting and evidencing the start of exploitation or exploration works as provided in the Mining Law and regulations thereunder;
- paying mining concession fees or duties;
- complying with applicable safety and environmental provisions and standards;
- abstaining from removing permanent fortification works, shoring and other installations that are necessary for the stability and safety of the mines;
- providing the Mexican Ministry of Economy with statistical, technical and accounting reports, in the terms provided in the Mining Law and regulations thereunder;
- allowing inspection visits by officers of the Mexican Ministry of Economy;

- providing the Mexican Ministry of Economy with a geological-mining report when the relevant mining concession is cancelled due to expiration of its term, abandonment, substitution because of reduction in the size of the concession, infringement or judicial resolution; and
- providing the Mexican Geological Service, in the case of mining concessions granted through a bidding process, semi-annual reports regarding the project carried out and the production obtained in the lot covered by the mining concession, for purposes of controlling the payment of the finder's premium or any other monetary consideration payable to such entity.

The regulations to the Mining Law set forth minimum amounts that must be spent or invested on exploration and/or exploitation activities. A report must be filed in May each year regarding the assessment projects carried out in the preceding year. The mining authorities may impose fines on the concession holders if one or more proofs of project reports are not filed on time.

Termination of concessions

Mining concessions may be terminated in the following circumstances, among others:

- expiration of the term of the concession;
- abandonment request filed by the concession holder;
- substitution by new concessions as a result of changes to the surface area covered by the mining concession;
- resolution issued by a competent court; and
- breach of any of the terms of Article 55 of the Mining Law, namely:
 - i. use of a mining concession to carry out the exploitation of minerals or substances not covered by the Mining Law;
 - ii. failure to perform and to prove the assessment works contemplated by the Mining Law and its Regulations;
 - iii. failure to pay mining duties;
 - iv. failure to deliver to the Mexican Geological Service the biannual reports required under the Mining Law or to pay the finder's premium or any other monetary consideration payable; or
 - v. loss of the requisite legal capacity to be the holder of a mining concession.

Pursuant to the Mexican General National Assets Law (*Ley General de Bienes Nacionales*), concessions for the use and exploitation of national assets may be revoked by the government in the public interest or for national security reasons at any time upon payment of an indemnification to the holder of the concession. The amount of this indemnification is determined by taking into account the prior investments made by the concession holder and the depreciation of the equipment and facilities used exclusively in connection with the concession.

Water regulations

Mexican National Waters Law

The use of water in Mexico, in connection with our operations in Mexico, is regulated primarily by the Mexican National Waters Law (*Ley de Aguas Nacionales*).

In terms of the Mexican National Waters Law, and regulations issued thereunder, the authority and administration on water related matters is conferred to the Mexican Federal Government, which authority is exercised through the CNA, charged with overseeing the national system of water use, which is a subordinate agency of the Mexican Ministry of Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos*

Naturales). In general terms, the exploitation and use of national waters by individuals and legal entities may only be conducted pursuant to a concession granted by CNA.

Pursuant to the Mexican National Waters Law, to receive a concession for the use and exploitation of a specific volume of ground or surface water, the petitioner is required to demonstrate to the CNA, among others, the property and possession of the real estate in which the extraction of waters will be conducted, an environmental impact study, the plan for the construction to be performed or the characteristics of the existing infrastructure where the extraction and use of water will take place. Concessions for the exploitation and use of national waters have terms from five to thirty years. Once the concession is granted, the concession holder is entitled to exploit and use national waters within the authorized term, and the volume of water that such concession holder is entitled to exploit and use shall vary depending on the supply of groundwater in each region as projected by CNA. The Mexican government is authorized to reduce the usage of ground or surface water granted depending on the volume of water not used by the concession holder.

Termination of water concessions

Concessions for the exploitation of national waters may be terminated, among other reasons, if:

- the term of the concession title expires, unless such term has been extended;
- the information provided to the Mexican government in connection with the concession is false;
- the concession holder fails to pay required concession-related fees;
- the concession has been issued in contravention of the provisions contained in the National Waters Law and its applicable regulations; or
- the concession holder fails to totally or partially use or exploit national waters without the existence of a justified cause.

Additionally, the concession for the exploitation and use of national waters may be suspended when the concession holder:

- does not pay the applicable fees for such exploitation or use in accordance with the applicable laws;
- does not pay taxes related with such use or exploitation within a one year term;
- does not permit the Mexican government to exercise its inspection rights related to the resources or infrastructure used for the exploitation of the concession;
- discharges wastes that may affect drinking water sources or may affect the public health; or
- does not meet the terms and conditions set forth in the concession title.

The suspension will be in effect as long as the concession holder does not correct the default or a competent authority orders to stop the suspension.

Water concessions may also be expropriated for public policy reasons.

We hold several water concessions that are essential to our operations. We believe that we are currently in compliance with the terms of all of our water concessions and waste water disposal regulations.

Environmental laws

Our operating mines, development projects and prospects in Mexico are subject to Mexican federal environmental laws, and to regulations for the protection of the environment. The framework environmental statute in Mexico is the General Law on Ecological Balance and Environmental Protection (*Ley General del Equilibrio Ecológico y la Protección al Ambiente* or Environmental Protection Law), which is administrated by the Ministry of

Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales* or SEMARNAT) and enforced by PROFEPA.

Besides the Environmental Protection Law, there is additional relevant legislation which sets forth provisions applicable to mining activities, including the General Law for the Prevention and Integral Management of Waste (*Ley General para la Prevención y Gestión Integral de los Residuos*), the Regulations to the Environmental Protection Law on matters of Environmental Impact Evaluation, the National Waters Law (*Ley de Aguas Nacionales*), which regulates the use of ground and surface waters as well as wastewater discharges and the General Law for Sustainable Forestry Development (*Ley General de Desarrollo Forestal Sustentable*), among others. The National Waters Law is implemented and enforced by the CNA.

The development of mining activities is subject to obtaining several environmental permits from different offices within SEMARNAT. The most relevant authorizations are those on matters of (i) environmental impact and risk, (ii) forestry land use change and (iii) wastewater discharges. Also, the authorizations and permits obtained for the development of mining activities and mineral processing will be subject to the compliance with several conditions and covenants applicable to day to day operations.

Specifically, on matters of environmental impact, exploration activities must comply with the Mexican official standard NOM-120-SEMARNAT-2011, which provides for certain environmental protection requirements that must be observed in the development of mining exploration activities. This standard constitutes an exception to the obligation to submit an environmental impact statement for evaluation of SEMARNAT; however, concession holders are required to file a preventive report. For the exploration, exploitation and use of minerals, an environmental impact study must be filed and approved by SEMARNAT prior to the commencement of those activities.

The PROFEPA monitors compliance with environmental legislation and enforces federal Mexican environmental laws, regulations and official standards. If warranted, pursuant to the results of an inspection visit or prompted by public allegations, the PROFEPA may initiate administrative proceedings against companies that violate environmental laws which, in the most extreme cases, may result in the temporary or permanent closure of non-complying facilities, imposition of remedial or other clean-up and corrective measures, the revocation of operating licenses and/or other sanctions or fines. According to the Federal Criminal Code (*Código Penal Federal*), the PROFEPA must inform the relevant governmental authorities of any environmental crimes that are committed by a mining company in Mexico.

Mexican environmental regulations have become increasingly stringent over the last decade, and this trend is likely to continue and may be influenced by the international environmental agreements Mexico has ratified, including: (i) the North American Agreement on Environmental Cooperation (parallel to the North American Free Trade Agreement), (ii) the United Nations Framework Convention on Climate Change and (iii) the Convention on Biological Diversity, among others.

Health and safety regulations

The general regulatory framework for working conditions in Mexico is set forth in the Mexican Federal Labor Law (*Ley Federal del Trabajo* or the “Labor Law”).

Pursuant to the Federal Labor Law and regulations thereunder, all mines must implement a health and safety management system overseen by a supervisor nominated by the employer. Additionally, mining companies have the following obligations as employers:

- undertake the necessary plans, studies and analyses to ensure safe working conditions for employees;
- inform employees of work-related risks and health hazards and corresponding preventive measures;
- provide employees with necessary protective equipment required for the prevention of work-related risks, and provide all the required training in the use of such equipment;
- build and maintain ventilation and structural support systems in all underground facilities;

- implement control and monitoring systems to ensure that mining activities are performed in safe conditions;
- maintain a log and supervision method to permit the employer to identify workers located in the mine, as well as to control the entrance and exit of personnel; and
- refrain from employing minors.

All mine employees are entitled to refuse to work or exit the mine facilities if (i) the employer fails to provide necessary training on mining-related risks; (ii) the employees are not provided with the required safety equipment or with the necessary training on its use; or (iii) the employees identify situations which endanger their lives or physical safety or that of their co-workers.

Antitrust regulation

On May 23, 2014, the new Federal Economic Competition Act (*Ley Federal de Competencia Económica*) was published, which, among others, sets forth pre-merger notice obligations. Approval of the Mexican Economic Competition Commission (*Comisión Federal de Competencia Económica*) may be required for us to enter into significant acquisitions, dispositions or joint ventures. See “Summary—Recent acquisitions.” 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—Risk factors related to Mexico and the principal countries where we operate—Antitrust laws in Mexico and other countries in which we operate may limit our ability to expand our business.”

Energy reform

On December 20, 2013, the decree that amends and supplements various provisions of the Mexican Constitution relating to energy matters (*Decreto por el que se reforman y adicionan diversas disposiciones de la Constitución Política de los Estados Unidos Mexicanos, en Materia de Energía*, or the Energy Reform Decree) was published in the Federal Official Gazette, taking effect on December 21, 2013, which included transitional articles (*artículos transitorios*) that set forth the general framework for the secondary legislation or implementing laws that are required to give effect to the Energy Reform Decree (the Secondary Legislation). On April 30, 2014, President Enrique Peña Nieto submitted to the Mexican Congress draft bills proposing Secondary Legislation intended to implement provisions of the Energy Reform Decree, and, on August 11, 2014, President Enrique Peña Nieto enacted such bills. Further rules are expected to be enacted further detailing regulatory provisions of the Secondary Legislation within 180 days starting from August 11, 2014.

We describe below the key features of the Energy Reform Decree and the Secondary Legislation:

- *Continued ownership by Mexican nation.* Solid, liquid and gaseous hydrocarbons located in the subsoil of Mexico remain the exclusive property of the Mexican nation.
- *Private-sector participation.* The Mexican government will conduct the exploration and extraction of hydrocarbons in Mexico through assignments to productive state-owned companies referred to as “productive state enterprises” or through agreements entered into with productive state enterprises or with private-sector companies. As part of the Secondary Legislation, the Mexican Congress made the necessary adjustments to the legal framework regulating the contractual regime for hydrocarbons exploration and extraction activities, which may include the following contractual arrangements described in the Energy Reform Decree:
 - licenses, pursuant to which a license holder would be entitled to the hydrocarbons once these hydrocarbons are extracted from the subsoil;
 - production-sharing contracts, pursuant to which a contractor would be entitled to receive an agreed-upon percentage of hydrocarbons production;

- profit-sharing contracts, pursuant to which a contractor would be entitled to receive a percentage of the profit resulting from the sale of the extracted hydrocarbons; and
- service contracts, pursuant to which a contractor would receive cash payments for services performed.

The Mexican government will have the flexibility to combine elements of the contractual arrangements described above in an effort to maximize the income attributable to Mexico and help ensure its long-term development. In addition, the Energy Reform Decree specifies the general terms applicable to the process by which the Mexican government grants any such contract, which is required to be governed by rules that ensure transparency and effective supervision, and sets forth that information about such contracts, including payments made or taxes paid under any such contract, is required to be made publicly available. In addition to participation in upstream activities, private-sector companies will also be permitted to participate in midstream and downstream activities in the Mexican hydrocarbons industry, including refining, processing and transportation operations. These operations are to be governed by a legal framework that will involve the granting of permits by the Ministry of Energy (*Secretaría de Energía*) and the Energy Regulatory Commission (*Comisión Reguladora de Energía*) under the Hydrocarbons Law (*Ley de Hidrocarburos*). Pursuant to the Hydrocarbons Law, the Mexican government will have authority to grant assignments for hydrocarbons exploration and extraction activities to Pemex and contracts of the types described above under “Private-sector participation” to Pemex and to private-sector companies, including associations between Pemex and private-sector companies. In addition, the Hydrocarbons Law Bill establishes the new regulatory framework described above that will enable private-sector companies to obtain permits for midstream and downstream activities in the hydrocarbons sector in Mexico, including refining and natural gas processing.

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 to ensure 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, 2011, 2012 and 2013, 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. 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 HF 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 we 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 that 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. Prior to our acquisition, Wavin had already implemented various internal processes to monitor and reduce its carbon dioxide emissions, by 20% between 2008 and 2015, and we have already obtained a 14% reduction in emissions between 2008 and 2013. 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 and has entered into various partnerships with suppliers of recycled materials to share knowledge and to expand best practices with respect to its recycling programs. Wavin has been steadily increasing its use of recycled materials in our production processes in Europe.

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 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 of 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 that occurred during the periods indicated:

Disabling Workplace Accidents

Chains	Lost Time Injuries				Lost Days				Frequency Index "IF"		
	JUN 2013	JUN 2014	ACUM 2013	ACUM 2014	JUN 2013	JUN 2014	ACUM 2013	ACUM 2014	2012	2013	LAST 12 MONTHS {Jul 13 / Jun 14}
Vinyl – Compound	1	1	5	9	45	101	185	486	0.88	0.38	0.54
PMV	0	0	0	0	0	0	7	0	---	0	0
Fluorine	0	1	0	3	0	2	0	133	0.88	0.35	0.89
Fluorine Mines	2	4	9	17	75	92	306	380	5.12	1.72	2.18
Integral Solutions	12	8	55	54	228	198	1,583	1,374	1.70	1.35	1.27
Wavin	5	2	23	15	126	25	603	402	0.52	0.79	0.59
TOTAL MEXICHEM	20	16	92	98	474	418	2,677	2,775	1.36	1.02	1.00

Wavin applies quality assurance standards like ISO 9000 and 9001. Wavin also operates a 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, 2013 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
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

Company/Principal Assets	Size	Installed Capacity	Utilized Capacity (%)
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
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

Company/Principal Assets	Size	Installed Capacity	Utilized Capacity (%)
Storage silos.....	390 m ³	390 m ³	80.00
Mexichem Fluor			
San Luis Potosí plant (land)	14 ha	80,000 ton/mo	90.00
Villa de Zaragoza, San Luis Potosí Mine	5,310 ha	1,600,000 ton/yr	95.00
Electrohydraulic jumbos	3	25 m perf.	100.00
Dump trucks.....	4	40 ton	100.00
Crushing station	36x42 in; 42x48 in	350 ton ³ /hr; 93 ton ³ /hr	100.00
Benefit plant.....	66 floatation cells	792,000 tons/yr	90.00
Sulfur trioxide production division	1,100 ton	1,100 ton/day	78.00
Hydrofluoric acid reactor	100 ft & 10 ft d	110,000 ton/yr	98.00
HF II Plant	22,000 ton/yr	22,000 ton/yr	45.00
AIF3Plant.....	60,000 ton/yr	22,000 ton/yr	68.00
Mexichem Fluor, Inc.			
Manufacturing Plant of HFC134a.....	41,366 ton/yr	41,366 ton/yr	90.00
Mexichem UK Ltd.			
Cooling Water	2250 m ³ /hr	2250 m ³ /hr	24.67
HF	27000 tes	30000 tes	56.67
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	66.47
Fluorocarbon Destruction Facility	2,600 ton/yr	2,600 ton	45.83
Mexichem Fluor Taiwan			
Blending Facility.....	4,000 ton/yr	4,000 ton/yr	93.97
Repacking Facility.....	1,500 ton/yr	1,500 ton/yr	72.1
AlphaGary			
Leominster plant.....	135,000 ft ²	90 million lbs	80.00
Pineville plant	125,000 ft ²	75 million lbs	85.00
Melton Mowbray plant	110,000 ft ²	65 million lbs	85.00
Materials cellar.....	80,000 ft ²	-	-
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

(1) One hectare (HA) equals 10,000 square meters.

We believe that all of our production facilities are in good operating condition. At June 30, 2014, the consolidated net book value of our property, plant and equipment was \$3,321 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 2013. The amounts insured vary from subsidiary to subsidiary, but generally range between \$50.0 million and \$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 \$1.5 million and \$6.0 million.
- Third-party property damage and bodily injury insurance, in amounts ranging from \$10.0 million to \$50.0 million.
- Directors’ and officers’ liability insurance in the amount of \$20.0 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 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 Santiago Clariond Reyes Retana.....	August 10, 1943	Independent Director	2007

Antonio del Valle Ruiz holds a degree in Accounting from Escuela Bancaria Comercial and an MBA from Instituto Panamericano de Alta Dirección de Empresas (IPADE). He is our Honorary Chairman. In addition to his service on our Board of Directors and that of our subsidiaries, he is also a member of the boards of directors of the following companies: Elementia, S.A. de C.V., Grupo Financiero Ve por Más, Teléfonos de México, S.A. de C.V., Industrias Monterrey, S.A. de C.V., Axa Seguros, S.A. de C.V. (México), Escuela Bancaria y Comercial and Fundación ProEmpleo.

Juan Pablo del Valle Perochena holds a degree in Industrial Engineering from Universidad Anáhuac and an MBA from Harvard Business School. He has been a member of our Board of Directors since 2002, and, in April 2011, he was elected Chairman of our Board of Directors. In addition to his service on our Board of Directors and that of our subsidiaries, he is also a member of the boards of directors of Elementia, S.A. de C.V. and Kaluz, and participates in the following nonprofit associations: Advisory Committee of Harvard's David Rockefeller Center for Latin American Studies, board member of El Colegio de México trust, board member of Kaluz Foundation, board member of the Chairman's International Advisory Council of the Americas Society and board member of the José Limón Dance Foundation.

Antonio del Valle Perochena holds a degree in Business Administration from Universidad Anáhuac and a degree in Executive Education from IPADE. Currently, he is the CEO of Banco Ve por Mas, S.A. Institución de Banca Múltiple and the Chairman of the board of directors of Kaluz, our parent company. He participates in the following nonprofit associations: Instituto Nacional de Ciencias Médicas y Nutrición Salvador Zubirán, Museo San Ildefonso and Fundación El Peñón, A.C. He is also the President of the Probosque de Chapultepec Trust.

Francisco Javier del Valle Perochena holds a degree in Business Administration from Universidad Anáhuac. Currently, he is the Chairman of Elementia, S.A. de C.V. and Cofounder of SAE Institute Latin America Chapter. In addition to his service on Elementia's and our Boards of Directors, he is also a member of the boards of directors of the following companies: Grupo Pochteca, S.A.B. de C.V., Cuprum, S.A. de C.V., MeXvi, S.A. de C.V., Grupo Casanueva Pérez, Banco Nacional de México, S.A. de C.V. He is also a member of the Advisory Board, the Communications Board and the Development Council of Universidad Anáhuac.

Adolfo del Valle Ruíz holds a degree in Accounting from Escuela Bancaria Comercial and has a degree in Business Administration from IPADE. He is the Chairman of Grupo Creatica, S.A. de C.V.

Ignacio del Valle Ruíz holds a degree in Accounting from Escuela Bancaria Comercial and has a degree in Business Administration from IPADE. He is the Chairman of Vialcoma, S.A. de C.V. In addition to his service on Vialcoma's board of directors, he is also a member of the boards of directors of the following companies: Fincomún Servicios Financieros, S.A. de C.V., Grupo Bepana, S.A. de C.V. and Inmobiliaria Pabellón Altavista, S.A. de C.V.

Ricardo Gutiérrez Muñoz holds a degree in Accounting from Instituto Politécnico Nacional and an MBA from Universidad La Salle. He has been a member of our Board of Directors since 2000. He currently serves as President of our Executive Committee, after having been our CEO for 15 years. He is also a member of the boards of directors of the following companies: Bolsa Mexicana de Valores, S.A.B. de C.V., Banco Ve por Más, S.A. de C.V., Promotora de Industrias Zano, S.A. de C.V., Cinépolis de México, S.A. de C.V. (Organización Ramírez), Empresas ICA, S.A.B. de C.V. and Grupo Aeroportuario del Centro Norte, S.A. de C.V.

Jaime Ruíz Sacristán holds a degree in Business Administration from Universidad Anáhuac and an MBA from Northwestern University. He is the founder and Chairman of the board of directors of Banco Ve por Más, S.A. de C.V. since July 2003. He served as President of the Asociación Mexicana de Bancos during the period 2011-2012. He is also a member of the boards of directors of the following companies: North Community Bank of Chicago, Controladora Comercial e Industrial, S.A. de C.V., Inmobiliaria CCI, S.A. de C.V., CCI Servicios, S.A. de C.V., Desarrolladora Aqse, S.A. de C.V. and Combustibles del Bajío, S.A. de C.V.

Divo Milán Haddad holds a law degree from Escuela Libre de Derecho. He is the CEO of the following companies: Grupo C.I.N., Investigación Estratégica, Pro-Invest, Promotora ECO, Servicios de Comercio Electrónico, DAB-Invest and Dimmag. He is a member of the boards of directors of the following companies: Inmobiliaria del Norte, Grupo C.I.N. Pro-Invest (Commercial Real Estate), Plus Mil (Residential Real Estate), Círculo de Crédito (Risk Qualifier), Círculo Laboral, Grupo Aradam, New Dawn Mining, NetCapital, Banco Ve por Más, S.A. de C.V. and Elementia, S.A. de C.V.

Fernando Ruíz Sahagún holds a degree in Accounting from Universidad Nacional Autónoma de México (UNAM). He is the Cofounder of Chevez, Ruiz, Zamarripa & Cía, S.C., a Mexican tax advisory firm. He is a member of the following associations: Colegio de Contadores Públicos de México, Instituto Mexicano de Contadores Públicos, A.C., Instituto Mexicano de Ejecutivos de Finanzas and the International Fiscal Association (IFA). He is also a professor of tax matters in IPADE and the Universidad Panamericana. He is also the tax advisor for the Consejo Mexicano de Hombres de Negocios. He is a member of the boards of directors or audit committees of the following companies: Bolsa Mexicana de Valores, S.A.B. de C.V., Elementia, S.A. de C.V., Fresnillo PLC, Grupo Cementos de Chihuahua, S.A.B. de C.V., Grupo Financiero Santander, S.A.B. de C.V., Grupo Palacio de Hierro, S.A.B. de C.V., Grupo Pochteca, S.A.B. de C.V., San Luis Corporación, S.A.B. de C.V., Arcelor Mittal México, S.A. de C.V., Arcelor Mittal Las Truchas, S.A. de C.V., Corporación Scribe, S.A.P.I. de C.V. and S.D. Indeval, S.A. de C.V.

Jorge Corvera Gibsone holds a degree in Accounting from Universidad Autónoma de Guadalajara, a masters in Agricultural Business from Harvard University, a masters in Textile Technology from the Philadelphia College of Textiles and an MBA from IPADE. He is the Chairman of the board of directors of Super Ruedas, S.A. de C.V. and Area, S.A. de C.V. He is also the Chairman and CEO of Grupo ECO, S.A. de C.V., Tejidos y Acabados Industriales, S.A. de C.V., Impresora de Formas Modernas, S.A. de C.V., Meltex, S.A. de C.V. and Cía. Industrial de Lonas, S.A. de C.V.

Guillermo Ortiz Martínez holds a degree in Economics from UNAM and a Ph. D. in Economics from Stanford University. He worked as governor of Banco de México and he was appointed as minister of the Mexican Treasury Ministry. Currently, he is the president of the Board of Director of Grupo Financiero Banorte. He is also a member of the G30, the Center for Financial Stability, the SWIFT Institute and the Global Financial Regulation. He is also a member of the boards of directors of the following companies: Zurich Insurance Group Ltd., Wetherford International, Aeropuertos del Sureste, Grupo Comercial Chedraui and Vitro, S.A.B. de C.V.

Eduardo Tricio Haro holds a degree in Agriculture Engineering from the Instituto Tecnológico de Estudios Superiores de Monterrey (ITESM). He is the Chairman of Grupo Lala, S.A.B. de C.V. and Grupo Aeroméxico, S.A.B. de C.V. He is a member of our Board of Directors and the boards of directors of Grupo Financiero Banamex,

S.A.B. de C.V., Televisa, S.A.B. de C.V., Grupo Industrial Saltillo, S.A.B. de C.V., Grupo Porres, S.A. de C.V., Nuplen Alimentos, S.A. de C.V., Envases Elopak, S.A. de C.V. and Aura Solar, S.A. de C.V. He is also the Vice President of Consejo Mexicano de Hombres de Negocio. Mr. Tricio participates in the following nonprofit associations: Hospital Infantil de México “Federico Gómez,” Instituto Nacional de Cancerología, Instituto Nacional de Ciencias Médicas y Nutrición “Salvador Zubirán,” the Woodrow Wilson Institute, Mexicanos Primero, The Latin American Conservation Council of the Nature Conservancy and the U.S. Mexico Foundation, among others.

Juan Beckmann Vidal holds a degree in Accounting and an MBA from ITESM. He is the Chairman and a shareholder of several Mexican companies, including, among others, José Cuervo and its subsidiaries, Grupo JB and its subsidiaries, Grupo Financiero Banamex, S.A.B. de C.V. and Grupo Peñoles. He also is a member of Consejo Mexicano de Comercio Exterior, Consejo Mexicano de Hombres de Negocios, A.C., and Instituto Mexicano para la Competitividad, A.C., (IMCO). He also participates in the following nonprofit associations: Asociación de Adopte una Obra de Arte, A.C., Antiguo Colegio de San Ildefonso, Museo Nacional de Arte, A.C. (MUNAL), Museo Dolores Olmedo, Museo de San Carlos, Papalote Museo del Niño, Fondo Mexicano para la Conservación de la Naturaleza, A.C., Asociación a Favor de lo Mejor, A.C., Hospital Infantil de México “Federico Gómez”, Operation Smile, Instituto Tecnológico de Monterrey en el Distrito Federal and Fundación Cuervo.

Valentín Díez Morodo holds a degree in Business Administration from the Universidad Iberoamericana and a master’s degree in Marketing from Michigan University. He is a member of the boards of directors of the following companies: AB InBev, Kimberly Clark, S.A.B. de C.V., Grupo Aeroméxico, S.A.B. de C.V., Grupo Financiero Banamex, S.A. de C.V., Grupo Kuo, S.A.B. de C.V., Grupo Dine, S.A.B. de C.V., Grupo México, S.A.B. de C.V., OHL México, S.A.B. de C.V., ProMéxico, Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT), Telefónica México, S.A. de C.V. and Zara México, S.A. de C.V. He serves as President of the Consejo Mexicano de Comercio Exterior (COMCE) and President of the Bilateral Committee for Mexico and Spain and Inversión y Tecnología, A.C. He is also a member of the Consejo Mexicano de Hombres de Negocios, A.C., Instituto Mexicano para la Competitividad, A.C. (IMCO) and Consejo Empresarial Hispano Mexicano (CEHIME) in Madrid, Spain.

