



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

US\$500,000,000 4.000% Senior Notes due 2027

US\$500,000,000 5.500% Senior Notes due 2048

We are offering US\$500,000,000 aggregate principal amount of our Senior Notes due 2027 (the “2027 Notes”) and US\$500,000,000 aggregate principal amount of our Senior Notes due 2048 (the “2048 Notes”) and together with the 2027 Notes, the “Notes”). The 2027 Notes will bear interest at a rate of 4.000% per year. The 2048 Notes will bear interest at a rate of 5.500% per year. We will pay interest on the 2027 Notes semiannually in arrears on April 4 and October 4 of each year, beginning on April 4, 2018. We will pay interest on the 2048 Notes semiannually in arrears on January 15 and July 15 of each year, beginning on January 15, 2018. The 2027 Notes will mature on October 4, 2027. The 2048 Notes will mature on January 15, 2048.

The Notes will be fully and 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 Interests 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 Interests 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 purposes of Part IV of the Luxembourg law on prospectus for securities dated July 10, 2005, 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 23 for a discussion of certain risks you should consider in connection with an investment in the Notes.

2027 Notes Offering Price: 99.186% plus accrued interest, if any, from October 4, 2017

2048 Notes Offering Price: 97.874% plus accrued interest, if any, from October 4, 2017

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.”

We expect that the delivery of each series of the Notes will be 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 or about October 4, 2017.

Joint Bookrunners

BBVA

J.P. Morgan

Morgan Stanley

MUFG

Co-Managers

Leumi Partners Underwriters Ltd.

Poalim IBI - Underwriting and Issuing Ltd.

TABLE OF CONTENTS

	<u>Page</u>
NOTICE TO INVESTORS.....	ii
NOTICE TO ELIGIBLE HOLDERS IN MEXICO.....	iii
SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES.....	iii
ADDITIONAL INFORMATION.....	iv
CERTAIN DEFINITIONS.....	v
PRESENTATION OF FINANCIAL AND OTHER INFORMATION.....	xi
SUMMARY.....	1
THE OFFERING.....	12
SUMMARY CONSOLIDATED FINANCIAL DATA AND OTHER INFORMATION.....	16
RISK FACTORS.....	23
FORWARD-LOOKING STATEMENTS.....	52
USE OF PROCEEDS.....	53
CAPITALIZATION.....	54
SELECTED CONSOLIDATED FINANCIAL DATA AND OTHER INFORMATION.....	55
THE PROPOSED ACQUISITION OF NETAFIM.....	61
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.....	65
INDUSTRY.....	98
BUSINESS.....	113
MANAGEMENT.....	171
PRINCIPAL SHAREHOLDERS.....	177
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS.....	178
DESCRIPTION OF NOTES.....	179
TAXATION.....	197
PLAN OF DISTRIBUTION.....	201
TRANSFER RESTRICTIONS.....	208
GENERAL INFORMATION.....	211
LEGAL MATTERS.....	214
INDEPENDENT AUDITORS.....	215
INDEX TO FINANCIAL STATEMENTS.....	F-1

NOTICE TO INVESTORS

In making your investment decision, you should rely only on the information contained in this offering memorandum. We have not, and the initial purchasers have not, authorized any other person to provide you with different information. If any person provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this offering memorandum is accurate as of the date on the front cover of this offering memorandum only. Our business, properties, 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 is highly confidential and 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 is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the Notes. This offering memorandum may not be copied or reproduced in whole or in part. This offering memorandum may be distributed and its contents disclosed only to those prospective investors to whom it is provided.

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 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 corporate offices 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.

CERTAIN DEFINITIONS

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

- “Acid-grade concentrate” or “acid-grade fluorspar” means Fluorite ore (calcium fluoride) from which impurities are removed through a grinding / selective flotation process, to achieve a chemical specification of at least 97% calcium fluoride, maximum 1.1% silica (SiO₂), and maximum 1.2% calcium carbonate (CaCO₃), as well as a physical specification on particle size. Acid-grade concentrate is used to produce hydrofluoric (HF) acid (the base material for the production of refrigerants), aluminum trifluoride, ceramics, propellants, and *anti-adhesive agents*, among others.
- “Adjusted EBITDA” is EBITDA excluding the effects of the impact of an explosion that occurred on April 20, 2016 at the Pajaritos Petrochemical Complex;
- “Aluminum fluoride” or “AlF₃” also known as aluminum trifluoride, an inorganic compound used in the production of aluminum by electrolysis to lower its melting point, and as welding flux.
- “AMEA” is an acronym for Africa, Middle East, and Asia.
- “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;
- “BEPS” means base erosion and profit shifting.
- “BMV” means Bolsa Mexicana de Valores, S.A.B. de C.V., the Mexican Stock Exchange.
- “Brine” means a saturated aqueous solution of sodium chloride or common table salt.
- “Camesa” means Grupo Industrial Camesa, S.A. de C.V.;
- “Caustic soda” means the commercial name of sodium hydroxide (NaOH), which is widely used in the alumina, soap, and detergent manufacturing sectors and in the chemical industry in general.
- “Cebur” or “cebures” means Certificados Bursátiles, Mexican public negotiable credit instruments that represent the individual share of their holders in a collective credit receivable from legal entities or in assets placed in a trust.
- “CFE” means the Mexican Federal Electricity Commission (*Comisión Federal de Electricidad*);
- “Chlorine” means a pale-green, gaseous chemical element that belongs to the halogen family of elements. Chlorine is primarily used to manufacture PVC (polyvinyl *chloride*), paints, insecticides, paper, and colorants, as well as to kill bacteria in water.
- “CHS” means CHS Capital;
- “Clearstream Luxembourg” means *Clearstream Banking Société Anonyme, Luxembourg*;
- “Clinker” means an intermediate product of the cement manufacturing process, produced by sintering limestone, clay, and iron oxide in a kiln at approximately 1,450 degrees Celsius. One metric ton of clinker is used to make approximately 1.1 metric tons of gray Portland cement.