Eugenio Santiago Clariond Reyes Retana holds a degree in Business Administration and an MBA from ITESM. He is the Chairman of Grupo Cuprum, Grupo Cieber, Grupo FMC Capital, Mexichem Amanco Holding, S.A. de C.V., Johnson Controls, Inc., Texas Industries, Inc. and Grupo Industrial Saltillo. He participates in the following nonprofit associations: President of the Consejo de Fondo de Agua Metropolitano de Monterrey, President of the USA-Mexico Committee of COMCE, ITESM, Consejo TEC Salud, Instituto Mexicano para la Competitividad (IMCO) and Consejo Mexicano de Hombres de Negocio, A.C. He is also a member of the Business Administration Advisory Committee of the University of Texas and a member of the Engineering College of the University of California.

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, María de 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. 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, Controladora GEK, S.A. de C.V., Elementia, S.A. de C.V., Grupo Financiero Ve por Más, S.A. de C.V., Banco Ve por Más, S.A. de C.V., Grupo Pochteca, S.A.B. de C.V., Casa de Bolsa Ve por Más, S.A. de C.V., Casa de Bolsa Arka, S.A. de C.V. and Fundación Kaluz, A.C. constitute our related parties.

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, 2014. 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, Juan Pablo del Valle Perochena, 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.

Corporate practices committee

As set forth in the Mexican Securities Market Law, our corporate practices committee is required to: (1) provide opinions to the Board of Directors; (2) request and obtain opinions from independent third-party experts; (3) call shareholders' meetings; (4) provide assistance to the Board of Directors in the preparation of annual reports; and (5) provide reports 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 directors.

Audit committee

Our audit committee's principal role is to: (1) supervise our external auditors; (2) analyze the external auditors' reports; (3) inform the Board of Directors in respect of existing internal controls; (4) supervise the execution of related party transactions; (5) require our officers to prepare reports when necessary; (6) inform the Board of Directors of any irregularities that the audit committee encounters; (7) supervise the activities of our CEO; and (8) provide an annual report to the Board of Directors. Our audit committee currently consists of Fernando Ruíz Sahagún, Divo Milán Haddad and Eugenio Santiago 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
Rodrigo Guzmán Perera	March 8, 1972	Chief Financial Officer
Juan Francisco Sánchez Kramer.....	May 12, 1969	Director of Investor Relations
Álvaro Soto González.....	May 27, 1971	General Counsel
Enrique Ortega Prieto.....	November 6, 1965	Director of PMV
Andrés Múgica Jimenez de la Cuesta.....	June 2, 1965	Director of the Fluorine Division
Carlos Manrique Rocha.....	December 4, 1955	Director of the Chlorine-Vinyl Division
Victor Oscar Aguilera Rey.....	January 27, 1960	Director of the Integral Solutions Division LATAM
Marteen Roef	February 23, 1964	Chief Executive Officer of Wavin

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 Infra, 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.

Rodrigo Guzman Perera holds a degree in Business Administration from Instituto Tecnológico Autónomo de México (ITAM) and a masters in Global Business Administration pursuant to a joint degree between Thunderbird School of Global Management and ITESM. He has been with us for one year. He has over 20 years of experience in the financial sector, especially in tax strategies, controlling costs and risk management. Before joining us, Mr. Guzman served as Chief Financial Officer of Grupo Aeroportuario del Pacífico and Grupo Unión Fenosa.

Juan Francisco Sánchez Kramer is an industrial engineer and has a postgraduate in Marketing and Strategic Business Development from Universidad del Valle de México, ITESM and Universidad Iberoamericana. He has been with us for 19 years. He has experience in different areas such as sales, strategic, financial and operation planning, supply chain, investor relations and mergers and acquisitions. He is currently responsible for investor communications and relations.

Álvaro Soto González holds a law degree from Universidad Panamericana. He joined us in 2011 as the Fluorine Division Legal Manager. Since 2013, he has served as our General Counsel and is responsible for managing and overseeing all of our legal matters. He has over 20 years of experience in private practice and, before joining us, he served as Associate Counsel in the law firm Cacheaux, Cavazos & Newton.

Enrique Ortega Prieto holds a degree in Chemical Engineering from Universidad de las Americas and a master's degree in Business Administration in International Business from ITESM. He has been with us for 23 years. He was formerly the director of our strategic planning and investor relations from 2005 to 2014. Since 2014, he has served as our PMV Director.

Andrés Múgica Jiménez de la Cuesta holds a degree in Industrial Engineering from Universidad Anáhuac and an MBA from Universidad Iberoamericana. He has been recently appointed as our Director of the Fluorine Division.. He has over 20 years of experience the automotive, cement and renewable energy industries, among others. He has worked at various companies prior to joining us, including Grupo Apasco and Enerland Group in Mexico and Tata-Hispano in Spain and Morocco.

Carlos Manrique Rocha holds a degree in Chemical Engineering from Universidad Autónoma de Puebla and a postgraduate degrees in Business Management from IPADE and Process Statistical Control from ITESM. He has been with us for over 30 years and has served as the Director of the Integral Solutions Division since 2011.

Victor Oscar Aguilera Rey holds an Electrical Engineering degree, as well as a master's degree in Management. He has been with us for 22 years and has served as the Director of the Latin America Integral Solutions Division since February 2011.

Marteen Roef has been with Wavin since 1999, first as the Managing Director of the export organization of Wavin Overseas, subsequently as the Managing Director of Wavin Benelux, then as the Managing Director of North West Europe and finally as the Executive Vice President of the Management Board. He has been the Chief Executive Officer of Wavin since 2013.

Compensation of directors and officers

We estimate that the aggregate annual compensation for our nine principal executives and 21 other officers is approximately \$10.8 million. Our directors' compensation was determined at the general annual shareholders' meeting held on April 29, 2014. Each of the Chairman of the Board and the President of the audit and corporate practices committees receive Ps. 140,000.00 (approximately \$10,656.84) per session attended. All other directors receive Ps. 70,000.00 (approximately \$5,328.42) per session attended, except those attending audit and corporate practices committees sessions which receive Ps. 80,000.00 (approximately \$6,089.62) per session attended.

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 5.0% 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.....	886,801,383	42.2
Shareholders related to the controlling group	293,735,126	14.0
Subtotal	1,180,536,509	56.2
Public shareholders	919,463,491	43.8
Total.....	2,100,000,000	100.0

Members of the del Valle family control approximately 56.2% of our outstanding voting capital stock, 42.2% of which is held by means of their holdings in Kaluz. 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 43.8% of the outstanding voting capital stock are publicly held.

The members of the del Valle family that are shareholders of Kaluz 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 us grant their holders the same voting rights. Consequently, our majority shareholders 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% premium in excess of the costs described above. We have paid \$8.0 million to Kaluz as of June 30, 2014 in connection with this agreement.

Mexichem Fluor donates \$152,000 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 as of December 31, 2013, 2012 and 2011:

Related Party Balances	As of December 31,		
	2013	2012	2011
	(Thousands of dollars)		
Due from related parties:			
Pochteca Materias Primas, S.A. de C.V.....	2,476	2,765	4,499
Elementia, S.A. de C.V.....	3,082	4,848	352
Controladora GEK, S.A. de C.V.	32	200	111
Eternit Colombiana, S.A.....	526	98	49
Other.....	5,052	615	139
Total revenues.....	11,168	8,526	5,150
Due to related parties:			
Kaluz, S.A. de C.V.....	1,361	34,831	26,223
Plaza Azcapotzalco, S.A. de C.V.*	—	55	601
Fundación Kaluz, A.C.*	152	935	—
Other.....	97	1,542	39
Total expenses.....	1,610	37,363	26,863

* Entities controlled directly or indirectly by Kaluz, our principal shareholder, or its shareholders.

DESCRIPTION OF NOTES

We will issue the Notes under an indenture to be entered into 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 the 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 is a summary of the material provisions of the Notes and the indenture. You should refer to the indenture for a complete 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:

- will be our senior unsecured obligations (subject to certain obligations that are preferred by statute);
- will initially be limited to an aggregate principal amount of \$750,000,000;
- will mature at 100% of their principal amount on September 17, 2044;
- will be issued in denominations of \$200,000 and integral multiples of \$1,000 in excess thereof;
- will be represented by one or more registered notes in global form and may be exchanged for notes in definitive form only in limited circumstances; and
- will be guaranteed by the following Subsidiaries: (i) Mexichem Brasil Industria de Transformação Plastica Ltda. (ii) Mexichem Derivados, S.A. de C.V.; (iii) Mexichem Resinas Vinílicas, S.A. de C.V.; (iv) Mexichem Flúor, 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.; (x) Mexichem Ecuador, S.A.; and (xi) Mexichem Flúor Comercial, S.A. de C.V. (collectively, the “Subsidiary Guarantors”). As of and for the six months ended June 30, 2014, the Subsidiary Guarantors (in addition to Mexichem, on a stand-alone basis) accounted for 52.3% of our total assets and 56.3% of our EBITDA on a consolidated basis.

Interest on the Notes:

- will accrue at a fixed rate of 5.875% per annum;
- will accrue from the date of issuance or, if interest has already been paid, from the most recent interest payment date;
- will be payable in cash, semi-annually in arrears on March 17 and September 17 of each year, commencing on March 17, 2015;
- will be 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
- will be 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 will be payable, and the transfer of Notes will be 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 Market, we will maintain a paying agent and transfer agent in Luxembourg.

Ranking of notes and guarantees

The Notes will constitute our direct senior unsecured obligations. If we were to issue any debt other than the Notes, the Notes would 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 will 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 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 Notes 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 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 will be 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, 2014, we and the Subsidiary Guarantors had \$2,073 million of total indebtedness, none of which is secured debt, and \$130 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 of 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 interest 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 efforts 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 our 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 will be in registered form without coupons attached in amounts of \$200,000 and integral multiples of \$1,000 in excess thereof.

Notes sold in offshore transactions in reliance on Regulation S will be represented by one or more 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 will be represented by one or more 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 will be 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 will pass by registration in the register. The registered 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

The Notes will be redeemable in 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 the 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 45 basis points plus 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 are to be redeemed, the Notes 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 the Notes, at our option, in whole, but not in part, upon the giving of a notice of redemption to the holders, 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 and not later than 60 days after, 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 Notes were then due.

Before giving any notice of redemption as described in the preceding clauses, we will deliver an officers' 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 officers' 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 the Notes will have the right to require us to purchase all or a portion of their Notes (in integral multiples of \$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 each of 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 Market 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 \$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 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 166, Section II, paragraph (a) of the Mexican Income Tax Law (*Ley del Impuesto 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 166, 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.

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 will contain 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, including any judgment Lien not otherwise resulting in an Event of Default and any deposits to secure surety and appeal bonds with respect to judgments, 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 Comercio Exterior (BANCOMEXT)*, *Banco Nacional de Obras y Servicios Públicos*, *Sociedad Nacional de Crédito*, *Institución de Banca de Desarrollo (BANOBRA)*, *Nacional Financiera*, *Sociedad Nacional de Crédito*, *Institución de Banca de Desarrollo (NAFIN)*, 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 of our obligations under the 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 of the obligations of such Subsidiary Guarantor under the 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 may conclusively rely on 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 and opinions of counsel).

Events of default

An "Event of Default" under the Notes will occur if:

(a) we fail to pay interest (including any related Additional Amounts) on the Notes within 30 days from the due date;

(b) we default in the payment of principal (including any related Additional Amounts) on the 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 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 \$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 \$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 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 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 Notes until the trustee or the holders of at least 25% in principal amount of the Notes then outstanding, 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 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 such an authorized officer of 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) occurs and is continuing, the trustee or the holders of not less than 25% in principal amount of the Notes then outstanding may declare all unpaid principal of and accrued interest on the 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 occurs and is continuing, then the principal of and accrued interest on all Notes 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 has occurred and is 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 provided to the trustee indemnity and/or security 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 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 the 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 the 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 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 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 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 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 the Notes;
- (b) reduce the principal, or extend the Stated Maturity, of the Notes;
- (c) reduce the amount payable upon redemption of the Notes or change the time at which the Notes may be redeemed;
- (d) change the currency for, or place of payment of, principal or interest on the Notes;
- (e) impair the right to institute suit for the enforcement of any payment on or with respect to the Notes;
- (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 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 the Notes, or any defect therein, will not impair or affect the validity of the amendment.

The consent of the holders of the 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 the Notes, amend or supplement the indenture or the Notes for the following purposes:

- (a) to cure any ambiguity, omission, defect or inconsistency or to conform the text of the indenture or the Notes to any provision in this “Description of Notes”; *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 depositary, 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 Market 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 the *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 the 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 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 will be governed by, and construed in accordance with, the laws of the State of New York.

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, and will irrevocably and unconditionally waive its rights to any other jurisdiction that may apply by virtue of its present or future domicile or for any other reason. We and the Subsidiary Guarantors have appointed CT Corporation System at 111 Eighth Avenue, New York, New York 10011, as our authorized agent upon which process may be served in any such action and have granted a notarized special irrevocable power of attorney for lawsuits and collections (*pleitos y cobranzas*), granted in accordance with Mexican law, appointing CT Corporation System as its authorized process agent.

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. For the sake of clarity, all Additional Amounts will be deemed a payment of interest for purposes of Mexican tax law.

“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, including an arrangement conveying the right to use real or personal property, 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 the 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 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 fair market value of such property or assets as determined by such person in good faith or the aggregate unpaid 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., Antonio del Valle Ruíz, Adolfo del Valle Ruíz, Ignacio del Valle Ruíz, Francisco Javier del Valle Perochena, Antonio del Valle Perochena, Juan Pablo del Valle Perochena, María Guadalupe del Valle Perochena, María Blanca del Valle Perochena or any Related Party of any thereof and (2) any Person owned (through at least 51% ownership of the voting stock or beneficial interests in such Person) directly or indirectly by one or more of the Persons specified in clause (1) of this definition.

“Fitch” means Fitch Ratings and its successors and assigns.

“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 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.

“Moody’s” means Moody’s Investors Service, Inc. and its successors and assigns.

“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 Company 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 J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and Santander Investment Securities Inc., 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, *sociedad*, limited liability company, 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

The following summary of certain Mexican federal and United States federal income tax considerations contains a description of the principal Mexican federal and United States federal income tax consequences of the purchase, ownership and disposition of the Notes, but does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Notes. This summary does not describe any tax consequences arising under the laws of any state, locality or foreign taxing jurisdiction other than the United States and Mexico.

This summary is based on the tax laws of Mexico and the United States in effect on the date of this offering memorandum (including the tax treaty described below), as well as on rules and regulations of Mexico and regulations, rulings and decisions of the United States available on or before such date and now in effect.

All of the foregoing is subject to change, which change could apply retroactively and could affect the continued validity of this summary.

Prospective purchasers of the Notes should consult their own tax advisors as to the Mexican, United States or other tax consequences of the purchase, ownership and disposition of the Notes, including, in particular, the application to their particular situations of the tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

Mexican Tax Considerations

The following is a general summary of the principal consequences under the Mexican Mexican Income Tax Law (*Ley del Impuesto sobre la Renta*) and rules and regulations thereunder, as currently in effect, of the purchase, ownership and disposition of the Notes by a holder that is not a resident of Mexico and that will not hold Notes or a beneficial interest therein in connection with the conduct of a trade or business through a permanent establishment in Mexico (a “foreign holder”).

For purposes of Mexican taxation, tax residency is a highly technical definition that involves the application of a number of factors. Generally, an individual is a resident of Mexico if he or she has established his or her home in Mexico, and a corporation is considered a resident if it has established in Mexico its principal place of business management or its effective seat of business management. However, any determination of residence should take into account the particular situation of each person or legal entity.

U.S./Mexico and Other Tax Treaties

The United States and Mexico have entered into a Convention for the Avoidance of Double Taxation (collectively, with subsequent Protocols thereto, referred to as the “tax treaty”). Provisions of the tax treaty that may affect the taxation of certain United States holders are summarized below. The United States and Mexico have also entered into an agreement that covers the exchange of information with respect to tax matters. Mexico has also entered into and is negotiating several other tax treaties that may reduce the amount of Mexican withholding tax to which payments of interest on the Notes may be subject. Prospective purchasers of the Notes should consult their own tax advisors as to the tax consequences, if any, of such treaties.

Payments of Interest, Principal and Premium in Respect of the Notes

Under the Mexican Income Tax Law, payments of interest we make in respect of the Notes (including payments of principal in excess of the issue price of such Notes, which, under Mexican law, are deemed to be interest) to a foreign holder will generally be subject to a Mexican withholding tax assessed at a rate of 4.9% if (1) the Notes are placed through banks or brokerage houses (*casas de bolsa*) in a country with which Mexico has entered into a tax treaty for the avoidance of double taxation, which is in effect, (2) the CNBV has been notified of the issuance of the Notes pursuant to the Mexican Income Tax Law and Article 7 of the Mexican Securities Market Law, and (3) the information requirements specified in the general rules of the *Secretaría de Hacienda y Crédito Público* (Ministry of Finance and Public Credit, or SHCP) are satisfied. In case such requirements are not met, the applicable withholding tax rate will be 10%. We believe that because the conditions described in (1) through (3) above will be satisfied, the applicable withholding tax rate will be 4.9%.

A higher income tax withholding rate will be applicable when a party related to us, jointly or individually, directly or indirectly, is the effective beneficiary of more than 5.0% of the aggregate amount of payments treated as interest on the debt securities, as set forth in the Mexican Income Tax Law.

Under the Mexican Income Tax Law, payments of interest we make with respect to the Notes to a non-Mexican pension or retirement fund generally will be exempt from Mexican withholding taxes, provided that: (1) the fund is the effective beneficiary of such interest income; (2) the fund is duly established pursuant to the laws of its country of origin; and (3) the relevant interest income is exempt from taxation in such country. This exemption on interest income may be subject to the foreign pension or retirement funds providing certain information prior to the relevant interest payment, as provided by Mexican Income Tax Law and its administrative rules.

We have agreed, subject to specified exceptions and limitations, to pay additional amounts to the holders of Notes in respect of the Mexican withholding taxes mentioned above. If we pay additional amounts in respect of such Mexican withholding taxes, any refunds of such additional amounts will be for our account. See “Description of Notes—Additional amounts.”

Holders or beneficial owners of the Notes may be requested to provide certain information or documentation necessary to enable us to establish the appropriate Mexican withholding tax rate applicable 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 provided on a timely basis, our obligations to pay additional amounts may be limited as set forth under “Description of Notes—Additional amounts.”

Under the Mexican Income Tax Law, any payments of principal that we make to a foreign holder of the Notes will not be subject to any Mexican withholding or similar taxes.

Taxation of Disposition of Notes

The application of the Mexican Income Tax Law provisions to capital gains realized on the disposition of the Notes by foreign holders is subject to several factors. However, we expect that no Mexican tax will be imposed on transfers of Notes between foreign holders effected outside of Mexico, to the extent that such holders do not have a permanent establishment in Mexico. Conversely, if one of the parties is a Mexican resident or a non-resident with a permanent establishment in Mexico, Mexican taxation on the capital gains may be triggered, which would not be withheld by us. Therefore, holders of the Notes should consult their own tax advisors as to the Mexican tax consequences derived from the disposition of the Notes, as well as to the tax treaty benefits available, if any.

Other Mexican Taxes

A foreign holder will not be liable for estate, gift, inheritance or similar taxes with respect to its holdings of Notes. There are no Mexican stamp, issue registration or similar taxes payable by a foreign holder with respect to the Notes.

Certain U.S. Federal Income Tax Considerations

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 that may be 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 (or partners therein) or other pass-through entity for U.S. federal income tax purposes; or
- a tax-exempt entity.

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 and any Additional Amounts paid pursuant to the obligations described under “Description of Notes—Additional amounts.” 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.

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 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 generally equal the cost of your Note. 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, if any, will generally be U.S.-source income for purposes of computing your foreign tax credit limitation. Accordingly, if Mexican or other withholding tax is imposed on the sale or disposition of a Note, a U.S. person may not be able to fully utilize its U.S. foreign tax credits in respect of such withholding tax unless such U.S. person has other foreign-source income. Prospective investors should consult their own tax advisors as to the U.S. tax and foreign tax credit implications of such sale, redemption, retirement or other taxable disposition of a Note.

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

BBVA Securities Inc., J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and Santander Investment Securities Inc. are acting as the representatives of the initial purchasers.

Subject to the terms and conditions stated in the purchase agreement, dated September 9, 2014, 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 Notes
BBVA Securities Inc.	\$187,500,000
J.P. Morgan Securities LLC	\$187,500,000
Morgan Stanley & Co. LLC	\$187,500,000
Santander Investment Securities Inc.	\$187,500,000
Total	\$750,000,000

Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed to purchase all of the Notes 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. The initial purchasers may offer and sell the notes through certain of their respective affiliates.

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 the 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 the 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 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 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 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

The Notes will constitute a new issue of securities. 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. 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. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes 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

We expect that delivery of the Notes will be made to investors on or about September 17, 2014, which will be the sixth business day following the date of this offering memorandum (such settlement being referred to as “T+6”). Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the delivery of the Notes hereunder will be required, by virtue of the fact that the Notes initially settle in T+6, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisors.

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. 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. In particular, J.P. Morgan Securities LLC or its affiliates acted as financial advisor in connection with our proposed acquisition of Vestolit.

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. As required under the Mexican Securities Market Law (*Ley del Mercado de Valores*), 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 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 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 purchasers have 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.

Notice to Prospective Investors in Chile

The offer of the Notes is subject to General Rule No. 336 of the SVS. The Notes being offered will not be registered under the Securities Market Law in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the Notes are not subject to the supervision of the SVS. The Notes being unregistered securities, we are not required to disclose public information about the Notes in Chile. In case that the Notes are offered within Chile, they will be offered and sold only pursuant to General Rule No. 336 of the SVS (an exemption to the registration requirements in the Securities Registry), or in circumstances which would not constitute a public offering of securities in Chile within the meaning of Article 4 of the Chilean Securities Market Law. The commencement date of this offering is the one contained in the cover page of this offering memorandum. Accordingly, the Notes cannot and will not be offered or sold to persons in Chile

unless they are registered in the corresponding securities registry, except in circumstances which have not resulted and will not result in a public offering under Chilean law and in compliance with General Rule No. 336 of the SVS.

La oferta de los bonos se acoge a la Norma de Carácter General N°336 de la SVS. Si dichos valores son ofrecidos dentro de Chile, serán ofrecidos y colocados sólo de acuerdo a lo establecido en la Norma de Carácter General 336 de la SVS (una excepción a la obligación de inscripción en el Registro de Valores), o en circunstancias que no constituyan una oferta pública de valores en Chile según lo definido por el Artículo 4 de la Ley de Mercado de Valores. La fecha de inicio de la presente oferta es la indicada en la portada de este offering memorandum.

Notice to Prospective Investors in Peru

The Notes have not been and will not be approved by or registered with the Peruvian securities regulatory authority, the Superintendency of the Securities Market (*Superintendencia del Mercado de Valores*). However, application will be made to have the Notes registered with the Superintendency of Banking, Insurance and Private Pension Funds (*Superintendencia de Bancos, Seguros y Administradoras Privadas de Fondos de Pensiones*) in order to be sold in private placement transactions addressed to Peruvian institutional investors such as Peruvian private pension funds.

Notice to Prospective Investors in Colombia

The Notes may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Decree 2555 of 2010 to offer privately the Notes to their Colombian clients.

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 (“non-U.S. purchasers,” which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for non-U.S. beneficial owners (other than an estate or trust)), in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

As used herein, the terms “offshore transaction,” “United States” and “U.S. person” have the respective meanings given to them in 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 (or a non-U.S. purchaser that is a dealer or other fiduciary as referred to above);
- (2) it acknowledges that the Notes have not been registered under the Securities Act or with any securities regulatory authority of any U.S. state, that the Notes are being offered in a transaction that does not involve any public offering in the United States within the meaning of the Securities Act and that the Notes 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 will not be required to accept for registration of transfer any Notes acquired by us, except upon presentation of evidence satisfactory to us that the restrictions set forth herein in this section have been complied with;

(9) if it is a non-U.S. purchaser acquiring a beneficial interest in a Regulation S Note offered pursuant to this offering memorandum, it acknowledges and agrees that, until the expiration of the 40 day “distribution compliance period” within the meaning of Regulation S, any offer, sale, pledge or other transfer shall not be made by it in the United States or to, or for the account or benefit of, a U.S. person, except pursuant to Rule 144A to a QIB taking delivery thereof in the form of a beneficial interest in a U.S. Note;

(10) 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

(11) 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 U.S. Securities Act of 1933, as amended (the “Securities Act”), or any state or other 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.”

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global notes and certificated notes, see “Description of Notes.”

Other Jurisdictions

The distribution of this offering memorandum and the offer and sale or resale of the Notes may be restricted by law in certain jurisdictions. Persons into whose possession this offering memorandum comes are required by us and the initial purchasers to inform themselves about and to observe any such restrictions.

GENERAL INFORMATION

Clearing systems

The Notes have been accepted for clearance and settlement by Euroclear and Clearstream Luxembourg. In addition, application has been made to have the Notes accepted for trading in book-entry form by DTC. For the Rule 144A Notes, the ISIN number is US59284BAE83, the CUSIP number is 59284BAE8 and the common code number is 111290571. For the Regulation S Notes, the ISIN number is USP57908AF58, the CUSIP number is P57908AF5 and the common code number is 111127352.

Listing

Application has been made to the Luxembourg Stock Exchange for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF market. 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 that 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 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 to, and the receipt by, the CNBV of such notice does not imply any certification as to the investment quality of the Notes 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 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 17, 2014, 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, 2014.

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

We are a publicly traded stock corporation with variable capital (*sociedad anónima bursátil de capital variable*) that was incorporated on June 30, 1978 in Mexico City, Federal District, Mexico, under the laws of Mexico with duration of 99 years, registered before the Mexican Public Registry of Commerce under folio number 4,103. Our executive offices are located at Río San Javier No.10, Fraccionamiento Viveros del Río, Tlalnepantla, Estado de México, México, C.P. 54060.

Subsidiary guarantors

The Notes will be guaranteed by the following subsidiaries of the issuer:

- (i) Mexichem Brasil Industria de Transformação Plastica Ltda., a limited liability company (*sociedade limitada*) incorporated under the laws of Brazil on December 4, 1997 with an indefinite duration;
- (ii) Mexichem Derivados, S.A. de C.V., a *sociedad anónima de capital variable* incorporated under the laws of Mexico on March 9, 1956 with a duration of 99 years from the date of incorporation;
- (iii) Mexichem Resinas Vinílicas, S.A. de C.V. , a *sociedad anónima de capital variable* incorporated under the laws of Mexico on February 20, 1965 with a duration of 99 years from the date of incorporation;
- (iv) Mexichem Flúor, S.A. de C.V. , a *sociedad anónima de capital variable* incorporated under the laws of Mexico on July 8, 1971 with a duration of 100 years from the date of incorporation;
- (v) Mexichem Resinas Colombia, S.A.S., a *sociedad por acciones simplificada*, incorporated under the laws of Colombia on January 14, 1963 with an indefinite duration;
- (vi) Mexichem Soluciones Integrales, S.A. de C.V., a *sociedad anónima de capital variable* incorporated under the laws of Mexico on December 22, 1961 with a duration of 99 years from the date of incorporation;
- (vii) Mexichem Compuestos, S.A. de C.V., a *sociedad anónima de capital variable* incorporated under the laws of Mexico on December 15, 2006 with a duration of 99 years from the date of incorporation;
- (viii) Mexichem UK Limited, a private company limited by shares incorporated under the laws of England on November 26, 2009;
- (ix) Mexichem Fluor, Inc., a corporation incorporated under the laws of the State of Delaware on January 22, 2010 with a perpetual existence;
- (x) Mexichem Ecuador, S.A. a stock company incorporated under the laws of Ecuador on March 12, 1958 with a duration of 100 years from the date of record before the Commercial Registry;
- (xi) Mexichem Flúor Comercial, S.A. de C.V., a *sociedad anónima de capital variable* incorporated under the laws of Mexico on November 5, 1968 with a duration of 99 years from the date of incorporation;

The address of the subsidiary guarantors is Río San Javier No.10, Fraccionamiento Viveros del Río, Tlalnepantla, Estado de México, México, C.P. 54060.