- “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);
- “Compounds” means physical mixtures made of various simpler substances mixed together to obtain a combination of properties impossible to obtain individually in such substances. In the case of Mexichem, at least one of the components is a polymer matrix, mainly PVC, but polyolefins, styrenes, and engineering plastics may also be used.
- “Copolymer” means a compound resulting from the polymerization of two monomers. The polymerization most commonly used in the vinyl industry is the combination of vinyl chloride monomer and vinyl acetate monomer. When these two different types of monomers are combined, the products resulting from such polymerization are called copolymers, which confer properties different to those of homopolymers, mainly the ability to reduce the softening point of a product to improve its processing and obtain greater flexibility. Copolymers are used primarily in the manufacture of floor tiles, packaging sheets, and carpet backings.
- “Cracker” means a system or unit in which the different petrochemical products are separated through the use of steam at very high temperatures.
- “DTC” means the Depository Trust Company;
- “Dura-Line” means Dura-Line Corporation a Mexichem subsidiary and part of its Fluent Business Group, a cable and gas high density polyethylene 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 amortization;
- “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.;
- “EPE” means Empresa Productiva del Estado, any state-owned production company as defined by Mexican law.
- “Ethylene” means a colorless, flammable gaseous hydrocarbon, widely used in the petrochemical industry as raw material to produce polyethylene and PVC resins, as well as ethylene oxide.
- “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, the statistical office of the European Union located in Luxembourg. Its task is to provide the European Union with statistics at European level that enable comparisons between countries and regions.;
- “FCPA” means the Foreign Corrupt Practices Act, a U.S. federal law.
- “FDM” means Fluorita de México, S.A. de C.V.;
- “Federal Labor Law” means the Mexican Federal Labor Law (Ley Federal del Trabajo);

- “Fluorite” means the commercial name of the mineral form of calcium fluoride. Also known as fluorspar when sold as bulk material or in its processed form.
- “Fluorocarbons” means chemical compounds that contain carbon-fluorine bonds.
- “FSMA” means United Kingdom Financial Services and Markets Act of 2000;
- “GAAP” means General Accepted Accounting Principles;
- “GDP” means gross domestic product;
- “Geosynthetics” means materials basically composed of polymers, such as polypropylene, polyester, polyamide, and polyethylene. Through a transformation process, these materials are converted into various shapes, such as sheets, blankets (mats) or three-dimensional structures, which in turn are used on soils and other geotechnical materials for different applications in the construction of engineering works, such as roads, hydraulic works, erosion control systems, and environmental protection works, among others. The most common types of geosynthetics used in the engineering field include geotextiles, geogrids, geomeshes, geomembranes, geonets, geocomposites, and geomats for erosion control;
- “GRI” means Global Reporting Initiative, a leading organization in the sustainability field that promotes the use of sustainability reports as a way for organizations to be more sustainable and to contribute to sustainable development;
- “HCl” means hydrochloric acid, the aqueous solution of hydrogen chloride. It is the most used acid in industrial processes after sulfuric acid. It is used for pickling of metals and as neutralizer, reducer, and intermediary in organic and inorganic syntheses in the chemical industry, as well as in the manufacture of cleaning products.
- “HDPE” means high-density polyethylene;
- “HF” means hydrofluoric acid, a chemical compound resulting from the reaction of sulfuric acid with calcium fluoride (fluorite). It is used primarily in the production of refrigerant gases and fluoropolymers;
- “HIS-PVC” means high impact suspension PVC resin;
- “Homopolymer” means product resulting from the bonding or polymerization of several molecules of a single type, or monomer, which may have different properties according to their chemical nature. In the case of PVC resins, the monomer used for polymerization is vinyl chloride monomer (VCM), whose molecules, when linked together, generate what is called a homopolymer (many molecules of a monomer of the same nature chemically bonded).
- “IASB” means the International Accounting Standards Board;
- “IFRS” means International Financial Reporting Standards as issued by the IASB;
- “IHS” means the abbreviated name of the company IHS, Inc., provider of information and analyses for the chemical and petrochemical sectors, among others. Its IHS Chemical World Analysis combines the world-class expertise of the former CMAI World Analysis, SRI Consulting, World Petrochemicals, and Harriman Chemsult.
- “IHS Chemical World Analysis – Vinyls” means an annual study that covers historical trends and forecasts for supply and demand fundamentals of vinyls and major by-products over a 16-year period, in ten geographic regions, with ten-year market forecasts.
- “Ingleside” means Ingleside Ethylene LLC;
- “Invenergy” means Invenergy Clean Power LLC;
- “IRS” means the Internal Revenue Service;

- “ISO” means the International Organization of Standardization.
- “ISO 9001” means standard developed by the ISO that applies to quality management systems (QMS). It is based on a number of quality management principles that a company should follow to have in place an effective system that will allow managing and improving the quality of its products and services.
- “ISO 14001” means standard developed by the ISO, which specifies the requirements for an environmental management system (EMS) that will allow an organization to formulate its policy and objectives, taking into account the legal requirements and information related to significant environmental impacts. It applies to those environmental aspects that the organization is able to control and over which it can expect to have an influence. It does not state specific environmental performance criteria.
- “ISRS” means the International Safety Rating System.
- “Kaluz” means Kaluz, S.A. de C.V.;
- “LIBOR” means the London Interbank Offered Rate;
- “LTM EBITDA” is EBITDA that for a given interim period was calculated by subtracting the previous year’s results for the same interim period, and adding the difference to the results for the fiscal year most recently reported;
- “LTM Adjusted EBITDA” is Adjusted EBITDA that for a given interim period was calculated by subtracting the previous year’s results for the same interim period, and adding the difference to the results for the fiscal year most recently reported;
- “Metallurgical-grade fluorspar” means fluorspar of selected quality for its content of calcium fluoride and subjected to a certain size and grade reduction, as defined by the customer’s requirements. It is used to manufacture steel and cement.
- “Mexichem,” “we,” “our” and the “Company” each refer to Mexichem, S.A.B. de C.V., and its subsidiaries;
- “Mexico” means the United Mexican States;
- “mtpy” means metric tons per year (one metric ton is equal to 1,000 kilograms or approximately 2,204.6 pounds);
- “OECD” means the Organisation for Economic Co-operation and Development.
- “OPEC” means the Organization of the Petroleum Exporting Countries.
- “OxyChem” means Occidental Chemical Corporation;
- “Pemex” means Petroleos Mexicanos;
- “Pemex Etileno” (formerly Pemex Petroquímica) means a Pemex production subsidiary company, as established by the agreement issued in the Official Federal Gazette of Mexico (DOF) on April 28, 2015. It produces, distributes, and markets methane, ethane, and propylene by-products, on its own account or through third parties.
- “peso” or “Ps.” means the lawful currency of Mexico;
- “Phosphates” means salts or esters of phosphoric acid. Phosphates are used in various industries, such as in the manufacture of soaps, soft drinks and foods, and in water treatment processes;
- “Phthalic anhydride” means a chemical product used as raw material for the production of plasticizers for plastics, primarily PVC. It is also used in the production of polyester resins, alkyd resins, polyols, and pigments. Mexichem produces phthalic anhydride at the petrochemical complex of Altamira in Mexico.

- “PMV” means Petroquímica Mexicana de Vinilo, S.A. de C.V., a joint venture with Pemex Etileno;
- “Policyd” means Policyd, Inc. de CV, a manufacturer of PVC resins;
- “PolyOne” means Polyone Corporation, a producer of PVC compounds;
- “PROFEPA” means the Mexican Environmental Protection Agency (Procuraduría Federal de Protección al Ambiente);
- “PVC” means polyvinyl chloride a thermoplastic resin produced by the polymerization of vinyl chloride. Vinyl chloride is polymerized by one of four different processes: suspension, emulsion, mass / bulk, or solution polymerization. PVC resins are mainly used in the construction industry, for cable and wire insulation, door frames and windows, pipes and pipelines for water and sewage, floorings, tiles, etc. It is also used to manufacture, among other things, dolls, balls and inflatable toys. In the automotive industry, PVC is used in door panels, dashboards, seat upholstery, body moldings, electric cables, air and oil filters, sealants, and wiring harnesses. In the textile industry, PVC is used for manufacturing synthetic leather and canvas. In the packaging industry, PVC is used to manufacture carboys and bottles for purified water, as well as cleaning products, wrapping film for foods, and pharmaceutical packaging sheets. In the medical sector, PVC is the primary material used to manufacture intravenous fluid and blood bags, as well as other accessories for patient care.;
- “PVC resins” or “vinyl resins” means plastic resins produced by polymerization of vinyl chloride monomer (VCM).
- “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;
- “Refrigerants” means gases used for refrigeration and air conditioning, consisting of compounds or mixtures of organic chemical compounds that primarily contain hydrogen, carbon, fluorine, and Chlorine;
- “Relevant Member State” means any Member State of the European Economic Area that has implemented the Prospectus Directive;
- “Roskill” means Roskill Consulting Group, Ltd., an international metals and minerals research company;
- “Rule 144A” means Rule 144A under the Securities Act;
- “SEC” means the U.S. Securities and Exchange Commission, the federal agency responsible for supervising financial markets.
- “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;
- “Sodium hypochlorite” means a clear, slightly yellow (amber) solution, with a characteristic penetrating and irritating odor that contains sodium hydroxide and sodium carbonate. It is widely used in cleaning products.
- “SRI” means SRI Consulting;
- “Strategic” means Strategic Value Partners LLC;
- “Suspension” means a mixture in which small dispersed insoluble particles of a solid or liquid are suspended throughout another fluid (liquid or gas). In the case of PVC resin production, the term is referred to the

process by which droplets of liquid vinyl chloride monomer (VCM) are suspended in water by agitation to begin its polymerization and obtain PVC resins.

- “TIE” means the Tasa de Interés Interbancaria de Equilibrio, or the equilibrium interbank interest rate, a rate that represents interbank credit transactions in Mexico;
- “tons” means metric tons (one metric ton is equal to 1,000 kilograms or 2,204.6 pounds);
- “TPM” means total productive management;
- “Turkish lira” or “₺” means the lawful currency of Turkey;
- “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, a Mexichem subsidiary and part of its Vinyl Business Group;
- “Wavin” means Wavin N.V., a manufacturer of PVC pipes and resin headquartered in the Netherlands, a Mexichem subsidiary and part of its Fluent Business Group;
- “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, 2016, 2015 and 2014 and for each of the years then ended, and our unaudited interim condensed consolidated financial statements as of June 30, 2017 and for the six months ended June 30, 2017 and 2016.

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 2016, 2015 and 2014, we recognized the effects of inflation for our operations in Venezuela.

On February 21, 2017, we issued our audited consolidated financial statements as of December 31, 2016, 2015 and 2014. In these financial statements, under Note 28 (Subsequent Events), we disclosed that our Audit Committee and the Board of Directors had authorized a change in the accounting policy related to the valuation of property, machinery and equipment, from the revaluation model to the historical cost model, as of January 1, 2017. We performed an analysis in which we identified that the main purpose of our asset acquisitions is their continuous use during their useful life, and it is industry practice to recognize the property, machinery and equipment based on the historical cost model. This change to our accounting policy required a restatement of our consolidated financial statements. In accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, in our restated audited consolidated financial statements issued on September 14, 2017, we recognized the effects of this change retroactively. This change mainly impacted the subsidiaries in Latin America, without having an effect on our cash flows, and there were no other adjustments in our financial settlements. For more information, see Note 3c of our audited consolidated financial statements included herein.

Financial Information of Netafim

On August 6, 2017, we entered into a share purchase agreement with Bluedrip S.a.r.l, Netafim Hatzetim Holdings, Cooperative Association Limited, Megalron–Cooperative Association for Irrigation and Dripping, Ltd., Tamir Fishman Trusts 2004 Ltd., Tamir Fishman Employee Benefits Ltd., and Tamir Fishman Asset Management Ltd., all of them as sellers (jointly, the “Sellers”) to acquire (1) 80% of the voting shares of capital stock of Netafim, Ltd. (“Netafim”), a global leader in smart irrigation solutions, (2) all non-voting shares, representing approximately 0.4% of the capital stock of Netafim, and (3) certain loans made to Netafim by some of its stockholders, including Bluedrip S.a.r.l, Netafim Hatzetim Holdings and Cooperative Association Limited (the “Acquisition”) for an aggregate purchase price of approximately US\$1,500 million (which will be determined at the closing of the transaction). The share purchase agreement was entered into by our subsidiary, Mexichem Soluciones Integrales Holding, S.A. de C.V. (“MSIH”) and Mexichem, S.A.B. de C.V. acted as guarantor. The proposed acquisition of Netafim, if consummated, is part of our growth strategy, giving us access to smart technology, which can be applied to heating and cooling, water management and datacom markets, and other sectors.