LEGAL EXPERTS

The validity of the Notes will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP, New York, New York and for the initial purchasers by Davis Polk & Wardwell LLP, New York, New York. Certain Mexican legal matters will be passed upon for us by Bufete Robles Miaja, S.C., Mexico City, Mexico and for the initial purchasers named herein by Creel, García-Cuellar, Aiza y Enriquez, 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, 2013, 2012 and 2011 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 herein.

The unaudited condensed consolidated interim financial statements of Mexichem, S.A.B. de C.V. and its subsidiaries as of June 30, 2014 and for the six and three months ended June 30, 2014 and 2013 included in this offering memorandum have been reviewed by Galaz, Yamazaki, Ruíz Urquiza, S.C. (member of Deloitte and Touche Tohmatsu Limited), independent auditors, as stated in their report appearing herein.

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

**Independent Auditors' Interim Review Report and
Condensed Consolidated Interim Financial Statements
(Unaudited) as of June 30, 2014 and for the Six and
Three Months Ended June 30, 2014 and 2013**

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

We have performed a review of the accompanying interim condensed consolidated financial statements of Mexichem, S.A.B. de C.V. and Subsidiaries (the Entity), as composed by the condensed consolidated statements of financial position at June 30, 2014, and the condensed consolidated statements of profit or loss and other comprehensive income for the six and three months ended June 30, 2014 and 2013 and changes in stockholders' equity and cash flows for the six-month periods ended on June 30, 2014 and 2013, as well as a summary of the significant accounting policies and other explanatory information.

Entity's Management's responsibility for the interim condensed consolidated financial statements

Entity's Management is responsible for preparing and presenting these interim condensed consolidated financial statements according to International Accounting Standard 34, "Interim Financial Reporting" (IAS 34).

Independent Auditors' responsibility

We performed our review according to International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. As the scope of a review is substantially less than that of an audit conducted in accordance with International Standards on Auditing and consequently does not allow us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

As a result of our review, which cannot be considered as an audit of the Entity's accounts, we are not aware of any issue that would lead us to conclude that the interim condensed consolidated financial statements do not fairly present, in all material respects, the financial position of Mexichem, S.A.B. de C.V. and Subsidiaries at June 30, 2014, together with its financial performance and cash flows for the six and three months ended June 30, 2014 and 2013, according to the requirements of IAS 34.

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

C.P.C. Luis Javier Fernández Barragán

August 21, 2014

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

Condensed Consolidated Interim Statements of Financial Position

As of June 30, 2014 (Unaudited) and December 31, 2013
(Thousands of U.S. dollars)

	Notes	June 30, 2014 (Unaudited)	December 31, 2013
Current assets:			
Cash and cash equivalents		\$ 1,043,673	\$ 1,232,561
Accounts receivable, Net	5	1,338,562	1,032,726
Due from related parties		5,525	11,168
Inventories, Net	6	815,369	728,805
Prepaid expenses		55,462	27,537
Derivative financial instruments	7	3,677	-
Assets classified as held for sale		<u>12,946</u>	<u>20,181</u>
Total current assets		<u>3,275,214</u>	<u>3,052,978</u>
Non-current assets:			
Property, plant and equipment, Net	8	3,321,606	3,152,748
Investment in shares of associated entity		31,400	33,381
Other assets, Net		78,291	72,639
Deferred income taxes		122,313	125,357
Intangible assets, Net	9	1,184,060	1,208,186
Goodwill		<u>558,519</u>	<u>536,513</u>
Total non-current assets		<u>5,296,189</u>	<u>5,128,824</u>
Total assets		<u>\$ 8,571,403</u>	<u>\$ 8,181,802</u>

See accompanying notes to condensed consolidated interim financial statements.

OF KALAMAZOO, OHIO, INC.,

ed Condensed Consolidated Statements of Profit and Loss and Other prehensive Income

as ended June 30, 2014, and 2013, and the three months ended in June 30, 2014, and 2013
S. dollars except shares and earnings (loss) per share expressed in U.S. dollars)

	Notes	Six months ended June 30, 2014	Six months ended June 30, 2013	Three months ended June 30, 2014	Three months e June 30, 2013
ions:					
	14	\$ 2,782,557	\$ 2,569,529	\$ 1,455,028	\$ 1,353,000
		<u>2,037,111</u>	<u>1,772,533</u>	<u>1,052,259</u>	<u>933,000</u>
		745,446	796,996	402,769	420,000
shed goods purchased		-	67,462	-	27,000
		<u>-</u>	<u>66,853</u>	<u>-</u>	<u>27,000</u>
		-	609	-	-
profit		<u>745,446</u>	<u>797,605</u>	<u>402,769</u>	<u>420,000</u>
ppment expenses		325,065	321,115	165,143	161,000
enses		139,886	127,848	69,332	65,000
amortization		53,174	51,799	26,931	25,000
income)		(32,070)	(37,295)	(16,208)	(24,000)
		(8,278)	(13,538)	(2,505)	(47,000)
		39,498	29,175	36,850	30,000
		85,679	91,230	43,248	44,000
		(19,593)	(33,610)	(7,951)	(15,000)
loss		5,277	6,466	4,077	5,000
of associated entity		<u>(2,172)</u>	<u>(1,588)</u>	<u>(2,272)</u>	<u>(1,000)</u>
efore income taxes		158,980	256,003	86,124	177,000
se		<u>54,257</u>	<u>93,383</u>	<u>32,773</u>	<u>66,000</u>
or the period from continuing operations		104,723	162,620	53,351	111,000
ations:					
ntinued operations, Net	13	<u>(615)</u>	<u>(13,685)</u>	<u>(1,057)</u>	<u>(5,000)</u>
dated profit for the period	14	104,108	148,935	52,294	105,000
ive income (loss):					
ot be reclassified subsequently to profit or loss:					
and equipment revaluation		24,776	269,601	19,677	269,000
s recognized during the year		(1,411)	(1,433)	(706)	(0)
		(8,001)	(89,669)	(5,670)	(89,000)
classified subsequently to profit or loss:					
ferences on translating foreign operations		48,726	(86,443)	16,704	113,000
on cash flow hedging instruments		14,038	(30,011)	19,186	(34,000)
		<u>(4,170)</u>	<u>8,703</u>	<u>(5,703)</u>	<u>10,000</u>
		<u>73,958</u>	<u>70,748</u>	<u>43,488</u>	<u>268,000</u>

Profit for the year:				
Entity	\$	103,068	\$	144,467
g interests		<u>1,040</u>		<u>4,468</u>
	\$	<u>104,108</u>	\$	<u>148,935</u>
Profit attributable to:				
Entity	\$	177,292	\$	213,726
g interests		<u>774</u>		<u>5,957</u>
	\$	<u>178,066</u>	\$	<u>219,683</u>
Per share:				
g operations	\$	<u>0.05</u>	\$	<u>0.08</u>
ed operations		<u>0.00</u>		<u>(0.01)</u>
nd diluted earnings per share	\$	<u>0.05</u>	\$	<u>0.07</u>
Weighted average common shares outstanding		<u><u>2,100,000,000</u></u>		<u><u>2,100,000,000</u></u>

(Conclude

g 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 Ch

For the six months ended June 30, 2014 and 2013

(Thousands of U.S. dollars)

	<u>Paid-in capital</u>				
	<u>Common stock</u>				
	Nominal	Additional paid-in capital	Cumulative effect of restatement	Retained earnings	Proper and ec reva
Balances as of December 31, 2012	\$ 256,482	\$ 1,708,376	\$ 23,948	\$ 776,838	\$
Purchase of shares	-	9,163	-	-	
Increase in buy back shares program reserve	-	-	-	(81,454)	
Consolidated profit for the period	-	-	-	144,467	
Other comprehensive income (loss) of the period	-	-	-	(1,003)	
Balances as of June 30, 2013 (Unaudited)	<u>\$ 256,482</u>	<u>\$ 1,717,539</u>	<u>\$ 23,948</u>	<u>\$ 838,848</u>	<u>\$</u>
Balances as of December 31, 2013	\$ 256,482	\$ 1,709,628	\$ 23,948	\$ 681,921	\$
Purchase of shares	-	(2,772)	-	-	
Increase in buy back shares program reserve	-	-	-	(137,708)	
Noncontrolling equity derived from increase capital	-	-	-	103,068	
Consolidated profit for the period	-	-	-		
Other comprehensive income (loss) of the period	-	-	-	(988)	
Balances as of June 30, 2014 (Unaudited)	<u>\$ 256,482</u>	<u>\$ 1,706,856</u>	<u>\$ 23,948</u>	<u>\$ 646,293</u>	<u>\$</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 Interim Statements of Cash Flows

For the six months ended June 30, 2014 and 2013
(Thousands of U.S. dollars)

	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash flows from operating activities:		
Consolidated profit for the period	\$ 104,108	\$ 148,935
Adjustments for:		
Income tax expense	54,257	93,383
Loss from discontinued operations	615	13,685
Net labor obligation (gain) cost	(2,515)	6,707
Depreciation and amortization	195,002	155,746
Gain on sale of fixed assets	(104)	(784)
Gain exchange	(3,253)	(25,288)
Equity in income of associated entity	(2,172)	(1,588)
Interest received	(19,593)	(33,610)
Interest expense	85,679	91,230
	<u>412,024</u>	<u>448,416</u>
Changes in working capital:		
(Increase) decrease in:		
Accounts receivable	(317,766)	(136,960)
Inventories	(92,979)	35,418
Other assets	(15,995)	(2,002)
Increase (decrease) in:		
Suppliers	121,788	(59,138)
Related parties	5,782	(15,685)
Other liabilities	3,877	(17,601)
Financial instruments	(14,815)	18,101
Interest received	19,593	33,610
Cash flows from discontinued operations	6,620	(10,496)
Net cash provided by operating activities	<u>128,129</u>	<u>293,663</u>
Cash flows from investing activities:		
Acquisition of machinery and equipment	(205,066)	(139,227)
Proceeds from sale of machinery and equipment	7,495	31,354
Trade investments	-	250,000
Investments in available-for sale securities	-	(63,661)
Investments in other assets	(5,652)	-
Acquisition of subsidiaries, net of cash acquired	-	(250,154)
Net cash used in investing activities	<u>(203,223)</u>	<u>(171,688)</u>

(Continued)

	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash flows from financing activities:		
Borrowings	73,300	294,202
Loan repayments	(38,761)	(298,878)
Interest paid	(87,134)	(97,692)
Dividends paid	-	(40,202)
Purchase of shares	<u>(45,616)</u>	<u>(53,444)</u>
Net cash used in financing activities	(98,211)	(196,014)
Adjustment to cash flows due to exchange rate fluctuations	<u>(15,583)</u>	<u>8,150</u>
Net decrease in cash and cash equivalents	(188,888)	(65,889)
Cash and cash equivalents at beginning of the period	<u>1,232,561</u>	<u>1,395,197</u>
Cash and cash equivalents at end of the period	<u>\$ 1,043,673</u>	<u>\$ 1,329,308</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, 2014 (Unaudited) and for the year ended December 31, 2013
(Thousands of U.S. dollars)

1. Activities

Mexichem, S.A.B. de C.V. and subsidiaries (the Entity or Mexichem), whose main address and place of business is disclosed in the introduction of the annual report, is an entity that holds the shares of a group of entities located in American, Europe and some in Asia. The Entity is engaged in the production and sale of chemical and petrochemical products as well as pipes and fittings. The Entity's main products are: chlorine, caustic soda, ethylene, vinyl chloride monomer (VCM), resins and compounds of polyvinyl chloride (PVC), extractions of fluorspar, hydrofluoric acid and refrigerant gases, pipes and fittings of PVC, polyethylene and polypropylene as well as geo-synthetics. Currently, the strategic position of the Entity focuses on the chemical sector through three productive chains: chlorine-vinyl, fluorine and integral solutions (mainly pipes and fittings).

2. 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, 2014 and for the three and six months ended June 30, 2014 and 2013 have not been audited. In the opinion of Entity's 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 Entity and their respective notes for the year ended December 31, 2013.

- b. **Consolidated financial statements** - The condensed consolidated interim financial statements incorporate the financial statements of Mexichem, S.A.B. de C.V. and entities it controls (its subsidiaries). Significant intercompany balances and transactions have been eliminated in these consolidated financial statements.

Equity in the results and changes in net worth of the subsidiaries purchased or sold during the year are included in the condensed consolidated interim 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 Entity establishes the prices for the products it sells with reference to international market prices. The Mexican, European 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, Europe and Latin America and the ongoing integration of regional and world markets for commodities. Net sales and gross margins are increasingly linked to global industry conditions that the Entity cannot control. The Entity is particularly sensitive to economic cycles affecting the construction, infrastructure and agriculture industries.
- 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 Entity that conform with IAS 34 may not conform with accounting principles generally accepted in the country of use.
- e. **New and revised IFRS affecting amounts reported and/or disclosures in the financial statements**

Beginning January 1, 2014, the Entity adopted the following new IFRS:

- i. **Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities** - Amends IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

Applicable to annual periods beginning on or after January 1 2014.

- ii. **Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets** - The

Amendments to IAS 36 Impairment of Assets reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures requirements, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

Applicable to annual periods beginning on or after 1 January 2014.

- iii. **Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting** -

Amends IAS 39 Financial Instruments: Recognition and Measurement to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations

Applicable to annual periods beginning on or after January 1 2014.

iv. Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

Amends IAS 19 Employee Benefits to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognized as a reduction in the service cost in the period in which the related service is rendered.

Applicable to annual periods beginning on or after July 1 2014.

v. Annual improvements 2011-2013 Cycle - Makes amendments to the following standards:

- **IFRS 3** - Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
- **IFRS 13** - Clarify the scope of the portfolio exception in paragraph 52
- **IAS 40** - Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

Applicable to annual periods beginning on or after July 1 2014.

The applications of IFRS above have not had any material impact on the amounts recognized in the condensed consolidated interim financial statements.

f. New and revised IFRS issued but not yet effective

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

i. IFRS 9 Financial Instruments (2014)

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- **Classification and measurement.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Effective for annual period beginning on or after January 1 2018.

- ii. IFRS 15 Revenue from Contracts with Customer** - IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.
The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

Applicable to an entity's first annual IFRS financial statements for a period beginning on or after January 1 2017.

- iii. ***Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations -***
Amends IFRS 11 *Joint Arrangements* to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 *Business Combinations*) to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11
- disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).

Applicable to annual periods beginning on or after January 1 2016.

- iv. ***Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization***

Amends IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to:

- clarify that a depreciation method is based on revenue that is generated by an activity which includes the use of an asset is not appropriate for property, plant and equipment
- introduce a rebuttable presumption that an amortization method based on the revenue generated by an activity which includes the use of an intangible asset is inappropriate, but can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated
- add guidance in the view that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

The Entity is evaluating the impact of the adoption of these standards on this consolidated financial information.

3. Summary of significant accounting policies

The accounting policies and methods of computation are consistent with the audited consolidated financial statements for the year ended December 31, 2013.

4. Business combinations

- a. **Business acquisitions** - On March 25, 2013, Mexichem reached an agreement with PolyOne to acquire 100% of its special PVC resin operations in the United States, where it has two production plants and one research and development center. This acquisition had an approximate value of \$250 million, which was recorded using the acquisition method. The results of that business have been included in the accompanying consolidated financial statements from the date of the acquisition.

With the aforementioned acquisition, Mexichem continues its strategy to provide greater value to its basic raw materials, integrating specialties in its product portfolio strengthening its position in the America and its global footprint

- b. **Consideration transferred**

	2013	Cash
PolyOne		<u>\$ 250,154</u>

The expenses associated with the acquisition have been excluded from the consideration transferred and have been recognized as an expense in the period within "other (income) expenses" in the consolidated statements of profit or loss and other comprehensive income.

- c. **Assets acquired and liabilities assumed at the date of acquisition**

	2013	PolyOne
Assets:		
Accounts receivable		\$ 15,295
Inventories		8,185
Property, plant and equipment		77,739
Identified intangible assets		105,500
Liabilities:		
Suppliers and other accounts payable		<u>(21,252)</u>
Total net assets		<u>\$ 185,467</u>

- d. **Goodwill on acquisition**

	2013	Consideration transferred	Value of the net assets acquired	Goodwill
PolyOne		<u>\$ 250,154</u>	<u>\$ 185,467</u>	<u>\$ 64,687</u>

Goodwill generated from the acquisition 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.

Unaudited pro forma consolidated statements of profit or loss and other comprehensive income for the period ended as of June 2013 is presented below, considering the financial position of the acquire as if it shall have occurred on January 1, 2013. This pro forma information does not necessarily present the figures that might have been obtained if they have been occurred on that date.

Condensed statements of comprehensive income	As of June 2013 Pro forma (Unaudited figures)	
Net sales	\$	2,630,383
Cost of sales		(1,816,943)
Other operating expenses		(468,811)
Exchange gain, Net		(15,637)
Interest expense, Net		(57,620)
Monetary position loss		(6,466)
Equity taxes		-
Equity in the results of associated entity		1,588
Income taxes		(93,383)
Discontinued operations		(13,685)
Consolidated profit for the year		<u>159,426</u>
Other comprehensive income (loss):		
Items that will not be reclassified subsequently to profit or loss:		
Property, plant and equipment revaluation		269,601
Actuarial losses recognized during the year		(1,433)
Income taxes		<u>(89,669)</u>
		178,004
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations		(86,443)
Valuation of financial instruments		(30,011)
Income taxes		<u>8,703</u>
		<u>(107,151)</u>
Other comprehensive income for the year		<u>70,253</u>
Total consolidated comprehensive income for the period		<u>\$ 229,679</u>

5. Accounts receivable

	As of June 30, 2014	As of December 31, 2013
Customers	\$ 1,245,717	\$ 932,510
Less - Allowance for doubtful accounts	<u>31,174</u>	<u>35,733</u>
	<u>1,214,543</u>	<u>896,777</u>
Other	<u>124,019</u>	<u>135,949</u>
	<u>\$ 1,338,562</u>	<u>\$ 1,032,726</u>

	As of June 30, 2014	As of December 31, 2013
goods	\$ 526,177	\$ 498,110
materials	221,280	183,988
in progress	62,989	43,804
tools	<u>41,086</u>	<u>36,623</u>
	851,532	762,525
allowance for obsolete and slow-moving inventory	<u>36,163</u>	<u>33,720</u>
	<u>\$ 815,369</u>	<u>\$ 728,805</u>

financial instruments

instruments that were entered into during 2014 were as follows:

Derivative Instruments		As of June 30, 2014				
		Beginning date	Ending date	Notional amount	Interest rate paid /Exchange rate fixed	Interest rate /Exchange rate
that fixes the interest rate						
change rate	HSBC	23/January/2014	05/March/2021	USD 112'612,613	4.62% / 13.3200	3.57% /
(USDMXN FX)	BNP Paribas	14/February/2014	15/January/2015	USD 24,000,000	13.5005	13.0
(USDMXN FX)	JP Morgan	21/February/2014	21/January/2015	USD 18,000,000	13.5025	13.0
(USDMXN FX)	Morgan Stanley	11/June/2014	31/July/2015	USD 51,000,000	13.5200	13.0
that sets the exchange rate	Santander	25/March/2014	09/July/2014	USD 3'000,000	2.37%	2.2

plant and equipment

	As of June 30, 2014	As of December 31, 2013
Cost:		
	\$ 403,639	\$ 397,070
Buildings	1,104,672	1,071,567
Furniture and equipment	4,444,525	4,223,340
Leasehold improvements and fixtures	155,065	150,568
Intangible assets	44,549	44,328
Construction in-progress	<u>366,862</u>	<u>302,595</u>
Total investment	6,519,312	6,189,468
Accumulated depreciation:		
Buildings	519,046	494,266
Furniture and equipment	2,536,521	2,408,801
Leasehold improvements and fixtures	132,047	124,678
Intangible assets	<u>13,229</u>	<u>12,046</u>
Total accumulated depreciation	<u>3,200,843</u>	<u>3,039,791</u>
Net book value for sale	<u>3,137</u>	<u>3,071</u>

9. Intangible assets

	Useful life	As of June 30, 2014	As of December 31, 2013
Non - compete agreements	5	\$ 25,902	\$ 36,100
Customer portfolio	15	635,329	661,686
Use of trademark	Indefinite	354,449	329,899
Intellectual property	10	126,351	129,408
Non solicitation	2	<u>42,029</u>	<u>51,093</u>
		<u>\$ 1,184,060</u>	<u>\$ 1,208,186</u>

10. Bank loans and long-term debt

	As of June 30, 2014	As of December 31, 2013
Summary of agreements of loans in U.S. dollars, Euros, Colombian pesos and Yen:		
Issuance of an International Bond for the amount of \$750 million, which accrues semiannual interest at the fixed 4.875% rate. Principal will be settled through a single payment at maturity on September 19, 2022.	\$ 750,000	\$ 750,000
Issuance of an International Bond for the amount of \$400 million, which accrues semiannual interest at the fixed 6.75% rate. Principal will be settled through a single payment at maturity on September 19, 2042.	400,000	400,000
Rabobank		
Revolving credit line of 200 million Euros, which accrues quarterly interest at the Euribor/Libor/Wibor /Pribor rate plus a maximum of 4.0% and a minimum of 1.65%. Principal will be settled through a single payment at maturity on April 16, 2015.	63,261	38,908
Issuance of \$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; in September 2012, the amount of \$267.1 million was prepaid.	82,882	82,882
BBVA Houston		
Unsecured loans documented with promissory notes of \$78 million and \$62 million which bear monthly interest at a rate of Libor plus 2.60 %. Principal is repaid quarterly with maturity in December 2014. In September 2012, the outstanding loan balance of \$62 million was paid.	9,750	19,500
Mizuho Corporate Bank		
Unsecured loan documented with a promissory note of 2,700 billion Yen that bear quarterly interest at a fixed rate of 2.17%. The principal is paid in 6 semiannual payments from June 2014.	21,304	25,668
Overdraft line for 30.2 million Euros, which accrues interest at the 2.51% rate.	33,684	1,626
Others	12,048	6,740

	As of June 30, 2014	As of December 31, 2013
Loans in Mexican pesos:		
Securitization certificates of 4,500 million Mexican pesos that bear monthly interest at the TIIE rate plus 0.60% basis points. Principal matures on September 2, 2016 in a single payment.	345,296	344,129
Securitization certificate for 3,000 million Mexican pesos bearing interest each semester at a fixed rate of 8.12%. Principal on these loans is settled on March 9, 2022 in a single payment.	230,197	229,419
HSBC		
Unsecured loans of 2,500 million Mexican pesos documented with promissory notes, which bear quarterly interest at the TIIE rate plus 1.50 %. On March 15, 2012 increased the amount borrowed by 2,000 million Mexican pesos. Principal is repaid quarterly beginning January 2013 and matures in October 2015. On March 2013 was prepaid by 1,329.9 million Mexican pesos.	39,032	52,443
Bancomext		
Loan for 3,069 million Mexican pesos which bear interest at the TIIE rate plus 0.825. Principal is amortized each semester from March 5, 2016, due in February 2021. On March 2013 was prepaid by 1,850.2 million Mexican pesos.	<u>235,526</u> 2,222,980	<u>234,730</u> 2,186,045
Less: Current portion of bank loans and current portion of long-term debt	(70,778)	(62,121)
Less: Debt issuance costs	<u>(19,980)</u>	<u>(20,838)</u>
	<u>\$ 2,132,222</u>	<u>\$ 2,103,086</u>

Long-term debt matures as follows as of June 30, 2014:

Payable during-

2015	\$ 75,486
2016	392,542
2017	41,360
2018	41,360
2019	122,768
2020 and thereafter	<u>1,458,706</u>
	<u>\$ 2,132,222</u>

At June 30, 2014, the Entity's financing establishes certain restrictions, which have been complied with and are calculated based on consolidated financial statement figures for the Entity, the most significant of which are as follows:

- a. Certain restrictions regarding the application of new liens.
- b. 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 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.

11. Stockholders' equity

Paid-in capital

At June 30, 2014 and December 31, 2013, common stock consists of 2,100,000,000 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 and capital as of those dates, is as follows:

	Number of shares	Amount
Capital subscribed-		
Class I	308,178,735	\$ 37,598
Class II	<u>1,791,821,265</u>	<u>218,884</u>
	<u>2,100,000,000</u>	<u>\$ 256,482</u>

Basic earnings per share are equal to the diluted earnings per share because the Entity does not have potential shares that may result in the dilution of earnings per share.

12. Transactions with related parties

The Entity carried out transactions during the ordinary course of business at market values.

13. Discontinued operations

To adjust to current market conditions during 2013 the Entity began a restructuring process in the Fluorine chain, which is presented as discontinued operations.

Below is a summary of the financial information related to discontinued operations:

	At June 2014	At June 2013
Income	\$ 242	\$ 11,720
Costs of sales	(135)	(29,126)
General expenses includes impairment of assets	(1,317)	(3,046)
Financial costs	(54)	(375)
Income tax	<u>649</u>	<u>7,142</u>
Net loss from discontinued operations	<u>\$ (615)</u>	<u>\$ (13,685)</u>

Information is presented according to the production chains, which are grouped according to the integration of their raw materials; the Entity's operating decisions are made based on such information for purposes of assigning resources and assessing the performance of each segment.