We have included herein information concerning Netafim insofar as it is known or reasonably available to us. We have had only limited access to information related to Netafim. Although we have no knowledge that would indicate that information relating to Netafim contained in this offering memorandum is materially inaccurate or incomplete, we do not control Netafim and as a result cannot provide any assurance as to the accuracy of any such information or statements. See “Risk factors—Risk factors related to the proposed Acquisition of Netafim” and “The Proposed Acquisition of Netafim”.

We have included elsewhere in this offering memorandum:

- Netafim’s selected statement of financial position as of December 31, 2016; and
- Netafim’s selected statement of income and statement of other comprehensive income for the year ended December 31, 2016.

The financial statements of Netafim for the year ended December 31, 2016 have been prepared according to US GAAP. We are in the process of identifying the differences between US GAAP and IFRS, together with the accounting policies used by us to prepare our financial statements. As of the date of this offering memorandum, this evaluation has not been concluded, meaning that the possible effect for the figures of Netafim is still unknown.

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 groups

We report our results of operations for our three operating business groups (which are also our financial segments). Our Vinyl Business Group produces Chlorine, Caustic Soda, Ethylene, VCM (until April 20, 2016), which, in turn, becomes PVC, Chlorine derivatives, resins and PVC Compounds. Our Fluent Business Group produces pipes and fittings for the conveyance of fluids, mainly for water and data, manufactured primarily to meet the demands of the construction, datacom and agriculture industries. Our Fluor Business Group includes our fluorspar mining operations and produces HF, Aluminum Fluoride, fluorocarbons and refrigerant gases. We also created the Mexichem Energy Business Unit in 2014 with the purpose of gaining access to energy cogeneration projects. However, the operations of this business unit as of the date of this offering memorandum have not been significant and have therefore not been separately discussed.

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-business group transactions. In contrast, the operating and financial information (including our net sales figures) provided for each of our business groups in this offering memorandum only gives effect to the elimination of intra-business group (but not inter-business group) transactions.

Non-IFRS Financial Measures

This offering memorandum contains financial measures that are not in accordance with IFRS, or non-IFRS measures, primarily EBITDA, Adjusted EBITDA, LTM EBITDA, LTM Adjusted EBITDA and net debt.

EBITDA, Adjusted EBITDA, LTM EBITDA and LTM Adjusted EBITDA

This offering memorandum 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 business groups. In addition, our reported earnings results include the impact of an explosion that occurred on April 20, 2016 at the Pajaritos Petrochemical Complex. For clarification purposes, this offering memorandum includes both EBITDA, as defined above and which includes the effect of the PMV incident, and Adjusted EBITDA, which is calculated as EBITDA excluding the effects of the PMV incident. See “Summary consolidated financial data” and “Selected consolidated financial data” for a breakdown of Adjusted EBITDA for our consolidated operations and the Vinyl Business Group. Last twelve months EBITDA, or LTM EBITDA, is EBITDA that for a given interim period was calculated by subtracting the previous year’s results for the same interim period, and adding the difference to the results for the fiscal year most recently reported. LTM Adjusted EBITDA is Adjusted EBITDA that for a given interim period was calculated by subtracting the previous

year's results for the same interim period, and adding the difference to the results for the fiscal year most recently reported.

Net Debt

Net debt represents our long-term debt with cost (including the current portion) minus cash and cash equivalents. Net debt measures may not be comparable to similarly titled measures used by other companies. Net debt is a non-IFRS measure, and we do not intend net debt to represent debt as defined by IFRS. You should not consider net debt to be an alternative to debt or any other items calculated in accordance with IFRS. Debt levels and, therefore, the impact of interest rates on earnings vary in significance between companies. Thus, for comparison purposes, our management believes that net debt can be useful to investors as an objective and comparable measure of our debt obligations and liquidity, because it recognizes the net cash position of our current operations.

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, references to "reais," "real" or "R\$," are to Brazilian Reais and reference to "Euros" or "€" are to European Euros.

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 2016 and the IHS World Chlor-Alkali Analysis published by IHS in October 2016;
- Reports by USGS;
- Roskill Bi-annual reports (2016); and
- BSRIA report (2016).

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 carefully, especially the risks of investing in our Notes discussed under “Risk factors” and our financial statements and the related Notes included elsewhere in this offering memorandum.

Mexichem

We are a leading supplier of products and solutions in multiple sectors, from petrochemical to construction, infrastructure, agricultural, health, transportation, telecommunications and energy, among others, through a group of companies located in the American and European continents, as well as in some Asian and African countries. We are one of the leading producers of plastic pipes and fittings worldwide and one of the leading chemical and petrochemical companies of Latin America.

In the year ended December 31, 2016, we generated US\$5,350 million in sales and employed more than 18,000 people in more than 37 countries where we operate 120 production plants, concessions for the exploitation of two Fluorite mines in Mexico, eight learning centers to promote research and development, or “formation academies,” and 15 research and development laboratories.

We have a business model based on vertical integration and strategic acquisitions through which we have direct access to raw materials employing proprietary technology, enabling us to compete in a global environment. As a result, we supply a wide range of value-added raw materials and finished products that contribute to the success of our customers and to improving quality of life.

Our operations comprise two value chains, which are divided into three business groups. The Ethylene chain includes the Vinyl and Fluent Business Groups and the Fluor chain includes the Fluor Business Group. We also recently created the Mexichem Energy Business Unit. Our strategic position focuses mainly on the chemical sector, as well as in the production and sale of value added products to final clients through the above mentioned two value chains as well as our Energy Business Unit.

In the Ethylene chain, according to data published by IHS, we are the leading producer of PVC resins and one of the largest manufacturers of plastic pipes and fittings in the world, as well as one of the largest producers of Chlorine and Caustic Soda in Latin America. Since 2014 and as of the year ended December 31, 2016, we are the sole European producer of high-impact suspension PVC (HIS-PVC) resins and the global leader in high-density polyethylene (HDPE) products as solutions for conduits and pipes for telecommunication systems and gas pressure piping systems.

Our Fluor Business Group has the largest worldwide production capacity for hydrofluoric acid and the world’s largest fluorite mine according to Roskill, making us the sole fully-integrated producer of refrigerants in the Americas.

Our principal products include Chlorine, Caustic Soda, Ethylene, vinyl chloride monomer (VCM), polyvinyl chloride (PVC) resins and Compounds, Fluorite, fluor compounds, hydrofluoric acid, refrigerants, and propellants, as well as PVC, polyethylene (PE), polypropylene (PP) and HDPE pipes and fittings, and geosynthetics, which are widely used in the construction, housing, infrastructure, agriculture, potable water, sewage, irrigation, automotive, medical and air conditioning industries.

In 2016, we had an approximate 30% market share in the sale of PVC resin and pipes in Latin America, based on IHS reports with respect to foreign commerce information supplied by ANIQ and on market research studies performed by us. Additionally, in accordance with information from different publications, such as IHS WVA, IHS

Chlor/Alkali Market Report SRI and market research studies performed by us, we have a leading position in PVC Resin sales in several European countries.

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, the Netherlands and Poland. In 2016, 2015 and 2014, our consolidated net sales, excluding intracompany sales, were US\$5.3 billion, US\$5.6 billion and US\$5.5 billion, respectively, with annual decreases of 5% in 2016 and an increase of 2% in 2015. Our EBITDA for 2016, 2015 and 2014 was US\$884 million, US\$910 million and US\$818 million, respectively, and our Adjusted EBITDA for 2016 was US\$926 million.

In recent years, we have secured a strong competitive position and market share throughout the Latin American, North American, European, African and Asian markets, both as a result of organic growth as well as acquisitions focused on expanding and vertically integrating our production processes. At the end of 2016, we were chosen as a member of the FTSE4Good Sustainability Index in its first edition, after having demonstrated strong environmental, social and corporate governance practices.

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: (1) produce specialized products with higher margins, thereby reducing the volatility of the raw materials we produce, (2) manage the production of our raw materials directly and (3) reduce our operating costs and improve our margins. We have proven experience in integrating and operating acquired companies. In 2014, we signed agreements to acquire Vestolit, a specialty resin producer based in Germany, with an annual resin production 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. Also in 2014, a consortium formed by us, Enesa Energía, S.A. de C.V., and Invenenergy Clean Power, LLC was selected by *MGC Cactus, S.A.P.I. de C.V.*, a subsidiary company of *Pemex Transformación Industrial*, to develop a cogeneration power plant. The project seeks to take advantage of the potential of the Cactus gas processing complex to generate electric and steam thermal power with a high level of efficiency and reliability, at a cogeneration power plant to be constructed together with its associated power transmission system. At the end of 2014 Mexichem UK, Ltd. acquired from *E.I. du Pont de Nemours and Company* exclusive rights at world level for the distribution and sale of pharmaceutical-grade hydrofluorocarbon HFC-227ea/P in the regulated medical and pharmaceutical market for medical propellants. In 2016, we acquired 100% of the shares of Vinyl Compounds Holdings (VCHL), a leading U.K. based technical PVC Compounds manufacturer serving a broad range of industries, including building and construction, pipe and profile manufacturers, footwear and consumer goods and we acquired 100% shares of Gravenhurst Plastic, Inc., a private Canadian plastic pipe manufacturer located in Ontario.

Our operations by value chain are the following:

Ethylene chain (Ethylene). Ethylene is the main raw material to produce PVC resins and, consequently, with the start of operations of Ingleside, we will continue the process of vertical integration within the Vinyl and Fluent Business Groups, supporting a fully integrated production chain, from salt extraction to the production of PVC pipes, connections, water tanks, and more. This chain is integrated through the following business groups:

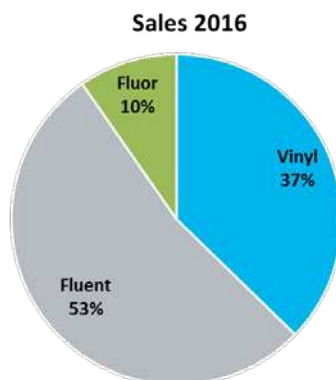
- **Vinyl Business Group.** This business group consists of six manufacturing processes: (1) the chlorine-caustic soda process, which produces Chlorine, Caustic Soda, sodium hypochlorite, hydrochloric acid, and phosphates; (2) the production of Ethylene; (3) VCM (until April 20, 2016); (4) the vinyl process, which produces PVC resins; (5) the plasticizer process, which produces Phthalic Anhydride and plasticizers used in the processing of PVC resins; and (6) the Compound process, which produces PVC and non-PVC Compounds used in different processes to manufacture finished products, such as pipes and fittings, connectors, cables, products for medical applications, synthetic leather, window frames, and specialty resins used for floorings, wallpaper, and coatings, among others. The Vinyl Business Group had net sales of US\$2,032 million in 2016, US\$2,140 million in 2015 and of US\$1,908 million in 2014, representing approximately 37%, 37% and 33% of our total sales (before revenues of the holding company and eliminations) in 2016, 2015 and 2014, respectively. We hold the concession rights to a salt dome in Mexico with possible reserves for more than 30 years and operate modern facilities for the production of Chlorine,

Caustic Soda, and PVC resins and Compounds. We are the sole European producer of HIS-PVC resins, the second largest producer of specialty resins and the fourth largest producer of PVC resins worldwide.

- **Fluent Business Group.** The Fluent Business Group produces PVC, polyethylene and polypropylene pipes, connectors, and fittings, as well as geosynthetics and geotextiles. These products are used in irrigation, drinking water, and sewage systems, surface heating and cooling systems and water treatment systems, including underground systems, waste, gas, and telecommunication applications. The Fluent Business Group had net sales of US\$2,892 million in 2016, US\$3,027 million in 2015 and US\$3,194 million in 2014 (before revenues of the holding company and eliminations), representing approximately 53%, 52% and 56% of our total sales (before revenues of the holding company and eliminations) in 2016, 2015 and 2014, respectively.