The operating segments are composed of the Chlorine – Vinyl, Fluorine and Integral Solutions chains. The Chlorine – Vinyl chain includes the production of chlorine, caustic soda, chlorinated materials, mainly used to purify water, and PVC resins and compounds used to manufacture tubes, fittings, materials for various industries; the Fluorine chain includes the extraction of fluorite, the production of hydrofluoric acid and refrigerant gases. Fluorspar used in the cement, steel, ceramic, glass, where the hydrochloric acid used for the production of refrigerant gases that are used in the chemical industry.. Integral Solutions chain includes the production of PVC and geo-synthetic pipes and fittings, which are used to handle and transport fluids, mainly water, in the construction and agricultural

The following is a summary of the most significant line items of the condensed consolidated interim financial statements for each business operating chain:

		June 30, 2014				
		Vinyl - Chlorine	Fluorine	Integral solutions	Holding entity	Eliminations
Assets		\$ 3,655,025	\$ 1,359,612	\$ 6,638,722	\$ 4,260,131	\$ (7,332,469)
Liabilities		\$ 998,831	\$ 339,903	\$ 1,568,789	\$ 12,429	\$ (1,919,952)
Operating profit for the period		\$ 31,800	\$ 45,921	\$ 31,619	\$ (5,232)	\$ -
		June 30, 2013				
		Vinyl - Chlorine	Fluorine	Integral solutions	Holding entity	Eliminations
Assets		\$ 2,688,089	\$ 1,452,836	\$ 6,195,687	\$ 4,253,802	\$ (6,939,314)
Liabilities		\$ 886,336	\$ 373,330	\$ 1,500,557	\$ 13,327	\$ (2,773,550)
Operating profit for the period		\$ 117,865	\$ 68,573	\$ 28,452	\$ 83,252	\$ (1,000,000)
		Three months ended June 30, 2014				
		Vinyl - Chlorine	Fluorine	Integral solutions	Holding entity	Eliminations
Assets		\$ 3,655,025	\$ 1,359,612	\$ 6,638,722	\$ 4,260,131	\$ (7,332,469)
Liabilities		\$ 511,229	\$ 180,914	\$ 824,719	\$ 6,630	\$ (1,523,512)
Operating profit for the period		\$ 13,229	\$ 25,422	\$ 16,362	\$ (3,940)	\$ -
		Three months ended June 30, 2013				
		Vinyl - Chlorine	Fluorine	Integral solutions	Holding entity	Eliminations
Assets		\$ 2,688,089	\$ 1,452,836	\$ 6,195,687	\$ 4,253,802	\$ (6,939,314)
Liabilities		\$ 463,790	\$ 189,499	\$ 801,031	\$ 6,460	\$ (1,460,780)
Operating profit for the period		\$ 85,566	\$ 24,566	\$ 48,544	\$ (96,360)	\$ (1,000,000)

15. Subsequent event

Supporting Mexichem's strategy of global growth and its vertical integration in specialties with higher margin:

- a. On August 4, 2014, Mexichem announced that signed a definitive agreement to acquire Vestolit, the Europe's sixth largest PVC manufacturer, from Strategic Value Partners LLC for a total of 219 million Euros in cash that includes some assumed liabilities. The acquisition is subject to regulatory approvals and is expected to close in the fourth quarter of 2014. At that point, Mexichem will consolidate Vestolit under its Chlorine-Vinyl chain.
- b. On August 18, 2014, Mexichem reached an agreement with the private equity firm CHS Capital to acquire Dura-Line for a total of \$630 million in cash that includes some assumed liabilities. The operation will enable Mexichem to enter the business of high density Polyethylene (HDPE) pipes, specialized in serving the telecom sector, and with production assets based in North America, India, Oman, Europe, and South Africa. The acquisition is subject to regulatory approvals and is expected to be closed in coming weeks. At that point, Mexichem will consolidate Dura-Line under its Integral Solutions chain.

16. Financial statement issuance authorization

The issuance of the condensed consolidated interim financial statements for the six month ended June 30, 2014, was authorized on August 21, 2014 by Rodrigo Guzman Perera, Chief Financial Officer. Consequently, the accompanying consolidated 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.)

**Independent Auditors' Report
and Consolidated Financial Statements 2013, 2012 and
2011**

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 "Entity"), which comprise the consolidated statements of financial position as of December 31, 2013, 2012, 2011 and the consolidated statements of profit or loss and other 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, as issued by the International Accounting Standards Board, 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.

Independent auditors' 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 risks 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 present fairly, in all material respects, the financial position of Mexichem, S.A.B. de C.V. and Subsidiaries as of December 31, 2013, 2012 and 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Emphasis paragraph

As discussed in Note 2a, the Entity's management decided to change the reporting currency of its financial statements in 2013 from the Mexican peso to the U.S. dollar. Consequently, the financial statements for the years ended December 31, 2012 and 2011 have been prepared in such currency to make them comparable with those of 2013. Previously, the financial statements as of December 31, 2012 and 2011, and for the years then ended, had been prepared and reported in Mexican pesos. The effect of the change is shown in Note 3a.

Other matter

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

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

C. P. C. Luis Javier Fernández Barragán

August 21, 2014

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, 2013, 2012, 2011 and January 1, 2011

(Thousands of U.S. dollars)

	Notes	2013	2012	2011	January 1, 2011
Assets					
Current assets:					
Cash and cash equivalents	7a	\$ 1,232,561	\$ 1,395,197	\$ 523,942	\$ 531,378
Trade investments	7b	-	250,000	-	-
Investment securities available for sale		-	-	25,522	43,309
Accounts receivable, Net	8	1,032,726	1,010,662	756,590	604,784
Due from related parties	19	11,168	8,526	5,150	1,708
Inventories, Net	9	728,805	736,209	457,748	351,217
Prepaid expenses		27,537	29,213	12,318	31,565
Assets classified as held for sale		<u>20,181</u>	<u>25,214</u>	<u>20,729</u>	<u>31,275</u>
Total current assets		<u>3,052,978</u>	<u>3,455,021</u>	<u>1,801,999</u>	<u>1,595,236</u>
Non-current assets:					
Property, plant and equipment, Net	13 and 24	3,152,748	2,462,378	1,692,242	1,644,113
Investment in shares of associated entity	4l	33,381	31,390	-	-
Employee benefits	16	-	-	3,834	8,960
Other assets, Net		72,639	65,736	14,468	19,979
Deferred income taxes	21b	125,357	36,886	41,377	93,882
Intangible assets, Net	14a	1,208,186	1,145,299	462,135	371,637
Goodwill	14b	<u>536,513</u>	<u>479,541</u>	<u>391,061</u>	<u>354,308</u>
Total non-current assets		<u>5,128,824</u>	<u>4,221,230</u>	<u>2,605,117</u>	<u>2,492,879</u>
Total assets		<u>\$ 8,181,802</u>	<u>\$ 7,676,251</u>	<u>\$ 4,407,116</u>	<u>\$ 4,088,115</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Profit or Loss and Other Comprehensive Income

For the years ended December 31, 2013, 2012 and 2011

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

	Notes	2013	2012	2011
Continuing operations:				
Net sales	24	\$ 5,176,999	\$ 4,767,743	\$ 3,766,339
Cost of sales	20a	<u>3,647,114</u>	<u>3,183,448</u>	<u>2,504,280</u>
		1,529,885	1,584,295	1,262,059
Net sales of finished goods purchased		124,793	151,194	140,876
Cost of sales		<u>124,430</u>	<u>145,909</u>	<u>134,621</u>
		<u>363</u>	<u>5,285</u>	<u>6,255</u>
Gross profit		1,530,248	1,589,580	1,268,314
Selling and development expenses	20b	645,372	597,540	451,240
Administrative expenses	20c	263,148	220,349	163,234
Depreciation and amortization		109,632	124,576	75,034
Other (income) expenses	20d	(50,210)	4,670	(18,612)
Exchange gain		(29,424)	(56,419)	(40,276)
Exchange loss		81,252	56,089	10,752
Interest expense		174,892	258,527	106,039
Interest income		(65,810)	(35,837)	(5,661)
Monetary position loss		13,831	2,959	3,649
Other Taxes		-	-	17,064
Equity in income of associated entity	4l	<u>(705)</u>	<u>(1,795)</u>	<u>-</u>
Profit before income taxes		388,270	418,921	505,851
Income tax expense	21d	<u>156,800</u>	<u>119,535</u>	<u>149,299</u>
Profit for the year from continuing operations		231,470	299,386	356,552
Discontinued operations:				
(Loss) gain from discontinued operations, Net	22	<u>(148,415)</u>	<u>19,527</u>	<u>(6,335)</u>
Consolidated profit for the year		<u>83,055</u>	<u>318,913</u>	<u>350,217</u>
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to profit or loss:				
Property, plant and equipment revaluation		310,308	108,971	-
Actuarial losses recognized during the year		(2,866)	(35,370)	-
Income taxes		<u>(101,438)</u>	<u>(26,883)</u>	<u>-</u>
		206,004	46,718	-

(Continued)

	Notes	2013	2012	2011
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations		(9,735)	(26,898)	(49,758)
Valuation of financial instruments		(49,047)	-	-
Net loss on available-for-sale financial assets		-	5,477	(9,147)
Income taxes		<u>15,115</u>	<u>(1,643)</u>	<u>2,744</u>
		<u>(43,667)</u>	<u>(23,064)</u>	<u>(56,161)</u>
Other comprehensive income for the year		<u>162,337</u>	<u>23,654</u>	<u>(56,161)</u>
Total consolidated comprehensive profit for the year		<u>\$ 245,392</u>	<u>\$ 342,567</u>	<u>\$ 294,056</u>
Consolidated profit for the year:				
Owners of the Entity		\$ 80,603	\$ 316,095	\$ 349,019
Non-controlling interests		<u>2,452</u>	<u>2,818</u>	<u>1,198</u>
		<u>\$ 83,055</u>	<u>\$ 318,913</u>	<u>\$ 350,217</u>
Total consolidated comprehensive income attributable to:				
Owners of the Entity		\$ 233,269	\$ 343,360	\$ 292,726
Non-controlling interests		<u>12,123</u>	<u>(793)</u>	<u>1,330</u>
		<u>\$ 245,392</u>	<u>\$ 342,567</u>	<u>\$ 294,056</u>
Earnings (loss) per share attributable to owners of the Entity in the consolidated profit:				
From continuing operations		<u>\$ 0.11</u>	<u>\$ 0.16</u>	<u>\$ 0.20</u>
From discontinued operations		<u>\$ (0.07)</u>	<u>\$ 0.01</u>	<u>\$ 0.00</u>
Basic earnings per share		<u>\$ 0.04</u>	<u>\$ 0.17</u>	<u>\$ 0.20</u>
Weighted average common shares outstanding		<u>2,100,000,000</u>	<u>1,889,666,667</u>	<u>1,800,000,000</u>

(Concluded)

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2013, 2012 and 2011

(Thousands of U.S. dollars)

	Paid-in capital				
	Common stock	Additional paid-in capital	Cumulative effect of restatement	Retained earnings	Property, plant and equipment revaluation
Balances as of December 31, 2010	\$ 225,855	\$ 401,745	\$ 23,948	\$ 405,804	\$ 214,745
Dividends declared in cash and shares	-	-	-	(51,498)	-
Purchase - sale of shares	-	2,688	-	-	-
Noncontrolling equity derived from business acquisition	-	-	-	-	-
Other comprehensive profit (loss) of the year	-	-	-	-	-
Consolidated profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>349,019</u>	<u>-</u>
Balances as of December 31, 2011	225,855	404,433	23,948	703,325	214,745
Dividends declared in cash and shares	-	-	-	(216,234)	-
Capital increase in cash and shares	30,627	1,290,540	-	-	-
Purchase - sale of shares	-	13,403	-	-	-
Noncontrolling equity derived from business acquisition	-	-	-	-	-
Other comprehensive profit (loss) of the year	-	-	-	(26,348)	73,000
Consolidated profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>316,095</u>	<u>-</u>
Balances as of December 31, 2012	256,482	1,708,376	23,948	776,838	287,745
Dividends declared in cash	-	-	-	(79,599)	-
Purchase - sale of shares	-	1,252	-	-	-
Increase in shares repurchase reserve	-	-	-	(81,454)	-
Noncontrolling equity derived from business acquisition	-	-	-	(12,486)	-
Other comprehensive profit (loss) of the year	-	-	-	(1,981)	197,500
Consolidated profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,603</u>	<u>-</u>
Balances as of December 31, 2013	<u>\$ 256,482</u>	<u>\$ 1,709,628</u>	<u>\$ 23,948</u>	<u>\$ 681,921</u>	<u>\$ 485,245</u>

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, 2013, 2012 and 2011
(Thousands of U.S. dollars)

	2013	2012	2011
Cash flows from operating activities:			
Consolidated profit for the year	\$ 83,055	\$ 318,913	\$ 350,217
Adjustments for:			
Income tax expense	156,800	119,535	149,299
Loss (gain) from discontinued operations	148,415	(19,527)	6,335
Net labor obligation (gain) cost	(5,029)	14,137	3,654
Depreciation and amortization	336,586	320,041	231,838
Gain on sale of fixed assets	(1,371)	(1,879)	(3,058)
Loss (gain) exchange	29,710	(14,050)	(45,339)
Equity in income of associated entity	(705)	(1,795)	-
Interest received	(65,810)	(35,837)	(5,661)
Interest expense	<u>174,892</u>	<u>258,527</u>	<u>106,039</u>
	856,543	958,065	793,324
Changes in working capital:			
(Increase) decrease in:			
Accounts receivable	40,790	163,999	(67,352)
Inventories	3,525	(18,156)	(94,892)
Other assets	(51,655)	(16,942)	(18,857)
Increase (decrease) in:			
Suppliers	6,254	(130,114)	66,524
Related parties	(38,395)	333	1,366
Other liabilities	(80,167)	(113,338)	(249,516)
Interest received	<u>65,810</u>	<u>35,837</u>	<u>5,661</u>
Net cash provided by operating activities	802,705	879,684	436,258
Cash flows from investing activities:			
Acquisition of machinery and equipment	(420,294)	(263,297)	(92,056)
Proceeds from sale of machinery and equipment	43,147	57,078	86,362
Trade investments	250,000	(250,000)	-
Investments in available-for sale securities	-	25,522	17,787
Investments in other assets	(19,265)	(45,017)	(6,772)
Acquisition of subsidiaries, net of cash acquired	<u>(250,154)</u>	<u>(718,513)</u>	<u>(356,140)</u>
Net cash used in investing activities	(396,566)	(1,194,227)	(350,819)

(Continued)

	2013	2012	2011
Cash flows from financing activities:			
Borrowings	336,586	2,057,610	388,029
Loan repayments	(490,158)	(1,711,405)	(304,464)
Interest paid	(182,622)	(229,356)	(113,167)
Dividends paid	(158,607)	(152,358)	(41,632)
Increase of common stock and share insurance premium	-	1,269,353	-
Noncontrolling equity derived from business acquisition	21,858	-	-
Purchase - sale of shares	<u>(62,499)</u>	<u>(12,732)</u>	<u>(10,075)</u>
Net cash (used in) provided by financing activities	(535,442)	1,221,112	(81,309)
Adjustment to cash flows due to exchange rate fluctuations	<u>(33,333)</u>	<u>(35,314)</u>	<u>(11,566)</u>
Net (decrease) increase in cash and cash equivalents	(162,636)	871,255	(7,436)
Cash and cash equivalents at beginning of year	<u>1,395,197</u>	<u>523,942</u>	<u>531,378</u>
Cash and cash equivalents at end of year	<u>\$ 1,232,561</u>	<u>\$ 1,395,197</u>	<u>\$ 523,942</u>

See accompanying notes to consolidated financial statements.

(Concludes)

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

(A Subsidiary of Kaluz, S.A. de C.V.)

Notes to Consolidated Financial Statements

For the years ended December 31, 2013, 2012 and 2011
(Thousands of U.S. dollars)

17. Activities

Mexichem, S.A.B. de C.V. and subsidiaries (the Entity or Mexichem), whose main address and place of business is in Río San Javier No.10, Fraccionamiento Viveros de Río, Tlalnepantla, C.P. 54060 Estado de México, is an entity that holds the shares of a group of companies located in the American and European continents and some Asian countries; which are engaged in the production and sale of chemicals and petrochemical products. The Entity's main products are: chlorine, caustic soda, ethylene, vinyl chloride monomer (VCM), resins and compounds of polyvinyl chloride (PVC), extractions of fluorite, hydrofluoric acid and refrigerant gases, as well as pipes and fittings of PVC, polyethylene and polypropylene; and geo-synthetics. Currently, the strategic position of the Entity focuses on the chemical sector through three productive chains: chlorine-vinyl, fluorine and integral solutions.

18. Significant events

- a. **Revision of functional currency and change of reporting currency** - Up to January 1, 2013, Mexichem considered that the functional currency applicable to certain subsidiaries was the local currency. In 2013, the Entity began a process of reviewing the functional currency and determined that, based on the current operational circumstances, including new operations and expansion of plant capacity, in accordance with IAS 21 "Effects of Variations in Foreign Currency Exchange Rates", the functional currency should be changed to the U.S. dollar in certain subsidiaries. It also decided to change its reporting currency to the U.S. dollar, because it is the currency with which the operational and financial decisions are taken; consequently, the figures for the years 2013, 2012 and 2011 are shown in such currency in the consolidated financial statements.
- b. **Discontinued operations** - The Entity began a restructuring process in the Fluorine chain as a result of current competition from Chinese producers of refrigeration gases, for which reason it decided to close certain operations of such chain. The discontinued operations in the 2013, 2012 and 2011 results reflect the effect of maintaining operations in certain markets in which the business conditions were inadequate, and they are presented as such in the consolidated financial statements in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".
- c. **Establishment and acquisition of new businesses** - During 2013, 2012 and 2011, Mexichem established and acquired the businesses described below:
 - i. On October 31, 2013, Mexichem and Occidental Chemical Corporation (OxyChem) formalized a joint venture with equal shareholding denominated Ingleside Ethylene LLC, to build an ethylene cracker with an annual capacity of 1,200,000,000 pounds (550,000 tons). This new plant represents a total investment of \$1,500 million, will be located in the premises of OxyChem in Ingleside, Texas, and will utilize the duct and storage system located in Markham, Texas. The total amount invested as of December 31, 2013 is \$45 million.

- ii. On September 11, 2013, Mexichem and PEMEX Petroquímica formalized the joint venture in Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) which will allow for greater competitiveness of the domestic petrochemicals industry in the global market, through the integration of a new entity that will generate value to the Chlorine-Vinyl chain. Thanks to this strategic alliance, the chain of Vinyl (Salt-Ethylene up to PVC resin and the fluids conduction systems) in Mexico will be fully integrated vertically, so that the Mexican industry will be competitive compared to that of the US with the benefits of the Shale Gas revolution. The contributions of Pemex Petroquímica include an Ethylene Cracker, the Dichlorine Ethanol plant (EDC) and VCM, two electricity cogeneration units and a maritime location; the contributions of Mexichem include the deposit of Salt, the Chlorine-Soda plant located in Coatzacoalcas, as well as \$200 million for the capacity expansion of VCM from the current capacity of almost 200,000 tons a year to the designed capacity of 400,000 tons a year. Mexichem is currently determining the fair values of the net assets acquired, which is expected to take place no longer than one year from its acquisition date in conformity with IFRS 3. Consequently, the amounts related to the fair values of the net assets reported in the accompanying consolidated financial statements are provisional and subject to change. As a result of applying the accounting policies of Mexichem, property, plant and equipment were revalued. The total amount of the transaction was an increase in the value of the assets for \$256 million, as a contribution in kind.
 - iii. On March 25, 2013, Mexichem reached an agreement with PolyOne to acquire 100% of its special PVC resin operations in the United States, where it has two production plants and one research and development center. This acquisition had an approximate value of \$250 million.
 - iv. In May 2012, Mexichem acquired 95.7% (in the first quarter of 2013 was acquired the remaining 4.3%) of the shares of Wavin N.V.A. (Wavin), a leading European Entity in the production of plastic piping systems and solutions. Wavin has its headquarters in Zwolle (the Netherlands) and operates in 25 European countries and China. This acquisition had an approximate value of 533 million euros.
 - v. On January 26, 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 Entity to ensure the supply required for its United Kingdom (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 \$68 million.
 - vi. 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 Chain 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, acquired through bank financing in Japanese yen.
 - vii. On January 7, 2011, Mexichem acquired, from Rockwood Specialties Group, the shares of the compound division that operates under the Alphagary name, located in the United States of America (USA), Canada and the UK. As a result of this acquisition, the Entity 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 \$322 million.
- d. ***Increase and issuance of securitized certificates:***

On March 15, 2012, Mexichem increased the amount borrowed under the second issuance of securitized certificates “MEXCHEM 11” from 2,500 million to 4,500 million Mexican pesos; 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 “MEXCHEM 12” for 3,000 million of Mexican pesos maturing on March 9, 2022 and bearing at a fixed rate of 8.12%. The first with monthly interest payments and the second semiannual interest payments.

e. ***Dividend payable in kind to the Entity's stockholders:***

At the Stockholders' Common and Extraordinary General Meetings on April 30, 2012 and May 18, 2012, respectively, the stockholders approved the payment of a dividend of up to \$136 million (1,800 million of Mexican pesos), payable from the balance of the Net Tax Income Account (CUFIN) of the Entity. 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 Mexican peso 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, common, 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 common, normative single series, class II shares at a subscription price of 45 Mexican pesos 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.

f. ***International Bond Financing:***

On September 12, 2012, the placement of two International Debt Bonds was concluded according to rule 144a. The first of these involved the amount of \$750 million, with an annual interest rate of 4.875% and maturity on September 19, 2022; the second bond was issued for the amount of \$400 million, with an annual interest rate of 6.75% and maturity on September 19, 2042. The interest accrued by these bonds is payable semiannually on March 19 and September 19 of each year. The proceeds were used to finance debt including the prepayment of debt in the amount of \$267 million for the International Bond with maturity in 2019, plus a premium of \$65 million, \$600 million of the revolving credit and \$104 million of other credits.

g. ***Capital increase:***

On October 9, 2012, Mexichem concluded a primary public share offering through which it increased its authorized variable capital by issuing 260,000,000 Single Series, Class “II” shares with a price of 60.00 Mexican pesos per share (theoretical par value of \$1.3192 Mexican pesos per share; a share subscription premium was generated by the difference); the amount of \$1,211 million (15,600 million of Mexican pesos) was obtained from this offering, which is presented net of placement expenses and the respective income tax effect of \$1,185 million.

Through the placement of these International Bonds and the capital increase, Mexichem enhanced the flexibility and strength of its financial structure to reflect both current market conditions and its own position, thus enabling it to continue its growth plans with an even more robust financial structure.

19. **Basis of presentation**

- g. ***Explanation for translation into English*** - The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico.
- h. ***Accounting changes*** - As of January 1, 2013, Mexichem decided to make a change in its reporting currency to the US dollar. The change in the reporting currency is a change in accounting policy and, consequently, should be applied retroactively in accordance with IAS 8 *Accounting policies, changes in accounting estimates and errors*. The impact on the assets, liabilities, stockholders' equity and results, as of January 1, 2013, 2012 and 2011 derived from the application of the changes in the functional currency and the reporting currency described above, is as follows:

	Beginning of 2013	Adjustments	Beginning of 2013 restructured
Current assets:			
Cash and cash equivalents	\$ 1,395,197	\$ -	\$ 1,395,197
Investments classified as trading	250,000	-	250,000
Accounts receivable, Net	1,010,662	-	1,010,662
Due from related parties	8,526	-	8,526
Inventories, Net	727,886	8,323	736,209
Prepaid expenses	29,213	-	29,213
Assets classified as held for sale	<u>25,214</u>	<u>-</u>	<u>25,214</u>
Total current assets	3,446,698	8,323	3,455,021
Property, plant and equipment, Net	2,482,855	(20,477)	2,462,378
Intangible assets, Net	1,131,584	13,715	1,145,299
Goodwill	495,133	(15,592)	479,541
Other assets, Net	<u>134,012</u>	<u>-</u>	<u>134,012</u>
Total assets	<u>\$ 7,690,282</u>	<u>\$ (14,031)</u>	<u>\$ 7,676,251</u>
Total current liabilities	\$ 1,519,245	\$ -	\$ 1,519,245
Total non-current liabilities	2,911,830	6,966	2,918,796
Stockholders' equity	<u>3,259,207</u>	<u>(20,997)</u>	<u>3,238,210</u>
Total liabilities and stockholders' equity	<u>\$ 7,690,282</u>	<u>\$ (14,031)</u>	<u>\$ 7,676,251</u>
	Year ended December 31, 2012	Adjustments	Year ended December 31, 2012 restructured
Sales	\$ 4,767,743	\$ -	\$ 4,767,743
Cost of sales	(3,192,601)	14,438	(3,178,163)
General expenses	(942,161)	(4,974)	(947,135)
Other income (expenses) financial, Net	(150,316)	(75,003)	(225,319)
Income tax expense	(145,316)	25,781	(119,535)
Equity in income of associated	1,795	-	1,795
Discontinued operations	<u>19,527</u>	<u>-</u>	<u>19,527</u>
Consolidated profit for the year	<u>358,671</u>	<u>(39,758)</u>	<u>318,913</u>
Other comprehensive income (loss):			
Items that will not be reclassified subsequently to profit or loss:			
Property, plant and equipment revaluation	108,971	-	108,971
Actuarial losses recognized during the year	(35,370)	-	(35,370)
Income taxes	<u>(26,883)</u>	<u>-</u>	<u>(26,883)</u>
	46,718	-	46,718

	Year ended December 31, 2012	Adjustments	Year ended December 31, 2012 restructured
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	(101,828)	74,930	(26,898)
Net loss on available-for- sale financial assets	5,477	-	5,477
Income taxes	<u>(1,643)</u>	<u>-</u>	<u>(1,643)</u>
	(97,994)	74,930	(23,064)
Other comprehensive income for the year	<u>(51,276)</u>	<u>74,930</u>	<u>23,654</u>
Total consolidated comprehensive income for the year	<u>\$ 307,395</u>	<u>\$ 35,172</u>	<u>\$ 342,567</u>
	Beginning of 2012	Adjustments	Beginning of 2012 restructured
Current assets:			
Cash and cash equivalents	\$ 523,942	\$ -	\$ 523,942
Investment securities available for sale	25,522	-	25,522
Accounts receivable, Net	756,590	-	756,590
Due from related parties	5,150	-	5,150
Inventories, Net	459,344	(1,596)	457,748
Prepaid expenses	12,318	-	12,318
Assets classified as held for sale	<u>20,729</u>	<u>-</u>	<u>20,729</u>
Total current assets	1,803,595	(1,596)	1,801,999
Property, plant and equipment, Net	1,656,954	35,288	1,692,242
Intangible assets, Net	426,970	35,165	462,135
Goodwill	388,545	2,516	391,061
Other assets, Net	<u>66,367</u>	<u>(6,688)</u>	<u>59,679</u>
Total assets	<u>\$ 4,342,431</u>	<u>\$ 64,685</u>	<u>\$ 4,407,116</u>
Total current liabilities	\$ 1,129,024	\$ -	\$ 1,129,024
Total non-current liabilities	1,488,010	1,432	1,489,442
Stockholders' equity	<u>1,725,397</u>	<u>63,253</u>	<u>1,788,650</u>
Total liabilities and stockholders' equity	<u>\$ 4,342,431</u>	<u>\$ 64,685</u>	<u>\$ 4,407,116</u>
	Year ended December 31, 2011	Adjustments	Year ended December 31, 2011 restructured
Sales	\$ 3,766,339	\$ -	\$ 3,766,339
Cost of sales	(2,503,491)	5,466	(2,498,025)
General expenses and other taxes	(687,296)	(664)	(687,960)

	Year ended December 31, 2011	Adjustments	Year ended December 31, 2011 restructured
Other income (expenses)			
financial, Net	(208,246)	133,743	(74,503)
Income tax expense	(141,180)	(8,119)	(149,299)
Discontinued operations	<u>(6,335)</u>	<u>-</u>	<u>(6,335)</u>
Consolidated profit for the year	<u>219,791</u>	<u>130,426</u>	<u>350,217</u>
Other comprehensive income (loss):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	193,082	(242,840)	(49,758)
Net loss on available-for- sale financial assets	(9,147)	-	(9,147)
Income taxes	<u>2,744</u>	<u>-</u>	<u>2,744</u>
Other comprehensive income for the year	<u>186,679</u>	<u>(242,840)</u>	<u>(56,161)</u>
Total consolidated comprehensive income for the year	<u>\$ 406,470</u>	<u>\$ (112,414)</u>	<u>\$ 294,056</u>

i. ***New and revised International Financial Reporting Standards (IFRSs) affecting amounts reported and/or disclosures in the financial statements***

During 2013, the Entity has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2013.