Fluor Chain /Fluor Business Group. This business group's operations consist of three processes: (1) the fluorspar process, consisting of the extraction of fluorspar, which is used in the cement, steel, ceramics, and glass industries and to produce hydrofluoric acid and aluminum fluoride, among other products; (2) the hydrofluoric acid and aluminum fluoride process; and, (3) the refrigerant gas process. The Fluor Business Group includes the mining concession in the world's largest fluorite mine, with an installed production capacity of approximately 1.9 million mtpy, representing approximately 20% of the world's annual demand for fluorspar, and with proven reserves for 40 years, according to estimations made by experts certified by the Mining and Metallurgical Society of America. The Fluor Business Group's net sales reached US\$583 million, US\$608 million and US\$637 million in 2016, 2015 and 2014 respectively, representing approximately 11% of our total sales in each of 2016, 2015 and 2014 (before revenues of the holding company and eliminations).

The following chart shows a breakdown of the total sales revenue by business group as of December 31, 2016 excluding revenues of the holding company and eliminations:



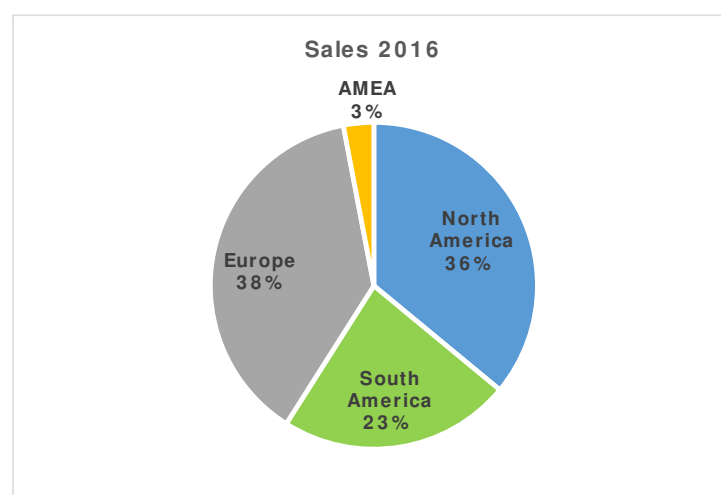
The sales of each business group during the last three fiscal years were as follows:

Business Group / Unit	For the year ended December 31			For the year ended December 31:		
	Sales Volume ⁽¹⁾			Revenues ⁽²⁾		
	2016	2015	2014	2016	2015	2014
Vinyl.....	2.474	2.541	1.865	2,032	2,140	1,908
Fluent.....	1.074	1.140	1.013	2,892	3,027	3,194
Fluor.....	0.903	0.919	1.021	583	608	637
Energy	-	-	-	2	-	-
Intercompany and holding	(0.190)	(0.180)	(0.203)	(159)	(162)	(225)
Total sales	4.261	4.420	3.696	5,350	5,613	5,514

(1) Million tons

(2) In millions of U.S. dollars

The following chart shows a breakdown of the total sales revenue by region as of December 31, 2016:



The following table sets forth our principal products sold in 2016, together with our market position for each of these products by country.

Country/Region	Product	Position
Argentina.....	Pipe	2
Baltics ⁽¹⁾	Pipe	2
Belgium.....	Pipe	1
Brazil	Pipe	2
Colombia.....	Pipe	1
Costa Rica	Pipe	1
Czech Republic.....	Pipe	1
Denmark	Pipe	1
Ecuador	Pipe	1
El Salvador.....	Pipe	1
France.....	Pipe	2
Germany.....	Pipe	3
Guatemala	Pipe	1
Honduras	Pipe	1
Hungary.....	Pipe	1
Italy.....	Pipe	3

Country/Region	Product	Position
Mexico.....	Pipe	1
Netherlands	Pipe	1
Nicaragua	Pipe	1
Norway	Pipe	2
Panama	Pipe	2
Peru.....	Pipe	1
Poland.....	Pipe	1
Sweden	Pipe	3
Turkey	Pipe	5
United Kingdom	Pipe	2
Venezuela.....	Pipe	2
Fluor Business Group		
United States.....	Fluorspar (acid grade)	1
United States.....	Fluorspar (metallurgic)	1
United States.....	Fluorocarbons (134a)	1
United States.....	Hydrofluoric Acid	4
Mexico.....	Fluorspar	1
United Kingdom	Fluorocarbons	1
United Kingdom	Fluorocarbons (134a)	1
Canada	Fluorite (metspar)	1
Canada	Fluorite (acid spar)	1
Japan.....	Fluorocarbons (134a)	1
Japan.....	Fluorocarbons	2
Japan.....	Fluorite (metspar)	1
Vinyl Business Group		
Germany.....	PVC Resin	2
United States.....	Compounds	7
Mexico.....	Chlorine	1
Mexico.....	Compounds	1
Mexico.....	PVC Resin	1
Mexico.....	Caustic Soda	1
Colombia.....	Compounds	1
Colombia.....	PVC Resin	1

(1) Includes Estonia, Latvia and Lithuania.

Source: IHS, IHS Chlor-Alkali market report, SRI and Company Data.

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 a leader in the markets where we participate, focused on a strategy oriented towards low-cost production through constant investment in our own technology and in state-of-the-art technologies; integration of our basic raw materials in our two main production chains; achieving synergies in logistics, purchases, systems, treasury, human resources, etc.; and developing and implementing projects in a constant, cost-effective manner.

We have recently acquired new companies, established new businesses or formed joint ventures with various companies to 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 September 19, 2014, we acquired Dura-Line from CHS. Based in Knoxville, Tennessee, Dura-Line is a global leader in HDPE conduit and duct solutions for voice and data telecommunications, as well as for the energy and infrastructure industries. Dura-Line has manufacturing

facilities in the U.S., Mexico, India, Oman, Europe and South Africa. The acquisition of Dura-Line allowed us to advance our strategy to become a global, vertically-integrated company, focused on high-value specialty products and solutions. Dura-Line offers its products through two well-positioned brands: FuturePath and PolyPipe. The acquisition was completed for US\$630 million, including assumed liabilities.

- **Acquisition of Vestolit:** On December 1, 2014, we acquired 100% of the shares of Vesto PVC Holding G, the sixth largest PVC producer in Europe. The Vestolit manufacturing facility is located in Marl, Germany. Vestolit is the sole European producer of HIS-PVC resins, which is used to manufacture weather resistant windows, and one of the largest European producers of PVC paste, which is used for automobile chassis coatings, lady's handbags, plastic containers, flooring, and wallpaper. Vestolit also produces Chlorine-Alkali, emulsion and suspension PVC, microsuspension PVC and window compounds. The acquisition was completed for €219 million, including assumed liabilities.
- **License for the distribution and sale of pharmaceutical-grade HFC-227ea/P:** On December 31, 2014, Mexichem UK, Ltd. (belonging to the Fluor Business Group), acquired a license from E.I. DuPont de Nemours and Company for the distribution and sale of pharmaceutical-grade hydrofluorocarbon HFC-227ea/P, a propellant used in medical applications. This business transaction supports our strategy to focus on global growth by participating in the specialty product markets. The acquisition price was US\$4.1 million and was financed with cash generated from operations.
- **New manufacturing plant in Hyderabad, India:** On May 12, 2015, we inaugurated a new manufacturing plant in Hyderabad, India. This new plant produces conduits and high-pressure pipes for the water and gas transportation and voice and data telecommunications markets. This plant is our fourth manufacturing facility in India, with two other plants located in Goa and another one in Neemrana, near Delhi. The strategic location of the Hyderabad plant in southern India allows us to export products to Southeast Asia, serve customers in the southern region of India and capture new business opportunities in the region. The opening of this plant forms part of our ongoing strategy to become a global company, vertically integrated and focused on specialty products and solutions. The acquisition price was US\$3.4 million.
- **Acquisition of Gravenhurst Plastic:** On October 18, 2016, we announced the acquisition of Gravenhurst Plastics Ltd. (GPL), in Temiskaming, Ontario, Canada with the purpose of reinforcing the global growth model in added value specialty products. GPL provides HDPE pipes and fittings and fiber optic piping, as well as construction products within the Canadian market. The transaction was consolidated in the Fluent Business Group within the Ethylene Chain and had a value of US\$13 million paid in cash.
- **Acquisition of Vinyl Compounds:** On November 25, 2016, we announced the acquisition in the United Kingdom of 100% of the shares of Vinyl Compounds Holdings Ltd. (VCHL), leading supplier of PVC Compounds which serves a broad spectrum of industries including: building and construction, piping and profiles manufacturing, footwear and consumer products. Our manufacturer of PVC compounds is located in Derbyshire, and annually generates revenue of approximately US\$40 million. We consolidated VCHL's operations under its Compounds Business Unit, leading supplier of PVC Compounds serving the global market and is a part of the Vinyl Business Group within the Ethylene Chain. This acquisition enabled further vertical integration of our Compounds Business unit through stabilizer technologies and recycled PVC capabilities. This transaction had a value of £24 million, paid in cash, equivalent to approximately US\$30 million.
- **Joint Venture with Oxychem.** As of December 31, 2016, the joint venture formalized on October 31, 2013 between Mexichem and Occidental Chemical Corporation (OxyChem) denominated Ingleside Ethylene LLC with an equal participation to build an Ethylene cracker with an annual capacity of 1,200 million pounds (550 thousand tons), represented a total investment of US\$1,376 million. So far in 2017, this investment has increased by US\$77 million, reaching a total investment of US\$1,453 million as of June 30, 2017. This investment is located within the OxyChem facilities in Ingleside, Texas, and it will employ the ducts and storage system located in Markham, Texas. The joint venture is consolidated in our financial statements and is reported as part of the Vinyl Business Group within the Ethylene Chain. On February 27, 2017, Ingleside Ethylene LLC announced that the Ethylene cracker within the OxyChem complex located in Ingleside, Texas,

initiated operations on time and within budget. Consequently, the production is at this time in a stabilization period. Once the Ethylene cracker is fully operational, we expect that it will supply approximately 70% of our Vinyl Business Group's Ethylene needs.

Leading position in Latin American and European PVC and plastic pipe markets, with strong growth prospects and indisputable global leadership within the Fluor Business Group.

We are one of the largest producer of plastic pipes in Europe and Latin America and the fifth largest producer of PVC resin in the world. We believe that the primary markets for these products, the infrastructure and construction industries, may experience sustained growth over the coming years. In 2016, net sales to third parties by origin and by geographical area were primarily concentrated in Europe, Mexico, the United States, Colombia, and Brazil, representing 38%, 20%, 16%, 9%, and 6%, respectively. Although Mexico represents 20% of total sales, of these sales, 43% are exports, representing 8.5% of our total sales (with exports to the United States making up only 3.6% of our total sales), and the remaining 57% are sales made within Mexico. 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, China, the United Kingdom and, starting September 2014, in the Middle East (Oman) and Africa (South Africa). The emerging markets in which we sell the main products from the Vinyl Business Group enjoy attractive infrastructure and construction growth prospects and are characterized by significant housing deficits, insufficient infrastructure, lack of access to water, sanitation and electric power, etc. We expect that there will be continued demand for PVC and Caustic Soda in coming years which, according to IHS, based on an expected growth of the global construction sector, estimated at a weighted-average rate of 3.2% for the 2016-2021 period.

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 main 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 26 acquisitions (for an aggregate of 82 acquired companies) since 2003. See “—Recent acquisitions.” The acquisitions we completed in 2014 contributed US\$214 million and US\$13 million to net sales and EBITDA, respectively, which represented 3.9% and 1.6% of our total net sales and EBITDA, respectively, for 2014. We did not make any new acquisitions in 2015. The acquisitions concluded in 2016, which were intended and achieved to emphasize our vertical integration, contributed US\$7 million and US\$0.3 million to 2016 net sales and EBITDA, respectively, that represents approximately less than 1% of total net sales and EBITDA in the period.

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, 2016, we have invested over US\$4.5 billion in acquisitions.

Experienced management team with significant industry experience.

A significant part of our senior management team has meaningful experience in leadership positions in top-level global companies, with careers averaging over ten year in similar industries and more than 20 year of professional experience. 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 our main domestic and foreign customers and suppliers, ensuring a sustainable development. In turn we have been able to establish, according to our growth potential and size, the market segments in which we wish to operate. Through this agreement scheme, we have positioned ourselves with strategic customers that operate in markets with high growth potential, providing us a competitive and different advantage difficult to be matched by our competitors.