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

The Entity has applied the amendments to IFRS 7 *Disclosures - Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments to the IFRS 7, have been applied retrospectively. As the Entity does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards. During 2013, the Entity has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to the Entity as it deals only with separate financial statements. There was no impact into the consolidated financial statements arising of

the application of these standards.

IFRS 10

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC (Interpretations of International Accounting Standards) -12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, the control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Entity.

IFRS 11

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements - joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint ventures) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognizes its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

IFRS 13 Fair Value Measurement

The Entity has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from January 1, 2013. In addition, specific transitional provisions were given to entities such that they do not need to apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. The application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Entity has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. 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 items of other comprehensive income to be Entity into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

j. New and revised IFRSs in issue but not yet effective

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

IFRS 9, Financial Instruments²

Amendments to IFRS 9 and IFRS 7, Mandatory Effective Date of IFRS 9 and Transition Disclosures³

Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities¹

Amendments to IAS 32, Offsetting Financial¹

¹ Effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

² Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

³ Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

IFRS 9, *Financial Instruments*

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).
- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The Entity's management anticipates that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the Entity's financial assets and financial liabilities.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

The Entity's management does not anticipate that the investment entities amendments will have any effect on the Entity's consolidated financial statements as the Entity is not an investment entity.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The Entity's management does not anticipate that the application of these reviewed amendments about the financial assets and financial liabilities that qualify for offset will not have any effect on the Entity's consolidated financial statements.

20. Summary of significant accounting policies

a. *Statement of compliance*

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

b. *Basis of measurement*

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

i. *Historical cost*

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

ii. *Fair value*

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

In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

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

c. *Basis of consolidation*

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

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

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

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

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

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

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

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

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Mexichem are eliminated in full on consolidation.

The Mexichem's shareholding percentage in their capital stock at December 31, is shown below:

Group	Country	Equity interest %		
		2013	2012	2011
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	100
Mexichem America, Inc.	USA	100	100	100
Alphagary Corporation	USA	100	100	100
Alphagary Limited	UK	100	100	100
Mexichem Resinas Colombia, S.A.S.	Colombia	100	100	100
Mexichem Speciality Resinas, Inc.	USA	100	-	-
C.I. Mexichem Compuestos Colombia, S.A.S.	Colombia	100	100	100
Petroquímica Mexicana de Vinilo, S.A. de C.V.	Mexico	55.91	-	-

Group	Country	Equity interest %		
		2013	2012	2011
Ingleside Ethylene LLC	USA	50	-	-
Fluorine chain:				
Mexichem Flúor, S.A. de C.V.	Mexico	100	100	100
Fluorita de México, S.A. de C.V.	Mexico	100	100	100
Mexichem Fluor Inc.	USA	100	100	100
Mexichem UK Limited	UK	100	100	100
Mexichem Fluor Japan Ltd.	Japan	100	100	100
Mexichem Fluor Taiwan Ltd.	Taiwan	100	100	100
Transformed products 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
Transformed products chain:				
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 Transformación Plástica, Ltda.	Brazil	100	100	100
Wavin N.V.	Netherlands	100	100	-
Wavin Nederland B.V.	Netherlands	100	100	-
Wavin Belgium N.V.	Belgium	100	100	-
Wavin (Foshan) Piping Systems Co. Ltd.	China	100	100	-
Wavin Ekoplastik s.r.o.	Czech Republic	100	100	-
Nordisk Wavin A/S	Denmark	100	100	-
Norsk Wavin A/S	Norway	100	100	-
Wavin Estonia OU	Estonia	100	100	-
Wavin-Labko Oy	Finland	100	100	-
Wavin France S.A.S.	France	100	100	-
Wavin GmbH	Germany	100	100	-
Wavin Hungary Kft.	Hungary	100	100	-
Wavin Ireland Ltd.	Ireland	100	100	-
Wavin Italia SpA	Italy	100	100	-
Wavin Latvia SIA	Latvia	100	100	-
UAB Wavin Baltic	Lithuania	100	100	-
Wavin Metalplast-BUK Sp.z.o.o.	Poland	100	100	-
Wavin Romania s.r.l.	Romania	100	100	-
OOO Wavin Rus	Russia	100	100	-
Wavin Balkan d o.o.	Serbia	100	100	-
Wavin Slovakia spol s.r.o.	Slovakia	100	100	-

Group	Country	Equity interest %		
		2013	2012	2011
AB Svenska Wavin	Sweden	100	100	-
Pilsa A.S	Turkey	100	100	-
Wavin Ltd.	UK	100	100	-
Warmafl oor (GB) Ltd.	UK	100	100	-
Wavin Ukrain O.O.O.T.O.V.	Ukraine	100	100	-

Changes in the Group's ownership interests in existing subsidiaries

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

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

- d. **Recognition of the effects of inflation** - The Entity recognizes the effect of inflation for entities that operate in highly-inflationary economies, which is when inflation over the preceding three years is greater than 100%. Mexichem in 2013, 2012 and 2011 recognized the effects of inflation in its Venezuelan operations.
- e. **Translation of financial statements of foreign subsidiaries** - The individual financial statements of each subsidiary of the Entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). To consolidate the financial statements of foreign subsidiaries are translated from the functional currency into U.S. dollars (the reporting currency), considering the following methodology:

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

For foreign entities that operate in a hyperinflationary economy, their financial statements are first restated in currency of purchasing power as of the date of the balance sheet, using the price index of the country of origin of the functional currency and then they are translated using the official exchange rate of closing for all items.

The exchange rate differences are recognized in profit or 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.

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.

Before January 1, 2013, it had been concluded that the functional currency applicable to certain subsidiaries was the local currency. During 2013, the Entity began a review process of functional currency and determined that in accordance with current operational circumstances, including new operations and expansion of plant capacity, the functional currency should be modified in certain subsidiaries, and as of January 1, 2011 the subsidiaries converted to using the new functional currency by applying the conversion procedures prospectively as of the date of the change. The gains and losses generated by foreign currency transactions are included in the results of the period, as part of the exchange result.

The subsidiaries which changed their functional currency to the US dollar are as follows:

Entity	Chain
Mexichem, S.A.B. de C.V.	Holding Entity
Mexichem Derivados, S.A. de C.V.	Vinyl - Chlorine
Mexichem Resinas Vinílicas, S.A. de C.V.	Vinyl - Chlorine
Mexichem Resinas Colombia S.A.S.	Vinyl - Chlorine
Quimir, S.A. de C.V.	Vinyl - Chlorine
Mexichem Compuestos, S.A. de C.V.	Vinyl - Chlorine
C.I. Mexichem Compuestos Colombia	Vinyl - Chlorine
Mexichem Amanco Holding, S.A. de C.V.	Integral solutions
Mexichem Perú, S.A.	Integral solutions
Tuberías y Geosistemas del Perú, S.A.	Integral solutions
Mexichem Flúor, S.A. de C.V.	Fluorine
Mexichem Fluor Comercial, S.A. de C.V.	Fluorine
Fluorita de México, S.A. de C.V.	Fluorine

- f. **Cash and cash equivalents** - Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments, highly liquid and easily convertible into cash. Cash is stated at nominal value and cash equivalents are measured at fair value.
- g. **Inventories** - Inventories are stated at the lower of cost and net realizable value (estimated selling price less all estimated costs of completion necessary to make the sale). Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, being valued on average costs method. Reductions in the value of inventories are recognized via reserves which represent the impairment of inventory.
- h. **Assets classified as held for sale** - Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. They are presented in the consolidated statements of financial position in the short term according to the plans of preparation that have and are measured at the lower of their previous carrying amount and fair value less costs to sell.

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

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

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

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

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

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

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

Properties that are in the process of construction for purposes of production are recorded at cost less any impairment loss recognized. Cost includes professional fees and, in the case of qualifying assets, the costs of borrowing capitalized in accordance with the accounting policy of the Entity. The depreciation of these assets is initiated when assets are ready for their planned use.

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 with residual values; and the effect of any change in estimate accounted is recognised on a prospective basis.

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

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

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

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

Assets held under finance leases are initially recognized as assets of the Entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. 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 Entity'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. **Investment in the shares of associated and other entities** - An associated entity is a Entity over which significant influence is held and is initially recognized based on the fair value of its identifiable assets and liabilities at the incorporation or acquisition date. If indications of impairment are detected, investments in associated entities are subjected to impairment tests.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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

Investment in associate in 2013 and 2012 corresponds to 40% of GF Wavin AG (Switzerland) equivalent to \$33,381 and \$31,390, respectively and an equity income of \$705 and \$1,795, respectively.

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

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

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

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

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

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

The Entity has a joint operation in which it holds 64% in Fenix Fluor Limited, located in the UK; its activity is the production and sale of refrigerant gases. The Entity has a right to a proportional part of the sales revenues and a proportional obligation for the expenses incurred by the joint operation.

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

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

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

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

- o. **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 entity exceeds the sum of the consideration transferred, the amount of the excess is recognized immediately in the consolidated statement of profit or loss and other 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 Entity'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.

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, only to the extent the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

- q. **Business combinations** - Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Entity 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 "Business combinations" are recognized at their fair value at the acquisition date, except that:

- i. Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes* and IAS 19, *Employee Benefits*, respectively;
- ii. Liabilities or equity instruments related to the replacement by the Entity of an 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 Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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

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

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

- r. **Financial instruments** - Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.
- s. **Financial assets** - All financial assets are recognized and derecognized on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- It is part of a contract containing one or more embedded derivatives, and IAS 39, *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as fair value through profit and loss.

Financial assets at fair value through profit and loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the “other (income) expenses” 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 Entity that are traded in an active market are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 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 Entity's right to receive the dividends is established.

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

Loans and accounts receivables

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

Impairment of financial assets

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

recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

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

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; 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 Entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on payments.

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

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

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

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.

Derecognition of financial assets

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

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

On derecognition of a financial asset other than in its entirety (e.g. when the Entity retains an option to repurchase part of a transferred asset), the Entity allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the

sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities at fair value through profit and loss

Financial liabilities are classified as at fair value through profit and loss when the financial liability is 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;
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading 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;
- The financial liability is part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It is part of a contract containing one or more embedded derivatives, and IAS 39, *Financial Instruments: Recognition and Measurement* allows 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 expenses (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 Entity are classified as debt and equity instruments and are classified as financial liabilities 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 Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or they expire.

- t. ***Derivative financial instruments*** - Due to the Entity's national and international operations, it is exposed to the risks of fluctuation of prices in raw materials in the chemical industry, as well as interest rate risks related to the financing of its projects. The Entity's policy is to use certain hedges to mitigate the volatility of the prices of certain raw materials and interest rate and foreign exchange rate risks in its financing activities, all of which are related to its business.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The 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 Entity designates certain hedging instruments as fair value, of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecasted transactions or hedges of foreign exchange risk on firm commitments (cash flow hedges).

Embedded derivatives

The Entity reviews all executed contracts to identify embedded derivatives which have to be separated from the host contract for purposes of their accounting valuation and recognition. 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.

- u. ***Hedge accounting*** - The Entity designates certain hedging instruments, which include foreign currency derivatives, interest rates and commodities and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Entity documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 11 sets out details of the fair values of the derivative instruments used for hedging purposes.

Cash flow hedges

The Entity documents the relationship of the hedge and the objective and strategy of management of risk for the Entity. Such documentation will include the method the Entity will use to measure the effectiveness of the instrument to hedge the risk of changes in the fair value cash flows of the item being hedged.

The Entity recognizes all of the assets or liabilities arising from transactions with derivative financial instruments in the consolidated statements of financial position at fair value, regardless of its intent for holding them. The fair value is determined based on recognized market prices and when not listed on a market, based valuation techniques accepted in the financial markets. The decision to enter into hedges is based on the conditions of the markets and expectations in the national and international economic environments.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The loss or gain relating to the ineffective portion is recognized immediately in profit or loss, and is included in the “other (income) expenses” line item.

Amounts previously recognized in the other comprehensive income and accumulated in stockholders’ equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from stockholders’ equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Entity revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in stockholders’ equity at that time remains in stockholders’ equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in stockholders’ equity is recognized immediately in profit or loss.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the consolidated statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Entity revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated under the heading translation effects of foreign operations. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the “other (income) expense” line item.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation effects are reclassified to profit or loss in the same way that the exchange rate differences relating to the foreign operation.

- v. **Provisions** - Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

- w. **Restructuring** - The Entity recognizes a provision for restructuring when it has developed a detailed formal plan for the restructuring, and has raised a valid expectation in those affected 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 Entity.
- x. **Contingent liabilities acquired in a business combination** - Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less cumulative amortization recognized in accordance with IAS 18, *Revenue*.
- y. **Statutory employee profit sharing (PTU)** - Certain subsidiaries of Mexichem are subject to the payment of PTU arising from legal provision and it is recorded in the results of the year in which it is incurred and presented under operating cost and expenses. As of December 31 2013 and 2012, the PTU was \$8,706 and \$7,924, respectively.
- z. **Shares repurchase reserve** - Purchases and sales of shares are recorded directly in the shares repurchase reserve at their acquisition cost. Any profit or loss generated is recorded in additional paid-in capital.
- aa. **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 profit or loss and other 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 Entity 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. The deferred tax receivable is recorded net of the reserve; it is derived from uncertainty in the realization of certain benefits. 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 Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Up to 2013 Mexichem was authorized to prepare its income tax returns on a consolidated basis, which includes the proportional tax on the taxable profits or tax losses of its Mexican subsidiaries. The provisions for taxes of the foreign subsidiaries were determined based on the taxable profit of each company at the individual level.

Special mining duty - for purposes of recognition in the financial statements of the holders of mining concessions or allotments, this charge should be treated as a tax on income, because it is determined based on a remnant of the Entity's revenues and expenses. Consequently, IAS 12 "Income Taxes" should be used to determine and recognize the liabilities and assets derived from taxes on income with regards to what is considered current and deferred tax. Furthermore, within the statement of comprehensive income or loss, it should be presented as part of the tax on income for the period or, as the case may be, as part of the other comprehensive income with which it is related.

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss whether in other comprehensive income or directly in stockholders' equity. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

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

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

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

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

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

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

- dd. **Revenue recognition** - Revenues is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, and other similar discounts.

Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Entity has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The Entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Entity.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Income from dividends and interest income

Income from dividends from investments is recognized once established the shareholders' right to receive this payment has been established (provided that it is probable that the economic benefits will flow to the Entity and the amount of revenue can be measured reliably).

The interest income is recognized as they are accrued and there is the likelihood that the economic benefits will flow to the Entity 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.

- ee. **Earnings per share** - (i) The basic earnings per common share from continuing operations is calculated by dividing the profit or loss attributable to owners (controlling interest) by the weighted average number of common outstanding shares during the year; (ii) basic earnings (losses) per common share from discontinued operations is calculated by dividing the net income from discontinued operations by the weighted average number of common shares outstanding during the year.

21. Critical accounting judgments and key sources of estimation uncertainty

In the application of accounting policies, the Entity's management required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities. The estimates and associated assumptions are based on experience and other factors that are considered as relevant. Actual results could differ from estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the review period and future periods if the revision affects both the current period and subsequent periods.

Critical accounting judgments and key sources of uncertainty when determining estimates included in the consolidated financial statements, and which could have a significant risk adjustment to the carrying value of assets and liabilities during the next financial period are as follows:

- a. The Entity reviews the estimated useful life of property, plant and equipment at the end of each annual period. Based on a detailed analysis the Entity's management made certain changes to the useful life of certain components of property, plant and equipment. The level of uncertainty associated with useful life estimates relates to changes in the market behavior and the use of assets in production volumes and technology development.

- b. For impairment testing of assets, the Entity is required to estimate the value-in-use of its property, plant and equipment, as well as the determination of its cash-generating units, in the case of certain assets. The value-in-use calculations require the Entity to determine the future cash flows for its cash-generating units and an appropriate discount rate to calculate their present value. The Entity forecasts its cash flows based on income projections using market assumptions, determination of prices and volumes of production and sale.
- c. The Entity uses estimates to determine allowance for obsolete inventories and allowance for doubtful accounts. Factors that the Entity considers for allowance for obsolete inventory are production and sales volumes and changes in the demand for certain of its products. The factors which the Entity considers in the allowance for doubtful accounts are mainly the risk of the financial situation of the customer, unguaranteed accounts and considerable delays in collection considering established credit limits.
- d. The Entity periodically assesses the estimates of its mineral reserves (fluorite, sulphur and salt), which represent the Entity's estimate of the remaining amount not exploited in its mines, which may be produced and sold for profit. Such estimates are based on engineering estimates derived from samples and assumptions of market prices and production costs in each of the respective mines. The Entity updates the estimate for mineral reserves at the beginning of each year.
- e. The Entity is subject to transactions or contingent events for which it uses professional judgment in the development of estimates of probability of occurrence. Factors that are considered in these estimates are the current legal situation at the date of the estimate and, the opinion of the legal advisors.
- f. Control over PMV - Note 4c states that PMV is a subsidiary of Mexichem, which holds 55.91% of the stock of PMV. Based on the contractual agreements between Mexichem and the other investor, Mexichem has the power to direct the relevant activities of PMV through the approval of the annual business plan, on which basis it has control over PMV.
- g. Control over Ingleside Ethylene LLC - Note 4c states that Ingleside Ethylene LLC is a subsidiary of Mexichem, which holds 50% of the stock of Ingleside Ethylene LLC. Based on the contractual agreements between Mexichem and the other investor, as a result of its participation in the Entity's Board of Directors, Mexichem takes the decisions regarding the control over the subsidiary's operation and management.
- h. Classification of Fenix Fluor Limited as a joint operation - Fenix Fluor Limited is a limited liability entity whose legal status ensures separation between the parties in the joint operation and the entity itself. However there is also a contractual agreement which stipulates that the parties in the joint operation have rights to the assets and obligations for the liabilities derived from the joint operation on a separate basis. Consequently, Fenix Fluor Limited is classified as a joint operation of the Entity.
- i. Revision of functional currency - Up to January 1, 2013, Mexichem considered that the functional currency applicable certain subsidiaries was the local currency. In 2013 the Entity began a review process of functional currency and determined that, in accordance with the current operational circumstances, including new operations and expansion of plant capacity, in conformity with IAS 21 "*The Effects of Changes in Foreign Exchange Rates*", the functional currency should be changed to the U.S. dollar in certain subsidiaries.

22. Business combinations

- e. **Business acquisitions** - During 2013 and 2012, Mexichem acquired several businesses, which were recorded using the acquisition method. The results of these businesses have been included in the accompanying consolidated financial statements from the date of the acquisition. The most significant acquisitions and that are mentioned in detail in Note 2 are follows:
 - i. Mexichem formalized co-investment (Petroquímica Mexicana de Vinilo (PMV)) with Pemex Petroquímica; increasing the value of assets by \$256 million.
 - ii. Mexichem acquired 100% PolyOne's PVC Special Resins assets at \$250 million.

- iii. Mexichem acquired the totality of the shares of Wavin, for a value of 533 million euros.
- iv. Mexichem acquired from Corporación Amati, S.A. de C.V. 100% of the shares of FDM. The value of this transaction was \$68 million.
- v. Mexichem acquired, from Rockwood Specialties Group, Inc., the shares of the compounds division that operates under the Alphagary. The value of this transaction was US\$322 million.

With the aforementioned acquisitions, Mexichem continues its strategy to provide greater value with respect to its basic raw materials, thereby strengthening its position in the American continent and becoming a global Entity with operations in America, Europe and Asia.

f. **Consideration transferred**

	2013	Cash	In shares of subsidiaries
PMV		\$ -	\$ 256,219
PolyOne		<u>250,154</u>	<u>-</u>
		<u>\$ 250,154</u>	<u>\$ 256,219</u>
	2012	Cash	
Wavin		\$ 699,797	
Fluorita de México		<u>67,801</u>	
		<u>\$ 767,598</u>	
	2011		
Alphagary		<u>\$ 322,061</u>	

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 (income) expenses" in the consolidated statements of profit or loss and other comprehensive income.

g. **Assets acquired and liabilities assumed at the date of acquisition**

2013	PMV	PolyOne	Total
Assets:			
Accounts receivable	\$ -	\$ 15,295	\$ 15,295
Inventories	-	8,185	8,185
Property, plant and equipment	256,219	77,739	333,958
Identified intangible assets	-	105,500	105,500
Liabilities:			
Suppliers and other accounts payable	<u>-</u>	<u>(21,252)</u>	<u>(21,252)</u>
Total net assets	<u>\$ 256,219</u>	<u>\$ 185,467</u>	<u>\$ 441,686</u>

2012	FDM	Wavin	Total
Assets:			
Cash and cash equivalents	\$ 1,908	\$ 47,177	\$ 49,085
Accounts receivable	2,990	448,316	451,306
Inventories	2,545	262,396	264,941
Other current assets	503	17,115	17,618
Property, plant and equipment	15,597	439,582	455,179
Identified intangible assets	28,701	746,301	775,002
Investment in shares	-	29,313	29,313
Other non-current assets	2	1,937	1,939

2012	FDM	Wavin	Total
Liabilities:			
Suppliers and other accounts payable	<u>(30,127)</u>	<u>(1,324,640)</u>	<u>(1,354,767)</u>
Total net assets	<u>\$ 22,119</u>	<u>\$ 667,497</u>	<u>\$ 689,616</u>
2011	Alphagary		
Assets:			
Cash and cash equivalents	\$ 3,447		
Accounts receivable	32,806		
Inventories	19,974		
Other current assets	2,762		
Property, plant and equipment	43,761		
Identified intangible assets	193,929		
Other non-current assets	4,337		
Liabilities:			
Suppliers and other accounts payable	<u>(31,760)</u>		
Total net assets	<u>\$ 269,256</u>		

h. **Goodwill on acquisitions**

2013	Consideration transferred	Shares of subsidiaries delivered	Value of the net assets acquired	Goodwill
PMV	\$ -	\$ 256,219	\$ 256,219	\$ -
PolyOne	<u>250,154</u>	<u>-</u>	<u>185,467</u>	<u>64,687</u>
	<u>\$ 250,154</u>	<u>\$ 256,219</u>	<u>\$ 441,686</u>	<u>\$ 64,687</u>
2012	Consideration transferred	Value of the net assets acquired	Goodwill	
Wavin	\$ 699,797	\$ 667,497	\$ 32,300	
Fluorita	<u>67,801</u>	<u>22,119</u>	<u>45,682</u>	
	<u>\$ 767,598</u>	<u>\$ 689,616</u>	<u>\$ 77,982</u>	
2011	Consideration transferred	Value of the net assets acquired	Goodwill	
Alphagary	<u>\$ 322,061</u>	<u>\$ 269,256</u>	<u>\$ 52,805</u>	

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.

i. **Net cash flow from acquisition of subsidiaries**

	2013
Consideration paid in cash	\$ 250,154
	2012
Consideration paid in cash	\$ 767,598
Less: balances of cash and cash equivalents acquired	(49,085)
Net	\$ 718,513
	2011
Consideration paid in cash	\$ 322,061
Less: balances of cash and cash equivalents acquired	(3,447)
	\$ 318,614

j. **Effect of acquisitions in the financial situation of Mexichem (unaudited)**

Unaudited consolidated financial information taken from the Entity's statement of consolidated financial position at December 31, 2013 and pro forma (unaudited) consolidated statement of financial position at December 31, 2012 and 2011 and pro forma (unaudited) consolidated statements of profit or loss and other comprehensive income for the years ended December 31, 2013, 2012 and 2011 is presented below, by considering the financial position of acquisitions as though they had occurred on January 1, 2011. This pro forma information does not necessarily present the figures that might have been obtained had the acquisitions in question taken place at that date.

	2013	2012 Pro forma (Unaudited figures)	2011 Pro forma (Unaudited figures)
Condensed statements of financial position			
Cash and cash equivalents	\$ 1,232,561	\$ 1,145,048	\$ 704,518
Trade investments	-	250,000	-
Accounts receivable, Net	1,032,726	1,025,952	1,100,816
Related parties	11,168	121,317	5,448
Inventories, Net	728,805	744,335	667,921
Other current assets	47,718	54,486	97,640
Property, plant and equipment, Net	3,152,748	2,796,336	2,371,774
Investments in the shares of associated entity	33,381	31,390	32,342
Other assets, Net	72,639	65,736	72,347
Intangible assets, Net	1,208,186	1,250,799	1,313,398
Deferred income taxes	125,357	36,886	41,377
Goodwill	536,513	544,228	462,083
Total assets	\$ 8,181,802	\$ 8,066,513	\$ 6,869,664
Bank loans	\$ 62,121	\$ 125,321	\$ 293,840
Suppliers	953,147	946,893	946,725
Related parties	1,610	-	30,752
Other accounts payable, provisions and accrued liabilities	498,067	430,619	380,297

	2013	2012 Pro forma (Unaudited figures)	2011 Pro forma (Unaudited figures)
Condensed statements of financial position			
Bank loans and long-term debt	2,103,086	2,205,169	2,124,861
Non-current other liabilities	460,801	314,506	565,543
Deferred income taxes	<u>511,913</u>	<u>399,421</u>	<u>359,393</u>
Total liabilities	4,590,745	4,421,929	4,701,411
Stockholders' equity	<u>3,591,057</u>	<u>3,644,584</u>	<u>2,168,253</u>
Total liabilities and stockholders' equity	\$ 8,181,802	\$ 8,066,513	\$ 6,869,664
Condensed statements of comprehensive income			
	2013 Pro forma (Unaudited figures)	2012 Pro forma (Unaudited figures)	2011 Pro forma (Unaudited figures)
Net sales	\$ 5,215,674	\$ 5,394,778	\$ 5,936,041
Cost of sales	(3,672,431)	(3,651,319)	(4,181,685)
Other operating expenses	(974,036)	(1,063,118)	(1,073,546)
Exchange gain, Net	(51,828)	57	32,853
Interest expense, Net	(109,082)	(268,884)	(174,440)
Monetary position loss	(13,831)	(2,959)	(3,649)
Equity taxes	-	-	(17,064)
Equity in the results of associated entity	705	2,270	2,997
Income taxes	(156,800)	(116,080)	(132,159)
Discontinued operations	<u>(148,415)</u>	<u>19,527</u>	<u>(3,463)</u>
Consolidated profit for the year	<u>89,956</u>	<u>314,272</u>	<u>385,885</u>
Other comprehensive income (loss):			
Items that will not be reclassified subsequently to profit or loss:			
Property, plant and equipment revaluation	310,308	108,971	-
Actuarial losses recognized during the year	(2,866)	(43,869)	-
Income taxes	<u>(101,438)</u>	<u>(29,686)</u>	<u>-</u>
	206,004	35,416	-
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	(9,735)	(11,960)	(49,626)
Valuation of financial instruments	(49,047)	-	-
Net loss on available-for-sale financial assets	-	(9,814)	(9,279)
Income taxes	<u>15,115</u>	<u>2,944</u>	<u>2,876</u>
	<u>(43,667)</u>	<u>(18,830)</u>	<u>56,029</u>
Other comprehensive income for the year	<u>162,337</u>	<u>16,586</u>	<u>56,059</u>
Total consolidated comprehensive income for the year	<u>\$ 252,293</u>	<u>\$ 330,858</u>	<u>\$ 329,856</u>

k. **Supplementary financial information from the acquisition date**

The following table presents the net sales and comprehensive income of PMV and PolyOne from the acquisition date included in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2013.

	Net sales	Net income
PMV	\$ 41,903	\$ 25,286
PolyOne	\$ 72,135	\$ 136

l. **Supplementary pro forma information (unaudited)**

The following table presents the consolidated net sales and comprehensive income of Mexichem for the year ended December 31, 2013 as if the acquisitions of PMV and PolyOne had occurred as of January 1, 2013.

For the year ended December 31, 2013	Net sales	Net income
PMV	\$ 115,555	\$ 21,696
PolyOne	\$ 132,989	\$ 10,627

23. **Cash and cash equivalents and investments classified as trading**

a. **Cash and cash equivalents -**

	2013	2012	2011
Cash	\$ 493,796	\$ 247,425	\$ 204,402
Cash equivalents:			
Government paper in Mexican pesos	100,238	387,391	75,296
Bank paper in Mexican pesos	447,867	203,205	18,497
Time deposits	7,937	179,803	2,830
Swap investments	180,000	170,000	-
Treasury certificates in Mexican pesos	-	159,270	-
Bank deposit certificates in Mexican pesos	976	27,606	34,838
Investments	1,747	17,475	182,528
Other investments	-	-	1,456
Commercial paper in Mexican pesos	-	3,022	4,095
	<u>\$ 1,232,561</u>	<u>\$ 1,395,197</u>	<u>\$ 523,942</u>

The Swap investment denominated in U.S. dollars at December 2013 is for \$180 million, for a period of 7 days with annual interest of 1.05% to 1.41%, at December 2013 is for the amount of US\$170 million, for a period of between 7 and 15 days, with annual interest of between 1.35% and 2.15%.

- b. **Investment** classified as trading - In fiscal 2012 investment banking bonus structured linked to the behavior of the exchange rate of the Mexican peso to the U.S. dollar yield is the amount of \$ 250 million, with a term of 13 to 21 days and interest ranging from 2.3% to 17.19% per annum and agreed rate ranging from 13.00 to 13.15 Mexican pesos per U.S. dollar.

24. Accounts receivable

	2013	2012	2011
Customers	\$ 932,510	\$ 948,146	\$ 657,470
Less - Allowance for doubtful accounts	<u>35,733</u>	<u>25,874</u>	<u>20,770</u>
	896,777	922,272	636,700
Other and taxes receivable	<u>135,949</u>	<u>88,390</u>	<u>119,890</u>
	<u>\$ 1,032,726</u>	<u>\$ 1,010,662</u>	<u>\$ 756,590</u>

Trade receivables -

The average credit period on sales of goods is 62 days. In general, no interest is charged on trade receivables unless an agreement is reached for restructuring payments. The Entity has recognized an allowance for doubtful of 4% against all receivables determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Before accepting any new customer, the Entity uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year or whenever evidence of possible losses exist.

Customer receivables which are not past due or impaired have the best credit rating attributable based on the credit rating systems used by the Entity. Due to the number of customers, no single customer represents more than 2.4% of the receivables balance.

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is more than 60 days outstanding) are still considered recoverable. In certain cases the Entity has secured certain accounts receivable and does not maintain any collateral or credit improvements on these balances, or the legal right to offset them against any amount which the Entity might owe to the counterparty.

Age of receivables that are past due but not impaired

	2013	2012	2011
60–90 days	\$ 13,858	\$ 14,384	\$ 3,834
More than 90–120 days	<u>36,715</u>	<u>19,684</u>	<u>17,630</u>
Total	<u>\$ 50,573</u>	<u>\$ 34,068</u>	<u>\$ 21,464</u>
Average age (days)	<u>63</u>	<u>65</u>	<u>61</u>

Movement in the allowance for doubtful debts

	2013	2012	2011
Balance at beginning of the year	\$ 25,874	\$ 20,770	\$ 29,038
Charge to results	15,728	5,733	3,311
Applications	(4,569)	(980)	(8,316)
Translation effects	<u>(1,300)</u>	<u>351</u>	<u>(3,263)</u>
Balance at end of the year	<u>\$ 35,733</u>	<u>\$ 25,874</u>	<u>\$ 20,770</u>

In determining the recoverability of a trade receivable, the Entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. The impairment recognized represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Entity does not hold any collateral over these balances.

25. Inventories

	2013	2012	2011
Finished products	\$ 498,110	\$ 480,675	\$ 266,309
Raw materials	183,988	240,773	185,117
Goods in-transit	43,804	26,298	22,667
Spare parts	<u>36,623</u>	<u>31,824</u>	<u>19,690</u>
	762,525	779,570	493,783
Less - Allowance for obsolete and slow-moving inventory	<u>33,720</u>	<u>43,361</u>	<u>36,035</u>
	<u>\$ 728,805</u>	<u>\$ 736,209</u>	<u>\$ 457,748</u>

The cost of inventories recognized as an expense during the year with respect of the continuing operations was \$3,647 million, \$3,183 million and \$2,504 million as of December 31, 2013, 2012 and 2011, respectively. During 2013, 2012 and 2011, there were not write-downs of inventory to net realizable value.

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

	2013	2012	2011
Balance at beginning of the year	\$ 43,361	\$ 36,035	\$ 31,009
(Credit) charge to results	(2,942)	15,085	9,279
Applications	(5,991)	(6,031)	(2,087)
Translation effects	<u>(708)</u>	<u>(1,728)</u>	<u>(2,166)</u>
Balance at end of the year	<u>\$ 33,720</u>	<u>\$ 43,361</u>	<u>\$ 36,035</u>

26. Derivative financial instruments

The Entity has exposure to market risks, operating risks and financial risks arising from the use of financial instruments that involves interest rates, credit risks, liquidity risks and exchange rate risks, which are managed centrally. The Board of Directors establishes and monitors policies and procedures to measure and manage those risks, which are described below.

- a. **Capital management** - The Entity manages its capital to ensure that it will continue as a going concern, while it maximizes returns to its shareholders through the optimization of the balances of debt and equity. The Entity is not exposed to any externally imposed capital requirements.

The Entity's management reviews, on monthly basis, its net debt position and its cost of debts and their relationship with EBITDA (earnings before interest, taxes, exchange rate fluctuations, depreciation, amortization, equity in income of associated companies and monetary position). EBITDA is presented as part of the Entity's financial projections that is part of its business plan presented to the Board of Directors and shareholders of the Entity. The Entity has a policy to maintain a ratio of debt, net of cash and cash equivalents, of not more than two times EBITDA.

The ratio of net debt to EBITDA is as follows:

	2013	2012	2011
Net debt with financial institutions	932,646	685,293	929,534
EBITDA	<u>898,892</u>	<u>962,486</u>	<u>812,192</u>
Ratio of net debt to EBITDA	<u>1.04</u>	<u>0.71</u>	<u>1.14</u>
EBITDA	898,892	962,486	812,192
Interest on debt	<u>109,082</u>	<u>222,690</u>	<u>100,378</u>
Interest coverage rate	<u>8.24</u>	<u>4.32</u>	<u>8.09</u>

- b. **Interest rate risk management** - The Entity is mainly exposed to interest rate risks because it has entered into debt at variable rates. The risk is managed by the Entity through the use of interest rate swap contracts when the variations of projected rates exceed a range of 100 to 200 basis points per quarter. The Entity's hedging activities are regularly monitored so that they align with interest rates and their related risk, ensuring the implementation of the most profitable hedging strategies.

The Entity's exposures to interest-rate risk are mainly related to changes in the Mexican Interbank TIIE and Libor with respect to the Entity's financial liabilities. The Entity prepares sensitivity analyses based on its exposure to interest rates on its variable-rate debt with financial institutions that is not hedged. The analyses are prepared assuming that the ending period balance as at year end was an outstanding balance during the whole year. The Entity internally reports to the Board of Directors about its interest rate risks.

If the TIIE and Libor interest rates 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 2013 and 2012 would have decreased by \$20 million each year approximately. This is mainly attributable to the exposure of the Entity to LIBOR and TIIE interest rates on their long-term loans.

- c. **Credit risk management** - Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss for the Entity, and stems mainly from trade accounts receivable and liquid funds. Credit risk with respect to cash and cash equivalents and derivative financial instruments is limited because counterparties are banks with high credit ratings assigned by credit rating agencies. The maximum exposure to credit risk is primarily represented by the balance of financial assets in the trade accounts receivable. The Entity sells products to customers in different economic environments primarily in Mexico, South America, Europe and United States of America, that demonstrates their economic solvency. The total accounts receivable from all segments of business are comprised of more than 30,000 customers, which such customers do not represent a concentration of credit risk individually. However, the accounts receivable balance represents the maximum credit risk exposure to the Entity. The Entity periodically evaluates the financial condition of its customers and purchases collection insurance for export sales, while domestic sales generally require a guarantee. The Entity does not believe that there is a significant risk of loss from a concentration of credit with respect to its customer base and believes that any potential credit risk is adequately covered by its allowance for doubtful accounts, which represents its best estimate of impairment losses on receivables.

- d. ***Liquidity risk management*** - Ultimate responsibility for liquidity risk management rests with management of the Entity, which has established appropriate policies for the control of such risk through the monitoring of working capital, allowing management of the Entity's short-, medium-, and long-term funding requirements. The Entity maintains cash reserves and available credit lines, continuously monitoring projected and actual cash flows, reconciling the profiles of maturity of financial assets and financial liabilities.

The following table details the remaining contractual maturities of the Entity's non-derivative financial assets and financial liabilities, based on contractual repayment periods. The table has been designed based on un-discounted projected cash flows of financial assets and liabilities based on the date on which the Entity must make payments and expects to receive collections. The table includes both projected cash flows related to interest and capital on financial debt in the consolidated statements of financial position and the interest that will be earned on financial assets. Where the contractual interest payments are based on variable rates, the amounts are derived from interest rate curves at the end of the period. The contractual maturity is based on earliest date in which the Entity is required to make payment.

As of December 31, 2013	average effective interest rate	3 months	6 months	1 year	Between 1 and 3 years	More than 3 years
Bank loans	5.58%	\$ 49,435	\$ 49,039	\$ 82,479	\$ 684,245	\$ 2,000,000
Suppliers and credit letters		860,261	92,886	-	-	-
Other accounts payable and others		234,290	143,328	72,457	74,558	-
Finance lease	5.65%	21,539	13,921	16,003	138,068	-
Derivative financial instruments (Net cash flow)		-	-	-	7,644	-
Total		<u>1,165,525</u>	<u>299,174</u>	<u>170,939</u>	<u>904,515</u>	<u>2,000,000</u>
Cash and cash equivalents		1,232,561	-	-	-	-
Trade accounts receivable and others		<u>961,095</u>	<u>102,980</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total		<u>2,193,656</u>	<u>102,980</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net		<u>\$ 1,028,131</u>	<u>\$ (196,194)</u>	<u>\$ (170,939)</u>	<u>\$ (904,515)</u>	<u>\$ (2,000,000)</u>
As of December 31, 2012	Weighted average effective interest rate	3 months	6 months	1 year	Between 1 and 3 years	More than 3 years
Bank loans	5.45%	\$ 49,647	\$ 76,530	\$ 191,442	\$ 304,531	\$ 3,000,000
Suppliers		834,549	72,429	21,062	-	-
Other accounts payable and others		418,741	-	5,552	73,989	-
Finance lease	7.49%	14,974	11,468	11,251	61,180	-
Derivative financial instruments (Net cash flow)		-	-	-	14,086	-
Total		<u>1,317,911</u>	<u>160,427</u>	<u>229,307</u>	<u>453,786</u>	<u>3,000,000</u>
Cash and cash equivalents		1,395,197	-	-	-	-
Trade investments		250,000	-	-	-	-
Trade accounts receivable and others		<u>944,220</u>	<u>43,234</u>	<u>56,948</u>	<u>-</u>	<u>-</u>
Total		<u>2,589,417</u>	<u>43,234</u>	<u>56,948</u>	<u>-</u>	<u>-</u>
Net		<u>\$ 1,271,506</u>	<u>\$ (117,193)</u>	<u>\$ (172,359)</u>	<u>\$ (453,786)</u>	<u>\$ (3,000,000)</u>

As of December 31, 2011	interest rate	3 months	6 months	1 year	years	More than 5
Bank loans	5.45%	\$ 298,411	\$ 21,317	\$ 21,995	\$ 752,953	\$ -
Suppliers		530,799	58,425	1,507	-	-
Other accounts payable and others		177,346	16,591	51,151	65,215	-
Finance lease	8.44%	1,250	1,250	2,499	4,625	-
Derivative financial instruments						
(Net cash flow)		<u>2,920</u>	<u>2,920</u>	<u>4,066</u>	<u>-</u>	<u>-</u>
Total		<u>1,010,726</u>	<u>100,503</u>	<u>81,218</u>	<u>822,793</u>	<u>-</u>
Cash and cash equivalents		523,942	-	-	-	-
Investment securities available for sale		25,522	-	-	-	-
Trade accounts receivable and others		<u>670,860</u>	<u>33,817</u>	<u>57,063</u>	<u>-</u>	<u>-</u>
Total		<u>1,220,324</u>	<u>33,817</u>	<u>57,063</u>	<u>-</u>	<u>-</u>
Net		<u>\$ 209,598</u>	<u>\$ (66,686)</u>	<u>\$ (24,155)</u>	<u>\$ (822,793)</u>	<u>\$ -</u>

amounts included for debt with financial institutions includes both fixed and variable interest rate instruments. The financial liabilities at variable rates changes in variable rates differ from the estimates of rates determined at the end of the reporting period is presented at fair value.

The Entity expects to meet its obligations with the cash flows from operations and resources received from the maturity of financial assets. In addition, the Entity is receiving revolving credit with a balance not executed of \$1,000 million and 122 million euros.

Foreign exchange risk management - The Entity carries out transactions denominated in foreign currency; consequently, it is exposed to fluctuations in exchange rates. The Entity manages within the parameters of the approved policies, using, where appropriate, forward exchange rate contracts, when considered effective.

The carrying values of monetary assets and monetary liabilities denominated in foreign currency at the end of the period are as follows (foreign currencies in millions of euros):

	Liabilities			Assets	
	2013	2012	2011	2013	2012
Euros	848,818	848,964	11,152	311,764	296,247
Brazilian real	159,146	178,278	122,702	328,494	327,096
Mexican pesos	4,528,389	7,724,896	7,275,179	7,742,001	8,604,554
Colombian peso	231,514,405	141,281,577	223,648,030	122,685,120	129,464,496

- Foreign currency sensitivity analysis

The following table details the sensitivity of Mexichem to increases and decreases of 10% in the Mexican pesos against the relevant foreign currencies. The 10% represents the rate of sensitivity used when the exchange rate risk is reported internally to key management personnel, and represents the evaluation of the management on possible change in the exchange rates. The sensitivity analysis includes only the monetary items denominated in foreign currency and adjusts their conversion with a 10% fluctuation at the end of the period. The sensitivity analysis includes external loans as well as loans from foreign operations inside the Entity where the loan is denominated in a currency other than the U.S. dollar. A negative or positive figure, respectively, (as shown in the following table) indicates a (decrease) or increase in the results derived from a 10% weakening of the foreign currency against the foreign currency in question:

	2013	2012	2011
Euros	67,810	66,996	(2,295)
Brazilian real	(6,579)	(6,632)	10,495
Mexican pesos	(22,352)	(6,147)	(29,542)
Colombian peso	5,135	608	(4,337)

Sensitivity analyses is 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.

At December 31, the exchange rate of U.S. dollar in the main countries in which the Entity operates, existing at the date of the financial statements were as follows:

	2013	2012	2011
Argentina	6.52	4.91	4.30
Brazil	2.34	2.04	1.87
Colombia	1,926.83	1,768.23	1,942.70
Mexico	13.07	13.01	13.94
United Kingdom	0.60	0.62	0.65
European Union (Euro)	0.72	0.75	0.77
Venezuela	6.30	4.30	4.30

- f. **Financial risk management objectives** - The Mexichem's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Entity's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

- g. **Market risk** - The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see subsection e. of this note) and interest rates (see subsection b. of this note). The Entity enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

- Forward foreign exchange contracts to hedge the exchange rate risk arising on the debt in Mexican pesos;
- Interest rate swaps to mitigate the risk of rising interest rates; and

- Cross currency Swaps foreign exchange contracts to hedge the exchange rate risk arising on translation of the Entity's investment in a Wavin foreign operation, which its functional currency is Euro.

Market risk exposures are measured using a sensitivity analysis.

There has been no change to the Entity's exposure to market risks or the manner in which these risks are managed and measured.

- h. **Interest rate swap contracts (Cross Currency Swap)** - Under interest rate swap contracts, the Entity agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the Entity to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt in Mexican pesos and investment in euros for the acquisition of its subsidiary Wavin. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period:

Notional amount in Mexican pesos	Rate received in Mexican pesos	Notional amount in euros	Rate delivered in euros (average)	Maturity
3,000,000,000	8.12%	182,827,052	4.75%	9-March-2022
4,500,000,000	TIIE + 0.6%	263,527,088	2.07%	2-September 2016

The aforementioned currency swaps have been formally designated as hedge transactions for accounting purposes, as follows:

Mexichem is an Entity whose functional currency is the U.S. dollar. Mexichem issued debt for MX \$7,500 million at 5 and 10 years; part of the debt is at a fixed rate (8.12%) and another part is at 0.6% above the variable Interbank Interest Rate (TIIE). Furthermore, Mexichem acquired a foreign company for the amount of €533 million.

Mexichem designated the aforementioned currency swaps as cash flow hedge relationships, covering the exchange fluctuations to which it is exposed for the revaluation of the debt in Mexican pesos and the investment abroad in euros. Even though the exchange rate risk is defined by the functional currency of Mexichem and the currency swaps do not have any flow in such functional currency, these instruments are used as hedges because the effects generated by the revaluation from Mexican pesos and euros to U.S. dollars would be eliminated. Mexichem has evaluated and measured the effectiveness, and concluded that the hedge strategy is highly effective as of December 31, 2013. The Entity uses the ratio analysis method based on the hypothetical derivative model to simulate the behavior of the element covered. Such method consists of comparing the changes in the fair value of the hedge instruments with the changes in the fair value of the hypothetical derivative that would result in a perfect hedge of the hedged item.

As of December 31, 2013, the fair value of the currency swaps represents a liability of \$67 million. The effect recognized in stockholders' equity for the hedge of the investment in the subsidiary abroad is \$49 million with a deferred ISR effect of \$15 million. With regard to the portion that hedges the debt in Mexican pesos, the effect of the change in fair value is \$18 million, and is recognized in results of the period to offset the revaluation of the hedged item. The amount to be recognized in results of the period over the next 12 months will depend on the behavior of the different exchange rates.

ue or financial instruments presented below has been determined by the Entity using information available in the markets or other valuation techniques in market conditions existing at each balance date, but require judgment with respect to their development and interpretation. As a result, the estimates are only indicative of the amounts that the Entity could obtain in a current market exchange. The use of different assumptions and/or estimation methods could result in different amounts of fair value.

ing 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 how 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 (prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Entity considers that the carrying amount of cash and cash equivalents, accounts receivable and accounts payable from third parties and related parties, the fair value is the carrying amount because they have short-term maturities. The Entity's long-term debt is recorded at amortized cost and incurs interest at fixed and variable rates.

To determine and disclose the fair value of long-term debt, the Entity uses quoted market prices or inputs or quoted prices on similar instruments. Other techniques used for the fair value of financial instruments such as cash flow projections, considering the dates of the cash flows in market curves, discounting such cash flows using the market interest rate of the counterparty as well as the Entity's own credit risk over the referenced period. The fair value of interest rate swaps is calculated as the present value of the net cash flows expected to be received or paid. 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 carrying amounts of financial instruments by category and their related fair values at December 31 are as follows:

	2013		2012		Carrying amount
	Carrying amount	Fair value	Carrying amount	Fair value	
Assets:					
Cash and cash equivalents	\$ 1,232,561	\$ 1,232,561	\$ 1,395,197	\$ 1,395,197	\$ 5,000,000
Investments	-	-	250,000	250,000	-
Accounts receivable:					
Debtors and other current assets	1,064,075	1,064,075	1,044,402	1,044,402	7,000,000
Accounts payable	(1,705,012)	(1,705,012)	(1,568,920)	(1,568,920)	(9,000,000)
Loans and current portion of long-term debt	(2,165,207)	(1,883,508)	(2,330,490)	(2,429,545)	(1,400,000)
Derivatives for sale-instruments					
Forward paper	-	-	-	-	-
	-	-	-	-	-
Derivatives not designated as hedging instruments:					
Foreign exchange rate and interest rate swap	(74,689)	(74,689)	(1,225)	(1,225)	(1,000,000)
Interest rate swap	-	-	(12,861)	(12,861)	(1,000,000)
Interest rate swap, euros to pesos EUR/MXN XCY	-	-	(3,410)	(3,410)	(1,000,000)
	<u>\$ (1,648,272)</u>	<u>\$ (1,366,573)</u>	<u>\$ (1,227,307)</u>	<u>\$ (1,326,362)</u>	<u>\$ (1,000,000)</u>

	December 31 2013			December 31 2012
	Fair value	Level 1	Level 2	Fair value
Financial assets:				
Cash and cash equivalents	\$ 1,232,561	\$ 1,232,561	\$ -	\$ 1,232,561
Trade investments	-	-	-	-
Available-for sale-instruments	-	-	-	-
Bank paper	-	-	-	-
Shares	-	-	-	-
Derivatives not designated as hedging instruments:				
Exchange rate and interest rate swap	(74,689)	-	(74,689)	-
Interest rate swap	-	-	-	-
Fixed rate swap, euros to pesos	-	-	-	-
EUR/MXN XCY	-	-	-	-
Total	<u>\$ 1,157,872</u>	<u>\$ 1,232,561</u>	<u>\$ (74,689)</u>	<u>\$ 1,157,872</u>

The fair values shown at December 31, 2013, 2012 and 2011 do not differ from carrying values, except bank loans including

During the period there were no transfers between level 1 and 2.

28. Derivative financial instruments

a. Exchange rate Swap

In November 2013, forwards (U.S. dollar to Mexican peso) were contracted with Morgan Stanley for an effective term of 12 months. The exchange rate agreed is \$13.4750 Mexican peso for each U.S. dollar. Furthermore, on the same date forwards (US dollar to Mexican peso) were contracted with Morgan Stanley for an effective term of 12 months with maturities of \$5 million. The exchange rate agreed is \$13.48 Mexican peso for each U.S. dollar.

Also in November 2013, forwards (U.S. dollar to Mexican peso) were contracted with Morgan Stanley for an effective term of 12 months. The exchange rate agreed is \$13.50 Mexican peso for each U.S. dollar; these forwards establish a Knock-out of \$12.50 Mexican peso for each U.S. dollar.

The fair value as of December 31, 2013 of the forwards described in this subsection is similar to that contracted.

b. Interest rate and exchange rate Swap

Swap contract transactions performed in 2013 and 2012 represent a hedge from an economic standpoint; for accounting purposes, the fair value of the swap contract as of December 31, 2013 and as of December 31, 2012 was \$74,689 and \$17,496, respectively. The variations in fair value are recognized in the income statement.

Derivatives						
2019						
Derivatives	Financial institution	Starting date	Ending date	Notional amount	Interest rate paid/Exchange rate agreed	Interest rate paid/Exchange rate
Fixed interest rate swap	ABN Amro	November/2010	16/October/2015	GBP20'000,000	3.08%	0.00%
Fixed interest rate swap	Rabo Bank, ABN					
Fixed interest rate swap	Amro and BNP	July/2008	19/October/2015	EUR 50'000,000	4.55%	0.00%
Fixed interest rate swap	Danske Bank	September/2010	16/October/2015	EUR 25'000,000	2.29%	0.00%
Exchange rate and interest rate Swap	Morgan Stanley	08/April/2013	09/March/2022	EUR 29'976,019	8.12% / 16.6800	4.98%
Exchange rate and interest rate Swap	Morgan Stanley	24/April/2013	09/March/2022	EUR 31'446,541	8.12% / 15.9000	4.38%
Exchange rate and interest rate Swap	Morgan Stanley	24/May/2013	09/March/2022	EUR 30'879,447	8.12% / 16.1920	4.55%
Exchange rate and interest rate Swap	Santander	29/May/2013	02/September/2016	EUR 30'562,347	4.39% / 16.3600	1.95%
Exchange rate and interest rate Swap	Banamex	29/May/2013	02/September/2016	EUR 30'525,030	4.39% / 16.3800	1.95%
Exchange rate and interest rate Swap	BBVA Bancomer	30/May/2013	02/September/2016	EUR 30'068,858	4.39% / 16.6285	1.95%
Exchange rate and interest rate Swap	BBVA Bancomer	30/May/2013	02/September/2016	EUR 29'988,604	4.39% / 16.6730	1.95%
Exchange rate and interest rate Swap	Santander	30/May/2013	02/September/2016	EUR 30'024,260	4.39% / 16.6532	1.93%
Exchange rate and interest rate Swap	Santander	01/April/2013	09/March/2022	EUR 90'525,045	8.12% / 16.5700	5.10%
Exchange rate and interest rate Swap	BBVA Bancomer	27/September/2013	02/September/2016	EUR 28'088,310	4.39% / 17.8010	2.25%
Exchange rate and interest rate Swap	BBVA Bancomer	27/ September /2013	02/ September /2016	EUR 14'044,944	4.39% / 17.8000	2.24%
Exchange rate and interest rate Swap	Credit Suisse	27/ September /2013	02/ September /2016	EUR 42'134,831	4.39% / 17.8000	2.20%
Exchange rate and interest rate Swap	HSBC	27/ September /2013	02/ September /2016	EUR 28'089,888	4.39% / 17.8000	2.20%
Exchange rate and interest rate Swap	Morgan Stanley	09/October/2013	05/March/2021	USD 113'550,340	4.89% / 13.2100	3.88%
Exchange rate and interest rate Swap	Various	Various	Various	Various	Various	Various

Interest rate swaps						
Activities	Financial Institution	Starting date	Ending date	Nominal amount	Agreed	Unit
Exchange and interest rate swaps	Morgan Stanley	21/June/2010	20/December/2014	US\$62,000,000	Libor + 2.60	Euro
Fixed interest rate swap	ABN Amro	November/2010	16/October/2015	GBP20,000,000	3.076%	0
Fixed interest rate Swap	Rabo Bank, ABN Amro y BNP	July/2008	19/October/2015	EUR50,000,000	4.55%	0
Fixed interest rate Swap	Rabo Bank, ABN Amro, ING y RBS	July 2009	19/October/2015	EUR110,000,000	3.4375%	0
Fixed interest rate Swap	Danke Bank	September/2010	16/October/2015	EUR25,000,000	2.29%	0
Euro to Pesos fixed interest rate Swap	HSBC	19/April/2012	09/March/2022	EUR 86,530,141	8.12% /17.335	4.39%
EUR/MXN XCY Euro to Pesos fixed interest rate Swap	Morgan Stanley	12/September/2012	09/March/2022	EUR 89,552,238	8.12% /16.75	4.98%
EUR/MXN XCY Euro to Pesos fixed interest rate Swap	HSBC	8/May/2012	02/September/2016	EUR 58,122,639	5.39% /17.2050	2.43%
Interest rate Swap EUR/MXN XCY	BBVA Bancomer	30/August/2012	02/September/2016	EUR 59,772,863	5.39% /16.73	2.45%
EUR to Pesos fixed interest rate Swap	Morgan Stanley	30/August/2012	02/September/2016	EUR 59,952,038	5.39% / 16.68	2.53%
EUR/MXN XCY Euro to Pesos fixed interest rate Swap	BBVA Bancomer	12/September/2012	02/September/2016	EUR 29,797,377	5.39% / 16.78	2.58%
EUR/MXN XCY Euro to Pesos fixed interest rate Swap	Bank of America	12/September/2012	02/September/2016	EUR 29,761,905	5.39% / 16.80	2.55%
EUR/MXN XCY Euro to Pesos fixed interest rate Swap	Bank of America	17/October/2012	02/September/2016	EUR 29,761,905	5.39% / 16.80	2.36%

Financial instruments							
Financial instrument	Financial institution	Contract date	Expiry date	Contract amount	Interest rate	Counterparty	
Interest rate swap contracts (the fixes the interest rate, the floating rate is the exchange rate of the currency against the USD/MXN FX)	Morgan Stanley	21/June/2010	20/December/2014	USD 62'000,000	Libor + 2.60	Euro bank	
	Citibank NA	May/2008	28/August/2012	USD 25'000,000	Libor + .875	4 bank	
	Morgan Stanley	July/2008	19/October/2015	USD 130'000,000	\$12.59	\$ bank	
Investment in property, plant and equipment							
	Balances as of December 31, 2012	Additions	Acquisitions through business combinations	Fixed asset sales	Transferred from property, plant and equipment	Effect from appraisal	Transfer to other assets
Investment in:	\$ 320,247	\$ 2,370	\$ 12,500	\$ (827)	\$ 5,823	\$ 60,187	\$ -
Buildings	888,324	18,552	46,251	(19,113)	57,666	76,223	-
Furniture and equipment	3,572,230	71,615	274,619	(119,501)	309,326	120,681	-
Leasehold improvements and fixtures	148,199	2,824	159	(10,014)	19,429	62	-
Intangible assets	34,738	1,799	94	(1,034)	2,216	8,318	-
Construction in-progress	306,684	408,256	335	(235)	(394,460)	(1,811)	-
Total investment	5,270,422	505,416	333,958	(150,724)	-	263,660	-
Accumulated depreciation:							
Buildings	447,902	31,139	-	(9,686)	-	26,907	-
Furniture and equipment	2,345,089	202,942	-	(89,279)	-	(48,579)	-
Leasehold improvements and fixtures	129,613	6,547	-	(9,066)	-	230	-
Intangible assets	12,666	1,980	-	(917)	-	(1,246)	-
Total accumulated depreciation	2,935,270	242,608	-	(108,948)	-	(22,688)	-
Investment classified as held for sale	127,226	-	-	(124,155)	-	-	-
Total investment	\$ 2,462,378	\$ 262,808	\$ 333,958	\$ (165,931)	\$ -	\$ 286,348	\$ -
	Balances as of December 31, 2011	Additions	Acquisitions through business combinations	Fixed asset sales	Transferred from property, plant and equipment	Effect from appraisal	Transfer to other assets
Investment in:	\$ 198,171	\$ 3,920	\$ 106,188	\$ (1,088)	\$ 2,409	\$ 5,746	\$ -
Buildings	514,372	22,879	308,060	(9,498)	26,642	17,769	-
Furniture and equipment	2,406,169	10,464	1,003,651	(52,721)	144,262	85,042	-
Leasehold improvements and fixtures	54,866	2,665	91,684	(6,795)	1,397	388	-
Intangible assets	30,781	295	1,651	(4,605)	3,909	26	-
Construction in-progress	116,935	350,707	28,691	(17,432)	(178,619)	-	-
Total investment	3,321,294	390,930	1,539,925	(92,139)	-	108,971	-
Accumulated depreciation:							

re and fixtures	50,086	6,941	78,457	(4,827)	-	-	
s	<u>10,236</u>	<u>648</u>	<u>2,653</u>	<u>(849)</u>	<u>-</u>	<u>-</u>	
Total accumulated depreciation	1,685,244	213,777	1,084,746	(36,940)	-	-	
classified as held for sale	<u>56,192</u>	<u>71,034</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Investment	<u>\$ 1,692,242</u>	<u>\$ 248,187</u>	<u>\$ 455,179</u>	<u>\$ (55,199)</u>	<u>\$ -</u>	<u>\$ 108,971</u>	<u>\$ -</u>

	Balances as of December 31, 2010	Additions	Acquisitions through business combinations	Fixed asset sales	Transferred from property, plant and equipment	Effect from appraisal	Transfer
Investment:	\$ 191,420	\$ 5,584	\$ 7,612	\$ (3,995)	\$ 49	\$ -	\$ -
Investments	467,776	8,654	14,644	(10,940)	28,311	14,054	
Property and equipment	2,290,345	140,887	24,035	(64,944)	63,448	(33,111)	
Leasehold improvements	51,574	1,117	710	(973)	3,282	(166)	
Intangible assets	26,222	5,177	94	(1,474)	992	(10)	
Construction in-progress	<u>123,330</u>	<u>100,615</u>	<u>412</u>	<u>(4,662)</u>	<u>(96,082)</u>	<u>-</u>	
Total investment	3,150,667	262,034	47,507	(86,988)	-	(19,233)	

Investment:							
Investments	205,610	11,141	1,508	(4,749)	-	13,479	
Property and equipment	1,309,397	167,709	1,622	(40,896)	-	(29,196)	
Leasehold improvements	40,841	4,064	565	(879)	-	-	
Intangible assets	<u>17,370</u>	<u>1,081</u>	<u>51</u>	<u>(4,243)</u>	<u>-</u>	<u>-</u>	
Total accumulated depreciation	1,573,218	183,995	3,746	(50,767)	-	(15,717)	
classified as held for sale	<u>66,664</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,472)</u>	
Investment	<u>\$ 1,644,113</u>	<u>\$ 78,039</u>	<u>\$ 43,761</u>	<u>\$ (36,221)</u>	<u>\$ -</u>	<u>\$ (13,988)</u>	<u>\$ -</u>

Intangible assets and goodwill

Intangible assets

	Useful life	2013	2012	2011
License - compete agreements	5	\$ 36,100	\$ 56,499	\$ 66,767
Customer portfolio	25	661,686	595,948	112,227
Use of trademark	Indefinite/finite	329,899	326,953	161,466
Intellectual property	10	129,408	110,156	120,675
Other intangibles	5	<u>51,093</u>	<u>55,743</u>	<u>1,000</u>
		<u>\$ 1,208,186</u>	<u>\$ 1,145,299</u>	<u>\$ 462,135</u>

balances as of December 31, 2010	\$	169,000	\$	55,386	\$	169,515	\$	75,000	\$	-	\$
Acquisitions through business combinations		40,000		87,661		-		58,800		2,000	
Intangibles applications advance of business acquisition		(40,000)		-		-		-		-	
Effect of foreign currency exchange differences		-		-		(6,089)		-		-	
balances as of December 31, 2011	\$	169,000	\$	143,047	\$	163,426	\$	133,800	\$	2,000	\$
Acquisitions through business combinations		13,000		499,272		172,625		-		-	
Effect of foreign currency exchange differences		-		1,773		5,439		-		-	
balances as of December 31, 2012		182,000		644,092		341,490		133,800		2,000	
Acquisitions through business combinations		-		75,200		3,200		27,100		-	
Effect of foreign currency exchange differences		-		-		-		-		-	
		-		25,593		368		-		-	
balances as of December 31, 2013	\$	182,000	\$	744,885	\$	345,058	\$	160,900	\$	2,000	\$
Accumulated amortization											
balances as of December 31, 2010	\$	68,600	\$	21,079	\$	1,960	\$	5,625	\$	-	\$
Amortization		33,633		9,741		-		7,500		1,000	
balances as of December 31, 2011		102,233		30,820		1,960		13,125		1,000	
Amortization		23,268		17,324		12,577		10,519		1,000	
balances as of December 31, 2012		125,501		48,144		14,537		23,644		2,000	
Amortization		20,399		35,055		622		7,848		-	
balances as of December 31, 2013		145,900		83,199		15,159		31,492		2,000	
Net assets at December 31, 2013	\$	36,100	\$	661,686	\$	329,899	\$	129,408	\$	-	\$

Goodwill

	2013		2012		2011	
Hexichem Amanco Holding, S.A. de C.V.	\$	131,780	\$	140,663	\$	130,971
Hexichem Resinas Vinílicas, S.A. de C.V.		101,176		101,176		101,176
Hexichem Speciality Resins, Inc.		64,687		-		-
Hexichem Resinas Colombia, S.A.S.		54,593		54,593		54,593
Phagary Corporation		52,805		52,805		52,805
Guorita de México, S.A. de C.V.		45,682		45,682		-
Avin N.V.		33,852		32,418		-
Others		51,938		52,204		51,516
	\$	526,513	\$	478,541	\$	321,061

31. Bank loans and long-term debt

At the end are integrated as follows:

	2013	2012	2011
Summary of agreements of loans in U.S. dollars, euros, colombian pesos and yen:			
Issuance of an International Bond for the amount of \$750 million, which accrues semiannual interest at the fixed 4.875% rate. Principal will be settled through a single payment at maturity on September 19, 2022.	\$ 750,000	\$ 750,000	\$ -
Issuance of an International Bond for the amount of \$400 million, which accrues semiannual interest at the fixed 6.75% rate. Principal will be settled through a single payment at maturity on September 19, 2042.	400,000	400,000	-
Rabobank Revolving credit line of 200 million euros, which accrues quarterly interest at the Euribor/Libor/Wibor /Pribor rate plus a maximum of 4.0% and a minimum of 1.65%. Principal will be settled through a single payment at maturity on April 16, 2015	38,908	97,038	-
Issuance of \$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; in September 2012, the amount of \$ 267.1 million was prepaid.	82,882	82,882	350,000
BBVA Houston Unsecured loans documented with promissory notes of \$78 million and \$62 which bear monthly interest at a rate of Libor plus 2.60 %. Principal is repaid quarterly with maturity in December 2014. In September 2012, the outstanding loan balance of \$62 million was paid.	19,500	39,000	105,000
Mizuho Corporate Bank Unsecured loan documented with a promissory note of 2,700 billion yen that bear quarterly interest at a fixed rate of 2.17%. The principal is paid in 6 semiannual payments from June 2014.	25,668	31,388	35,074

	2013	2012	2011
Overdraft line for 30.2 million euros, which accrues interest at the 2.51% rate.	1,626	39,840	-
Bancolombia S.A.			
Unsecured loans documented with promissory notes of 90,750 million Colombian pesos, which bear quarterly interest at the FTD rate plus 5.5%. This loan was prepaid on September, 2012.	-	-	42,081
Banco de Crédito S.A.			
Promissory note of 35,000 million Colombian pesos, with semi-annual repayments, which bear quarterly interest at the Fixed Term Deposit rate (FTD) plus 5.1%, maturing on May 8, 2014. These loans were prepaid on September, 2012.	-	-	18,016
Banco de Bogotá, S.A. y Bancolombia, S.A.			
Loans of US\$12.7 million, of which US\$8.9 accrue 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). These loans were prepaid on September, 2012.	-	-	3,286
JP Morgan			
Revolving credit line of US\$ one billion, which bear quarterly interest at Libor plus 0.90%. The principal is amortized in an only payment at maturity of August 26, 2014. This loan was prepaid on September, 2012.	-	-	280,000
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 paid on March 31, 2012.	-	-	226,611
Others	6,740	1,929	3,708

	2013	2012	2011
Loans in Mexican pesos:			
Securitization certificates of 4,500 million of Mexican pesos that bear monthly interest at the TIIE rate plus 0.60% basis points. Principal matures on September 2, 2016 in a single payment.	344,129	345,885	179,242
Securitization certificate for 3,000 million of Mexican pesos bearing interest each semester at a fixed rate of 8.12%. Principal on these loans is settled on March 9, 2022 in a single payment.	229,419	230,590	-
HSBC			
Unsecured loans of 2,500 million of Mexican pesos documented with promissory notes, which bear quarterly interest at the TIIE rate plus 1.50 %. On March 15, 2012 increased the amount borrowed by \$2,000 million. Principal is repaid quarterly beginning January 2013 and matures in October 2015. On March 2013 was prepaid credit by \$1,329.9 million of Mexican pesos.	52,443	192,158	179,242
Bancomext			
Loan for 3,069 million which bear interest at the TIIE rate plus 0.825. Principal is amortized each semester from March 5, 2016, due in February 2021. On March 2013 was prepaid credit by \$1,850.2 million of Mexican pesos.	<u>234,730</u> 2,186,045	<u>142,209</u> 2,352,919	<u>71,697</u> 1,493,957
Less: Current portion of bank loans and current portion of long-term debt	(62,121)	(125,321)	(271,908)
Less: Debt issuance costs	<u>(20,838)</u>	<u>(22,429)</u>	<u>(14,959)</u>
	<u>\$ 2,103,086</u>	<u>\$ 2,205,169</u>	<u>\$ 1,207,090</u>

Long-term debt matures as follows as of December 31, 2013:

Payable during -	
2015	\$ 76,298
2016	381,586
2017	39,566
2018	39,566
2019	121,313
2020 and thereafter	<u>1,444,757</u>
	<u>\$ 2,103,086</u>

At December 31, 2013, the financing contracted establishes certain restrictions, which have been fulfilled and are calculated based on consolidated financial statement figures for the Entity and consolidated financial statements figures for Wavin the most significant of which are as follows:

- a. Certain restrictions regarding the application of new liens.
- b. Maintain a consolidated interest hedge ratio of at least between 3.0 and 1.0.
- c. Maintain an index of leverage on the profit before interest, taxes, depreciation and amortization not greater than 3.0 to 1.0.
- d. Insure and maintain property and equipment in good working condition.
- e. Comply with all applicable laws, rules, regulations and provisions.

32. Employee benefits

a. *Defined contribution plans*

In the Mexican subsidiaries are carried out payments on integrated salary of its employees to the contribution plan defined by concept of statutory retirement savings system.

In some subsidiaries the Entity operates defined contribution retirement benefit plans for all qualifying employees. The assets of the plans are held separately from those of the Entity in funds under the control of trustees. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees of certain subsidiaries of the Entity are members of a state-managed retirement benefit plan operated by the government. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Entity with respect to the retirement benefit plan is to make the specified contributions.

Benefits of defined contribution plans are paid monthly.

b. *Defined benefit plans*

In certain subsidiaries the Entity sponsors funded defined benefit plans for qualifying employees of its subsidiaries. The defined benefit plans are administered by a separate Fund that is legally separated from the Entity. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund.

The Entity's Mexican subsidiaries manage a plan that also covers seniority premium, which consists of a one-time payment of 12 days for each year worked based on the last wage, limited to twice the minimum wage established by law. The related liability and the annual cost of benefits are calculated by an independent actuary in accordance with the bases defined in the plans, using the projected unit credit method.

The Entity manages defined contributions plans for employees that qualify in its Mexican subsidiaries. According to these plans, the employees are entitled to withdrawal final benefits on reaching the age of retirement that is 65 years old; with 10 or more years of service. There is also the option of early retirement when the sum of years working plus sum employee age 55 years; with 10 or more years of service. No other post-retirement benefits are awarded.

The plans typically expose the Entity to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estates. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2013 by independent actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2013	2012	2011
Discount rate	5.83%	5.33%	8.25%
Expected rate of salary increase	3.10%	3.55%	4.50%
Return on plan assets	7.75%	7.25%	8.00%
Average longevity at retirement age for current pensioners (years)			
Males	21.6	21.5	-
Females	24.3	24.2	-
Average longevity at retirement age for current employees (years)			
Males	23.1	23.1	-
Females	25.4	25.4	-

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

	2013	2012	2011
Service cost:			
Current service cost	\$ 17,154	\$ 12,292	\$ 1,521
Past service cost and (gain)/loss from settlements	(26,028)	(1,090)	2,668
Net interest expense	<u>3,845</u>	<u>2,935</u>	<u>(535)</u>
Components of defined benefit costs recognized in profit or loss	<u>\$ (5,029)</u>	<u>\$ 14,137</u>	<u>\$ 3,654</u>

	2013	2012	2011
Remeasurement on the net defined benefit liability:			
Return on plan assets (excluding amounts included in net interest expense)	\$ 7,988	\$ (34,087)	\$ -
Actuarial (gains) and losses arising from changes in demographic assumptions	(4,655)	132,653	-
Actuarial (gains) and losses arising from changes in financial assumptions	(467)	318	-
Actuarial (gains) and losses arising from experience adjustments	-	(63,514)	-
Components of defined benefit costs recognized in other comprehensive income	2,866	35,370	-
Total	<u>\$ (2,163)</u>	<u>\$ 49,507</u>	<u>\$ 3,654</u>

In 2013 and 2012 (profit) and past service costs / losses by settlements include the anticipated reduction of obligations by restructuring and adjustments to the pension plans (\$24,753) and (\$1,090), respectively of the operations of Wavin in United Kingdom, Ireland and the Netherlands.

The current service and financial cost net of the year are included in benefits spending to employees in the consolidated statement of profit or loss, both in selling and development expenses as in administrative expenses.

The remeasurement of the net defined benefit liability is included in other comprehensive income.

The amount included in the consolidated statement of financial position arising from the Entity's obligation in respect of its defined benefit plans is as follows:

	2013	2012	2011
Present value of funded defined benefit obligation	\$ (777,808)	\$ (775,856)	\$ (22,253)
Fair value of plan assets	<u>697,612</u>	<u>663,938</u>	<u>26,087</u>
Net (liability) asset arising from defined benefit obligation	<u>\$ (80,196)</u>	<u>\$ (111,918)</u>	<u>\$ 3,834</u>

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

	2013	2012	2011
Opening defined benefit obligation	\$ 775,856	\$ 22,253	\$ 25,713
Business acquisitions	-	585,416	-
Current service cost	17,154	12,292	1,521
Interest cost	29,782	32,008	1,796
Remeasurement (gains)/losses:			
Actuarial gains and losses arising from changes in demographic assumptions	(18,995)	139,627	315
Actuarial gains and losses arising from experience adjustments	(467)	318	-
Past service cost, including losses/(gains) on curtailments	(27,727)	(982)	(6,442)

	2013	2012	2011
Liabilities assumed in a business combination	274	21	-
Exchange differences on foreign plans	25,563	5,679	-
Benefits paid	(28,314)	(25,146)	(650)
Contributions from plan participants	<u>4,682</u>	<u>4,370</u>	<u>-</u>
Closing defined benefit obligation	<u>\$ 777,808</u>	<u>\$ 775,856</u>	<u>\$ 22,253</u>

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

	2013	2012	2011
Opening fair value of plan assets	\$ 663,938	\$ 26,087	\$ 34,673
Business acquisitions	-	565,991	-
Interest income	21,501	33,479	-
Remeasurement (gains)/losses:			
Return on plan assets (excluding amounts included in net interest expense)	(7,988)	34,087	617
Contributions from the employer	18,392	19,316	106
Contributions from plan participants	4,136	4,370	-
Exchange differences on foreign plans	24,114	4,714	-
Assets acquired in a business combination	(24,863)	(22,244)	-
Benefits paid	(609)	(1,224)	(9,309)
Administrative cost	<u>(1,009)</u>	<u>(638)</u>	<u>-</u>
Closing fair value of plan assets	<u>\$ 697,612</u>	<u>\$ 663,938</u>	<u>\$ 26,087</u>

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

	2013	2012	2011
Equity investments	\$ 292,929	\$ 269,970	\$ 10,607
Debt investments	374,534	348,300	13,685
Others	<u>30,149</u>	<u>45,668</u>	<u>1,795</u>
Total	<u>\$ 697,612</u>	<u>\$ 663,938</u>	<u>\$ 26,087</u>

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets whereas the fair values of properties and derivatives are not based on quoted market prices in active markets.

The actual return on plan assets was \$21,501 (2012 \$33,479).

The plan assets include ordinary shares of the Entity with an aggregate fair value of \$1,094 (December 31, 2012 \$8,736).

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate is 1% higher, the defined benefit obligation would decrease by \$7,778.

If the expected salary growth increases by 10%, the defined benefit obligation would increase by \$77,781.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Each year an Asset-Liability-Matching study is performed in which the consequences of the strategic investment policies are analyzed in terms of risk-and-return profiles. Investment and contribution policies are integrated within this study. Main strategic choices that are formulated in the actuarial and technical policy document of the Fund are:

Asset mix based on 40% equity instruments and 60% debt instruments.

There has been no change in the process used by the Entity to manage its risks from prior periods.

The main categories of plan assets, and the expected return rate in each category at the end of the reporting period, are:

	Expected return			Fair Value of plan assets		
	2013	2012	2011	2013	2012	2011
Equity instruments	3.10%	2.90%	2.90%	\$ 292,929	\$ 269,970	\$ 10,435
Debt instruments	<u>4.65%</u>	<u>4.35%</u>	<u>5.10%</u>	<u>404,683</u>	<u>393,968</u>	<u>15,652</u>
Weighted average expected return	<u>7.75%</u>	<u>7.25%</u>	<u>8.00%</u>	<u>\$ 697,612</u>	<u>\$ 663,938</u>	<u>\$ 26,087</u>

The overall expected rate of return is a weighted average of the expected returns on various categories of plan assets. The evaluation of management on expected returns is based on historical performance trends and analysts' predictions on the market for assets over the life of the related obligation.

	2013	2012	2011
Present value of defined benefit obligation	\$ 777,808	\$ 775,856	\$ 22,253
Fair value of plan assets	<u>(697,612)</u>	<u>(663,938)</u>	<u>(26,087)</u>
Deficit	<u>80,196</u>	<u>111,918</u>	<u>(3,834)</u>
Adjustments based on experience in plan liabilities	<u>7,520</u>	<u>(33,767)</u>	<u>1,932</u>
Adjustments based on experience in plan assets	<u>(16,657)</u>	<u>136,918</u>	<u>1,720</u>

	Legal	Restructuring	Guarantees	Other	
At December 31, 2010	\$ 25,048	\$ -	\$ -	\$ 1,112	\$ -
Combination additions	-	-	-	-	-
Results	9,559	-	86	1,528	-
Provisions	(2,390)	-	-	-	-
Non effects	<u>(1,931)</u>	<u>-</u>	<u>-</u>	<u>(128)</u>	<u>-</u>
At December 31, 2011	30,286	-	86	2,512	-
Combination additions	-	5,466	4,419	36,278	-
Results	5,375	43,867	12,005	1,807	-
Provisions	(9,685)	(16,528)	(3,588)	(1,347)	-
Non effects	<u>(3,573)</u>	<u>120</u>	<u>(72)</u>	<u>(1,086)</u>	<u>-</u>
At December 31, 2012	22,403	32,925	12,850	38,164	-
Results	1,066	18,997	65	11,966	-
Provisions	(9,221)	(35,003)	(4,031)	(20,354)	-
Non effects	<u>(47)</u>	<u>7,102</u>	<u>340</u>	<u>(1,638)</u>	<u>-</u>
At December 31, 2013	<u>\$ 14,201</u>	<u>\$ 24,021</u>	<u>\$ 9,224</u>	<u>\$ 28,138</u>	<u>\$ -</u>
At December 31, 2014	\$ 605	\$ 3,304	\$ 5,423	\$ 16,631	\$ -
Provisions	<u>13,596</u>	<u>20,717</u>	<u>3,801</u>	<u>11,507</u>	<u>-</u>
At December 31, 2015	<u>\$ 14,201</u>	<u>\$ 24,021</u>	<u>\$ 9,224</u>	<u>\$ 28,138</u>	<u>\$ -</u>

Provisions are generated during the normal course of business and are common in the industry in which these business activities take place. Commercial provisions are based on the opinion of the Entity's internal and external attorneys, these contingencies have a risk level of less than probable and higher than remote on the Entity. In any case, the Entity considers that these legal proceedings will not have an adverse material effect on its financial position.

Provisions - Provisions are created based on the plans announced in the group; it is expected that they will be created within a term of one to two years as a result of the operations.

Warranty - A provision is recognized for the products sold on the basis of the claims received and the historical data related to the costs of the warranty. The warranty expense is recognized over the period and occurs mainly in the operations of Wavin.

Legal provisions referred to risks identified in the Group. The majority of the cash outlays related to legal provisions are expected to occur within one year.

34. Stockholders' equity

a. *Paid-in capital*

The Stockholders' Ordinary and Extraordinary General Meeting of May 18, 2012, resolved to increase the Entity's capital by the amount of \$136 million (1,800 million of Mexican pesos) by issuing 40,000,000 common, nominative Single Series, Class II shares at no par value, with a subscription price of 45 of Mexican pesos each (theoretical par value per share was 1.3192 Mexican pesos, the difference generated a share subscription premium), these funds were utilized to pay the dividend declared by the Stockholders' Common General Meeting of April 30, 2012.

The Stockholders' Special General Meeting of September 18, 2012 resolved to make a primary public share offering which concluded on October 9, 2012 through this offering, the Entity's authorized variable capital was increased by issuing 260,000,000 Single Series, Class "II" shares with a price per share of 60.00 Mexican pesos (theoretical par value per share was 1.3192 Mexican pesos; difference generated a share subscription premium). This offering generated resources of \$1,211 million (15,600 million of Mexican pesos), which were recorded net of placement expenses and the respective income tax effect by \$1,185 million of Mexican pesos.

At December 31, 2013 and 2012, common stock is represented by 2,100,000,000 common, nominative shares with voting rights and at no par value, which have been fully paid-in. Fixed capital is represented by nominative Class I shares without withdrawal rights. Variable capital is represented by nominative Class II shares at no par value, which must not exceed 10 times the Entity's minimum fixed capital. At December 31, the number of shares and amount of common stock are composed as follows:

	Number of shares		Amount	
	2013 and 2012	2011	2013 and 2012	2011
Capital subscribed-				
Class I	308,178,735	308,178,735	\$ 37,598	\$ 37,598
Class II	<u>1,791,821,265</u>	<u>1,491,821,265</u>	<u>218,884</u>	<u>188,257</u>
	<u>2,100,000,000</u>	<u>1,800,000,000</u>	<u>\$ 256,482</u>	<u>\$ 225,855</u>

Basic earnings per share are equal to the diluted earnings per share because the Entity does not have potential shares that may result in the dilution of earnings per share.

b. *Shares repurchase reserve*

During a Stockholders' General Meeting held on April 26, 2013, the stockholders confirmed the reserve for the acquisition of the Entity's own shares of 2,000 million Mexican pesos as the maximum amount of resources that the Entity 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, 2013, 2012 and 2011, the reserve balance is \$56,312, \$38,609 and \$64,774 respectively. As of December 31, 2013, 2012 and 2011 the Entity has 21,531,908, 7,567,943 and 4,856,100 own shares, respectively.

c. *Earned capital*

The Stockholders' Ordinary General Meeting of November 11, 2013 resolved to declare and pay a dividend of \$79.6 million (1,050 million of Mexican pesos) out of the Net Income Tax Account (CUFIN), equal to 0.50 cents of one Mexican peso per share.

The Stockholders' Ordinary General Meeting of November 22, 2012 resolved to declare a dividend of \$77.4 million (1,008 million of Mexican pesos) out of the Net Income Tax Account (CUFIN), equal to 0.48 cents of one Mexican peso per share. This dividend will be settled in four installments during 2013.

The Stockholders' Annual Ordinary General Meeting of April 30, 2012 resolved to pay a dividend, out of the Net Income Tax Account (CUFIN), to the Entity's stockholders for the amount of up to \$136.2 million (\$1,800 million of Mexican pesos). This dividend is payable in cash or in shares. If stockholders choose the latter, they will receive one released share for every 45 outstanding shares they hold. This dividend was paid in cash at the rate of 1 Mexican peso for every share held by stockholders. During 2012, dividends of \$2.6 million (34 million of Mexican pesos) were paid based on the capital increases which took place during the year.

During the Stockholders' Ordinary General Meeting held on November 23, 2011, the stockholders declared dividends of \$51.5 million (720 million of Mexican pesos), against the net tax income account (CUFIN), equal to 0.40 cents per share. These dividends will be distributed in four payments during 2012.

Stockholders' equity, except for restated paid-in capital and tax retained earnings will be subject to income tax payable by the Entity at the rate in effect upon distribution.

Any tax paid on such distribution may be credited against annual and estimated income tax of the year in which the tax on dividends is paid and the following two fiscal years.

Retained earnings include the statutory legal reserve. In Mexico, the General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. At December 31, 2013, 2012 and 2011, the legal reserve was \$38,945, \$34,279 and 26,060, respectively.

The balances of the stockholders' equity tax accounts as of December 31, are:

	2013	2012	2011
Contributed capital account	\$ 1,751,496	\$ 1,745,859	\$ 518,987
Net Tax Income Account (CUFIN)	<u>1,199,192</u>	<u>1,098,882</u>	<u>811,870</u>
Total	<u>\$ 2,950,688</u>	<u>\$ 2,844,741</u>	<u>\$ 1,330,857</u>

35. Balances and transactions with related parties

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

	2013	2012	2011
Due from related parties:			
Elementia, S.A. de C.V.	\$ 3,082	\$ 4,848	\$ 352
Pochteca Materias Primas, S.A. de C.V.	2,476	2,765	4,499
Fenix Fluor Limited	4,756	-	-
Eternit Colombiana, S.A.	526	98	49
Pochteca Brasil, Ltda.	190	279	-
Controladora GEK, S.A. de C.V.	32	200	111
Others	<u>106</u>	<u>336</u>	<u>139</u>
	<u>\$ 11,168</u>	<u>\$ 8,526</u>	<u>\$ 5,150</u>

	2013	2012	2011
Due to related parties:			
Kaluz, S.A. de C.V.	\$ 1,361	\$ 34,831	\$ 26,223
Georg Fischer Wavin	-	1,294	-
Fundación Kaluz, A.C.	152	935	-
Plaza Azcapotzalco, S.A. de C.V.	-	55	601
Others	<u>97</u>	<u>248</u>	<u>39</u>
	<u>\$ 1,610</u>	<u>\$ 37,363</u>	<u>\$ 26,863</u>

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

	2013	2012	2011
Revenues from -			
Sales	\$ 8,706	\$ 6,916	\$ 5,120
Administrative services	2,681	8,450	3,232
Interest	<u>1,421</u>	<u>1,401</u>	<u>636</u>
	<u>\$ 12,808</u>	<u>\$ 16,767</u>	<u>\$ 8,988</u>
Expenses from -			
Administrative services	\$ 16,230	\$ 34,351	\$ 18,763
Donations	1,793	1,666	1,120
Purchases	1,297	5,450	946
Other	<u>727</u>	<u>642</u>	<u>485</u>
	<u>\$ 20,047</u>	<u>\$ 42,109</u>	<u>\$ 21,314</u>

- c. At the end of December the compensation of the key management personnel is as follow:

	2013	2012	2011
Short-term employee benefits	\$ 4,869	\$ 5,688	\$ 5,356
Post-employment benefits	529	930	1,195
Termination benefits	<u>112</u>	<u>130</u>	<u>-</u>
	<u>\$ 5,510</u>	<u>\$ 6,748</u>	<u>\$ 6,551</u>

36. Cost of sales and operating expenses

- a. *Cost of sales*

	2013	2012	2011
Changes in inventories of finished goods and work in progress and raw materials and consumables used	\$ 3,420,160	\$ 2,987,983	\$ 3,347,476
Depreciation	<u>226,954</u>	<u>195,465</u>	<u>156,804</u>
	<u>\$ 3,647,114</u>	<u>\$ 3,183,448</u>	<u>\$ 2,504,280</u>

b. ***Selling and development expenses:***

	2013	2012	2011
Salaries, wages and other benefits	\$ 190,076	\$ 167,382	\$ 106,678
Freight paid	342,235	317,860	257,027
Freight recovered	(65,853)	(50,940)	(53,917)
Repair and Maintenance	4,049	5,158	5,473
External services	22,390	21,867	14,462
Lease	20,806	19,217	14,158
Advertising and marketing	29,961	28,727	21,278
Commissions on sales	20,632	21,123	18,938
Taxes and Duties	2,152	1,314	1,775
Insurance	2,958	3,652	3,132
Others	75,966	62,180	62,236
	<u>\$ 645,372</u>	<u>\$ 597,540</u>	<u>\$ 451,240</u>

c. ***Administrative expenses:***

	2013	2012	2011
Salaries, wages and other benefits	\$ 133,425	\$ 113,269	\$ 66,434
External services	49,559	49,990	40,553
Taxes and Duties	8,710	8,563	10,623
Telephone	3,625	4,399	4,798
Repair and Maintenance	14,786	11,214	5,651
Insurance	4,902	4,343	3,667
Lease	12,043	11,500	9,811
Administrative services affiliates	16,230	10,902	16,700
Others	19,868	6,169	4,997
	<u>\$ 263,148</u>	<u>\$ 220,349</u>	<u>\$ 163,234</u>

d. ***Other (income) expenses***

	2013	2012	2011
Expenses:			
Expenses related to acquisitions	\$ 3,809	\$ 3,034	\$ 687
Advisory provided by affiliates acquisitions	-	6,939	-
Donations to affiliates	1,793	1,666	1,267
	<u>5,602</u>	<u>11,639</u>	<u>1,954</u>
Income:			
Cancellation environmental contingency reserve	\$ (16,995)	\$ -	\$ -
Anticipated reduction of labor obligations	(24,753)	-	-
Recovery of expenses and claims	(6,575)	-	(6,383)
Gain on insurance claim	(520)	(569)	(3,924)
Gain on sale of fixed assets	(1,371)	(1,879)	(3,058)
Gain on sale of waste materials	(1,493)	(126)	(760)
Others	(4,105)	(4,395)	(6,441)
	<u>(55,812)</u>	<u>(6,969)</u>	<u>(20,566)</u>
Other (income) expenses	<u>\$ (50,210)</u>	<u>\$ 4,670</u>	<u>\$ (18,612)</u>

37. Income taxes

In Mexico, the Entity is subject to regular income tax (ISR). 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 Entity's liability for current income tax payable using the tax rates enacted or substantially enacted at the end of the reporting period in the countries in which the Entity and its subsidiaries operate.

The rate in Mexico is 30%. Mexichem incurred income tax on a consolidated basis with its Mexico subsidiaries as of the year 1982. As of the year 2014 the consolidation scheme was eliminated and Mexichem exercised the option to pay consolidated income tax on an installment basis. The amount to be paid in five years is 798 million of Mexican pesos (\$61,059, of which \$45,794 and \$15,265 is presented as noncurrent and current liabilities, respectively).

a. Income tax

The income tax rates applicable in 2013 in the countries where the Entity operates are as follows:

	%		%
Germany	30	Ireland	13
Argentina	35	Italy	28
Austria	25	Japan	38
Belgium	33	Latvia	15
Brazil	34	Lithuania	15
Bulgaria	10	Mexico	30
Canada	15	Nicaragua	30
China	25	Norway	28
Colombia	33	Panama	25
Costa Rica	30	Peru	30
Croatia	20	Poland	19
Denmark	25	U.K.	21
Ecuador	22	Czech Republic	19
El Salvador	30	Serb Republic	10
U.S.A.	34	Rumania	16
Finland	25	Russia	20
France	33	Sweden	22
Guatemala	31	Switzerland	22
Netherlands	25	Taiwan	17

b. Deferred taxes

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

	2013	2012	2011
Property, plant and equipment	\$ 436,666	\$ 317,308	\$ 251,175
Inventories	2,454	(1,736)	(12,214)
Accrued liabilities which will be deductible when paid	(35,128)	(41,670)	(47,434)
Tax loss carryforwards, net of reserves	(117,888)	(73,111)	(39,135)
Employee profit sharing	(1,115)	(891)	(7,599)
Intangible assets	166,503	180,737	10,000
Others	(64,936)	(18,102)	6,168
	<u>386,556</u>	<u>362,535</u>	<u>160,961</u>
Deferred tax asset	<u>125,357</u>	<u>36,886</u>	<u>41,377</u>
Deferred tax liability	<u>\$ 511,913</u>	<u>\$ 399,421</u>	<u>\$ 202,338</u>

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

	2013	2012	2011
Beginning balance	\$ 362,535	\$ 160,961	\$ 162,425
Income tax provision applied to results	5,355	19,983	21,923
Effect of assets and liabilities of acquired companies	-	160,152	(4,076)
Effect of foreign currency conversion	15,240	(14,899)	(6,536)
Discontinued operations	(25,167)	7,812	(10,031)
Transfer of tax deferred on consolidation to current tax	(57,730)	-	-
Effect on capital of other comprehensive income entries	<u>86,323</u>	<u>28,526</u>	<u>(2,744)</u>
Ending balance	<u>\$ 386,556</u>	<u>\$ 362,535</u>	<u>\$ 160,961</u>

d. ***Reconciliation of the legal and effective rates***

Taxes on income and the reconciliation of the legal and effective rates expressed in amounts and as a percentage of profit before income taxes are as follows:

	2013	%	2012	%	2011	%
Profit before income taxes	\$ 388,270	40.38	\$ 418,921	28.53	\$ 505,851	29.51
Permanent items that modified the tax base:						
Taxable annual adjustment for inflation	(3,391)	(0.26)	29,142	2.15	31,181	1.93
Non- Taxable income	(28,596)	(2.25)	(29,052)	(2.16)	(12,367)	(0.76)
Nondeductible items	25,815	2.03	23,848	1.77	40,967	2.53
Reserve (recognition) of tax losses	73,085	5.75	(24,265)	(1.80)	16,356	1.01
Effect of changes in tax rate	41,735	3.28	(7,701)	(0.57)	920	0.06
Mining tax and others	11,850	0.93	1,350	0.10	-	-
Fixed asset and other tax incentives	14,356	1.13	(2,900)	(0.21)	(8,806)	(0.54)
Foreign exchange tax and translation effect, net	(10,041)	(0.79)	(22,507)	(1.67)	(105,582)	(6.53)
Others	<u>(635)</u>	<u>(0.04)</u>	<u>(2,726)</u>	<u>(0.20)</u>	<u>10,310</u>	<u>0.63</u>
Total permanent items	<u>124,178</u>	<u>9.78</u>	<u>(34,811)</u>	<u>(2.59)</u>	<u>(27,021)</u>	<u>(1.67)</u>
Base profit for income taxes	<u>\$ 512,448</u>	<u>30.60</u>	<u>\$ 384,110</u>	<u>31.12</u>	<u>\$ 478,830</u>	<u>31.18</u>
	2013	%	2012	%	2011	%
Current income tax	\$ 151,445		\$ 99,552		\$ 127,376	
Deferred income tax	<u>5,355</u>		<u>19,983</u>		<u>21,923</u>	
Total tax	<u>\$ 156,800</u>		<u>\$ 119,535</u>		<u>\$ 149,299</u>	
Effective rate	40.38%		28.53%		29.51%	
Average legal rate	30.60%		31.12%		31.18%	

The benefits of tax loss carryforwards, restated for inflation as permitted by tax law in certain countries, for which the deferred income tax asset has been partially recognized, may be recovered subject to certain requirements. The years of expiration of the tax losses and recoverable asset tax of the individual entities and their restated amounts as of December 31, 2013 are as follows:

Year of expiration	Tax Loss carryforwards
2014	\$ -
2015	1,014
2016	643
2017	1,041
2018	13,903
2019	6,023
2020	1,514
2021	116,921
2022	21,017
2023	74,111
Without expiration	<u>289,768</u>
	<u>\$ 525,955</u>

38. Discontinued operations

To adjust to current market conditions during 2013 the Entity began a restructuring process in the Fluorine chain, which is presented as discontinued operations. The information presented from previous years was reformulated for purposes of comparison.

Below is a summary of the financial information related to discontinued operations:

	At December 2013	At December 2012	At December 2011
Income	\$ 22,576	\$ 34,317	\$ 69,529
Costs of sales	(60,669)	(59,270)	(42,494)
General expenses includes impairment of assets	(141,703)	52,371	(34,556)
Financial costs	159	(757)	(2,398)
Income tax	<u>31,222</u>	<u>(7,134)</u>	<u>3,584</u>
Net loss from discontinued operations	<u>\$ (148,415)</u>	<u>\$ 19,527</u>	<u>\$ (6,335)</u>

urities of contractual commitments at December 31, 2013, are as follows:

Years	Capital	Operating	Total
2014	\$ 41,668	\$ 18,738	\$ 60,406
2015	41,100	11,784	52,884
2016	36,821	11,784	48,605
2017	47,184	11,784	58,968
2018 and thereafter	<u>60,459</u>	<u>16,237</u>	<u>76,696</u>
	<u>\$ 227,232</u>	<u>\$ 70,327</u>	<u>\$ 297,559</u>

ing 2013 and 2012, the operating leases paid were in the amount of \$52,271 and \$55,399, respectively.

on by industry segment

formation is presented according to the production chains, which are grouped according to the vertical integration of their raw materials; the Entity's such segmentation for purposes of assigning resources and assessing the performance of each segment.

s operating segments are composed of the Chlorine-Vinyl, Fluorine and Integral Solutions production chains. The Chlorine-Vinyl chain includes the inated derivatives, mainly used to purify water, and PVC resins and compounds used to manufacture tubes, connectors, and special materials for vari es the exploitation of fluorite, the production of hydrofluoric acid and cooling gases, which are used in the cement, steel, ceramic, glass, and autom chain includes the production of pipes and fittings of PVC, polyethylene and polypropylene; and geo-synthetic tubes and connectors, which are used t er, in the construction and agricultural sectors.

summary of the most significant line items of the consolidated financial statements for each business operating chain:

	December 31, 2013				
	Vinyl - Chlorine	Fluorine	Integral solutions	Holding Entity	Eliminations
ales	\$ 1,813,871	\$ 672,980	\$ 3,049,817	\$ 35,903	\$ (395,5
	<u>1,478,909</u>	<u>360,399</u>	<u>2,185,497</u>	<u>-</u>	<u>(377,6</u>
	334,962	312,581	864,320	35,903	(17,8
of finished goods purchased	124,793	-	-	-	-
ales	<u>124,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	363	-	-	-	-
ofit	<u>335,325</u>	<u>312,581</u>	<u>864,320</u>	<u>35,903</u>	<u>(17,8</u>
expenses	121,256	133,915	655,532	75,120	(17,8
expenses) income related parties	58,691	16,797	6,217	(77,608)	(4,0
loss (gain), Net	(10,061)	7,604	15,653	38,632	-
expense	22,323	6,890	78,255	109,764	(42,3
income	(4,776)	(6,573)	(20,261)	(76,759)	42,5
position loss	-	-	13,831	-	-
om dividends	(56,179)	(6,180)	(762)	(291,901)	355,0
income of associated	-	2,865	(3,570)	-	-
ore income taxes	<u>204,071</u>	<u>157,263</u>	<u>119,425</u>	<u>258,655</u>	<u>(351,1</u>
axes	59,510	53,463	45,552	(1,725)	-
the year from continuing operations	<u>144,561</u>	<u>103,800</u>	<u>73,873</u>	<u>260,380</u>	<u>(351,1</u>
ued operations	-	(148,415)	-	-	-
Consolidated profit (loss) of the year	<u>\$ 144,561</u>	<u>\$ (44,615)</u>	<u>\$ 73,873</u>	<u>\$ 260,380</u>	<u>\$ (351,1</u>

2010					
	Vinyl - Chlorine	Fluorine	Integral solutions	Holding Entity	Eliminations
Sales	\$ 1,780,507	\$ 810,942	\$ 2,570,012	\$ 42,197	\$ (42,197)
	<u>1,421,061</u>	<u>401,157</u>	<u>1,760,839</u>	<u>-</u>	<u>(3,157)</u>
	359,446	409,785	809,173	42,197	(3,157)
Cost of finished goods purchased	151,194	-	-	-	-
Sales	<u>145,909</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>5,285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit	364,731	409,785	809,173	42,197	(3,157)
Expenses	117,299	177,209	613,298	75,635	(613,298)
Expenses) income related parties	57,802	24,645	8,054	(73,866)	(8,054)
Loss (gain), Net	(10,590)	5,891	739	3,630	-
Expense	22,870	3,574	63,306	191,604	(63,306)
Income	(3,835)	(624)	(3,170)	(51,035)	-
Position loss	-	-	2,959	-	-
Income of associated	<u>(10,866)</u>	<u>(67)</u>	<u>(18,797)</u>	<u>(114,653)</u>	<u>114,653</u>
Pre income taxes	192,051	199,157	142,784	10,882	(192,051)
Taxes	<u>59,115</u>	<u>42,828</u>	<u>28,234</u>	<u>(10,642)</u>	<u>-</u>
For the year from continuing operations	132,936	156,329	114,550	21,524	(192,051)
Discontinued operations	<u>-</u>	<u>19,527</u>	<u>-</u>	<u>-</u>	<u>-</u>
Consolidated profit (loss) of the year	<u>\$ 132,936</u>	<u>\$ 175,856</u>	<u>\$ 114,550</u>	<u>\$ 21,524</u>	<u>\$ (192,051)</u>
2011					
	Vinyl - Chlorine	Fluorine	Integral solutions	Holding Entity	Eliminations
Sales	\$ 1,865,841	\$ 810,825	\$ 1,521,724	\$ 39,931	\$ (42,197)
	<u>1,503,574</u>	<u>415,716</u>	<u>994,860</u>	<u>-</u>	<u>(42,197)</u>
	362,267	395,109	526,864	39,931	(3,157)
Cost of finished goods purchased	140,876	-	-	-	-
Sales	<u>134,621</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>6,255</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit	368,522	395,109	526,864	39,931	(3,157)
Expenses	115,372	132,701	360,413	124,522	(613,298)
Expenses) income related parties	74,626	40,635	(23,446)	(91,357)	(8,054)
Loss (gain), Net	(22,794)	(1,694)	(23,028)	17,992	-
Expense	21,650	10,704	36,500	73,900	(63,306)
Income	(11,602)	3,798	(5,596)	(28,976)	-
Position loss	-	-	3,649	-	-
Taxes	10,301	-	6,763	-	-
Income of associated	<u>(69,291)</u>	<u>(24,460)</u>	<u>(42,655)</u>	<u>(150,127)</u>	<u>214,653</u>
Pre income taxes	250,260	233,425	214,264	93,977	(250,260)
Taxes	<u>48,582</u>	<u>76,428</u>	<u>52,563</u>	<u>(28,274)</u>	<u>-</u>
For the year from continuing operations	201,678	156,997	161,701	122,251	(250,260)
Discontinued operations	<u>-</u>	<u>(978)</u>	<u>(5,357)</u>	<u>-</u>	<u>-</u>
Consolidated profit (loss) of the year	<u>\$ 201,678</u>	<u>\$ 156,019</u>	<u>\$ 156,344</u>	<u>\$ 122,251</u>	<u>\$ (250,260)</u>

	Vinyl - Chlorine	Fluorine	Integral solutions	Holding Entity	Eliminations
Assets:					
and cash equivalents	\$ 314,310	\$ 29,873	\$ 256,546	\$ 631,832	\$ -
Accounts receivable, Net	357,120	170,774	532,930	(28,098)	-
Current assets	375,473	199,934	646,700	364,685	(8,448)
classified as held for sale	<u>-</u>	<u>5,511</u>	<u>14,670</u>	<u>-</u>	<u>-</u>
Current assets	1,046,903	406,092	1,450,846	968,419	(8,448)
Plant and equipment, Net	1,283,607	525,322	1,343,527	292	-
Intangible assets, Net	<u>1,309,346</u>	<u>475,277</u>	<u>4,357,973</u>	<u>3,464,273</u>	<u>(7,643)</u>
Assets	<u>\$ 3,639,856</u>	<u>\$ 1,406,691</u>	<u>\$ 7,152,346</u>	<u>\$ 4,432,984</u>	<u>\$ (8,448)</u>
Liabilities:					
Accounts payable and current portion of long-term debt	\$ 27,084	\$ 29,767	\$ 5,270	\$ -	\$ -
Accounts payable and credit letters	486,200	41,996	423,717	1,234	-
Current liabilities	413,814	144,451	559,180	176,073	(8,448)
Derivative financial instruments	<u>136</u>	<u>21,376</u>	<u>1,236</u>	<u>-</u>	<u>-</u>
Current liabilities	927,234	237,590	989,403	177,307	(8,448)
Accounts payable and long-term debt	142,227	132,181	42,279	1,786,399	-
Non-current liabilities	<u>335,204</u>	<u>115,864</u>	<u>993,308</u>	<u>144,148</u>	<u>(6,448)</u>
Liabilities	<u>\$ 1,404,665</u>	<u>\$ 485,635</u>	<u>\$ 2,024,990</u>	<u>\$ 2,107,854</u>	<u>\$ (1,448)</u>
December 31, 2012					
	Vinyl - Chlorine	Fluorine	Integral solutions	Holding Entity	Eliminations
Assets:					
and cash equivalents	\$ 90,883	\$ 39,292	\$ 189,892	\$ 1,075,130	\$ -
Investments	-	-	-	250,000	-
Accounts receivable, Net	292,761	142,809	600,020	(24,133)	-
Current assets	526,268	173,479	647,115	714,291	(1,233)
classified as held for sale	<u>-</u>	<u>38,788</u>	<u>-</u>	<u>-</u>	<u>(1,233)</u>
Current assets	909,912	394,368	1,437,027	2,015,288	(1,233)
Plant and equipment, Net	718,853	603,102	1,140,229	194	-
Intangible assets, Net	<u>524,545</u>	<u>367,040</u>	<u>2,787,965</u>	<u>2,607,991</u>	<u>(4,548)</u>
Assets	<u>\$ 2,153,310</u>	<u>\$ 1,364,510</u>	<u>\$ 5,365,221</u>	<u>\$ 4,623,473</u>	<u>\$ (5,848)</u>
Liabilities:					
Accounts payable and current portion of long-term debt	\$ 44,837	\$ 19,500	\$ 60,984	\$ -	\$ -
Accounts payable and credit letters	430,981	55,800	439,917	1,342	-
Current liabilities	245,118	169,542	982,617	366,404	(1,233)
Derivative financial instruments classified as held for sale	<u>-</u>	<u>3,707</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current liabilities	720,936	248,549	1,483,518	367,746	(1,233)
Accounts payable and long-term debt	89,674	50,888	135,470	1,929,137	-
Non-current liabilities	<u>218,316</u>	<u>101,997</u>	<u>398,251</u>	<u>(4,937)</u>	<u>-</u>

	December 31, 2011				
	Vinyl - Chlorine	Fluorine	Integral solutions	Holding Entity	Eliminations
Assets:					
and cash equivalents	\$ 137,182	\$ 77,653	\$ 117,854	\$ 191,253	\$ -
Investment securities available for sale	-	-	-	25,522	-
Accounts receivable, Net	231,015	161,586	319,919	44,070	-
Current assets	557,456	161,644	239,658	564,499	(1,000,000)
Assets classified as held for sale	-	39,391	-	-	(39,391)
Current assets	925,653	440,274	677,431	825,344	(1,000,000)
Property, plant and equipment, Net	599,137	508,168	582,324	52	-
Intangible assets, Net	542,675	225,268	364,509	1,598,229	(1,800,000)
Assets	\$ 2,067,465	\$ 1,173,710	\$ 1,624,264	\$ 2,423,625	\$ (2,800,000)
Liabilities:					
Accounts payable and current portion of long-term debt	\$ 40,268	\$ 34,932	\$ 38,708	\$ 158,000	\$ -
Accounts and credit letters	436,861	58,756	94,296	818	-
Current liabilities	218,768	320,252	458,008	300,690	(1,000,000)
Liabilities classified as held for sale	-	16,708	-	-	(16,708)
Current liabilities	695,897	430,648	591,012	459,508	(1,000,000)
Accounts and long-term debt	140,171	104,934	95,853	866,132	-
Non-current liabilities	115,786	98,734	73,786	(17,048)	-
Discontinued operations	-	(7,867)	-	-	-
Liabilities	\$ 951,854	\$ 626,449	\$ 760,651	\$ 1,308,592	\$ (1,000,000)

The financial information classified by geographical area:

Country	Net sales from external customers			Property, plant and equipment	
	2013	2012	2011	2013	2012
United States	\$ 1,240,496	\$ 1,311,889	\$ 1,261,729	\$ 1,349,107	\$ 900,000
Europe	548,607	535,872	584,287	213,879	100,000
Asia	570,462	458,667	528,756	455,180	400,000
Latin America	457,739	506,799	484,822	245,739	100,000
United Kingdom	168,952	235,407	228,010	73,853	100,000
South America	170,462	172,150	160,359	89,246	-
Other	73,020	108,524	138,499	14,951	-
Canada	120,203	117,993	115,119	70,818	-
France	93,665	98,792	87,008	112,668	-
Germany	119,607	75,022	86,898	90,057	-
Italy	58,156	52,929	54,985	20,027	-
East Europe	535,429	400,328	-	125,212	100,000
West Europe	424,270	258,247	-	103,437	100,000
South and Eastern Europe	285,456	198,163	-	87,369	-
North Europe	222,767	165,805	-	34,008	-
Other Europe	72,876	41,164	-	66,446	-
Total	14,832	29,992	35,867	751	-

41. Subsequent event

Supporting Mexichem's strategy of global growth in high-end specialty products:

- c. On August 4, 2014, Mexichem announced that signed a definitive agreement to acquire Vestolit, Europe's sixth largest PVC manufacturer, from it had Strategic Value Partners LLC for a total of 219 million Euros in cash that includes some assumed liabilities. The acquisition is subject to regulatory approvals and is expected to close in the fourth quarter of 2014. At that point, Mexichem will consolidate Vestolit under its Chlorine-Vinyl chain.
- d. On August 18, 2014, Mexichem reached an agreement with the private equity firm CHS Capital to acquire Dura-Line for a total of \$630 million in cash that includes some assumed liabilities. The operation will enable Mexichem to enter the business of high density Polyethylene (HDPE) pipes, specialized in serving the telecom sector, and with production assets based in North America, India, Oman, Europe, and South Africa. The acquisition is subject to regulatory approvals and is expected to be closed in coming weeks. At that point, Mexichem will consolidate Dura-Line under its Integral Solutions chain.

42. Financial statement issuance authorization

The issuance of the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011, was authorized by Lic. Rodrigo Guzmán Perera on August 21, 2014, Chief Financial Officer; consequently these do not reflect events after this date and are subject to the approval of the Entity's Audit Committee and the Board of Directors and the Stockholders' Common General Meeting, where they may be modified based on provisions set forth in the Mexican General Corporate Law.

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