We operate under a long-term supply agreement with OxyChem and in 2013 we entered into a joint venture with Pemex Etileno (previously Pemex Petroquímica) in PMV for the procurement of VCM, which we use to make PVC. Since April 20, 2016, we have stopped the production of VCM due to an explosion that occurred in PMV's VCM plant inside the Pajaritos Petrochemical Complex. Though we believe that the arrangement with OxyChem provides 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 estimations made by the Mining and Metallurgical Society of America and, with the acquisition of FDM, we have increased our potential reserves of the highest purity fluorspar, (2) have one of the largest HF production capacity in the world according to the latest survey conducted by Roskill in 2014 and updated in 2016, (3) have established strong relationships with key market participants, (4) have become the world leader in the fluorchemical segment, especially in the production of refrigerant gas, and (5) maintain proximity to the U.S. fluorocarbons market.

The Fluor Business Group operates through long-term contracts denominated in U.S. dollars with international customers for the supply of acid-grade fluorspar. 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 Vinyl Business Group 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 Fluent Business Group.

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, Veracruz, Mexico, which in addition to further reducing costs, provides us reliable access to export markets. Our Mexican 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 fluorspar market in the world. In addition, a significant portion of our Fluent business production facilities are located within a reasonable distance of our PVC resin plants allowing us to capture incremental vertical integration economies of scale. Since 2014 and until 2016, we invested close to US\$500 million to build and improve our plants, property and equipment. The EBITDA margin reported and adjusted at the termination of the 2016 fiscal year was 16.5% and 17.3%, exhibiting an increase of 30 bps and 109 bps, respectively, compared with 2015.

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 15 research centers in Mexico, the United States, the Netherlands, Italy, India, the Czech Republic, 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 fluorspar has allowed us to optimize the HF cost of production. We also have proprietary technology for the production of PVC resins, PVC pipes, PVC Compounds, and plasticizers. These technologies allow us to produce unique pipes, meeting the requirements of most infrastructure projects and a high-purity HF that provides competitive advantages. Additionally, after we

acquired Wavin (now Fluor Europe), we gained access to new technologies and products developed by them, with which we already had technology transfer agreements. In total, we have over 500 proprietary 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:

Our global growth model

During the first half of 2016, we completed the strategic analysis of our new organic growth model. This led to a list of geographical priorities by product, which enabled us to establish an action plan for the coming years. We started a pilot program in Brazil, Colombia, United States, India and Turkey, among others, to maximize the use of the capabilities that we already have in those countries. Different categories of products from the three business groups have been identified for the purpose of cross selling in the existing platforms in these countries, thereby maximizing the assets and the expertise required to develop the business. Additionally, we have adopted a stricter discipline with respect to the decisions to invest in all the organic as well as inorganic projects, by utilizing a capital allocation model, in which risks mitigations, alignment to our strategy, global and local growth potential, profitability and operative capacity are included as a first filter.

A continued focus on highly efficient operations, reduction of volatility through vertical integration, and improvement of profitability by optimizing resources.

Our vertical integration strategy seeks to reduce exposure to any price volatility of the main raw materials we produce. The Fluor Business Group is 100% vertically integrated, from fluorspar exploitation to refrigerant gas production. Since February 2017, with the beginning of operations at Ingleside, the Vinyl Business Group has been engaged in the process of integrating into the Ethylene chain and, in this manner, is intended to achieve the greatest possible integration, from salt extraction to PVC production, which, once completed, will allow us to improve profitability through better cost management. Furthermore, our fundamental approach is aimed at improving the return on the capital invested in the organization, with its current assets and operations.

A continued focus on specialties and high value-added products.

We will continue to focus on developing and complementing our portfolio with value-added products. We have developed a “last-line” process for the purification of the fluorspar extracted from the mine, at a significantly lower cost, with the purpose of manufacturing HF, which is generally sold at ten times the price of fluorspar. Additionally, the acquisition of Wavin and of the specialty PVC-resin assets of PolyOne in the United States, as well as the recent acquisitions of Dura-Line, Vestolit, Vinyl Compounds and Gravenhurst, form part of our strategy to continue integrating products with higher value added through strategic acquisitions.

We will continue to use our competitive advantage to develop new and advanced production processes in our 15 research and development centers. Likewise, these centers develop new products based on the needs of the customers, making them available through an extensive distribution network in their different markets. We will also continue developing and implementing proprietary technologies and processes that will generate significant benefits for us and for the industry in general. For example, we hold a proprietary technology for the production of PVC resins, PVC pipes, compounds, plasticizers, and HF purification. These technologies allow us to produce unique pipes meeting the requirements of most infrastructure projects and a high-purity HF that provides competitive advantages. We have also developed solutions based on fluorspar compounds for the cement industry, which allow the optimization of the clinker production process, which not only results in economic benefits but also contributes to environmental protection by reducing CO₂ emissions.

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.

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 2.0x. We have also secured liquidity through a revolving credit line of up to US\$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 26 acquisitions of 82 companies since 2003 from different parts of the world, positioning us as leaders in different countries and regions through the integration of diverse companies, 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, and a strict adherence to our code of ethics, as part of this unified culture so that our employees are not only aware of our mission, vision, values and code of ethics, but so they may also apply them in their daily routines. Additionally, during 2015 we implemented our new corporate identity and our global brand-alignment policies.

Commit to safety, 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 we 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 2016. In 2016 we were also chosen as a member of the FTSE4Good Sustainability Index, for having demonstrated strong environmental, social, and corporate governance practices.

We work to provide a safe place for our employees, visitors and contractors. We believe that all work-related accidents and illnesses are preventable, and have worked to unify the safety systems for our operations and to align them with the International Safety Rating System (ISRS) standard, which is a system for managing risk and controlling losses. The ISRS defines safety responsibilities and activities for leadership and management, planned inspections and maintenance, critical tasks, investigation of accidents and incidents, emergencies, knowledge and skills, personal protection equipment, industrial health and safety, changes in management or engineering, off-site communication and safety. The ISRS is comparable to the OHSAS 18001.

Proposed Acquisition of Netafim

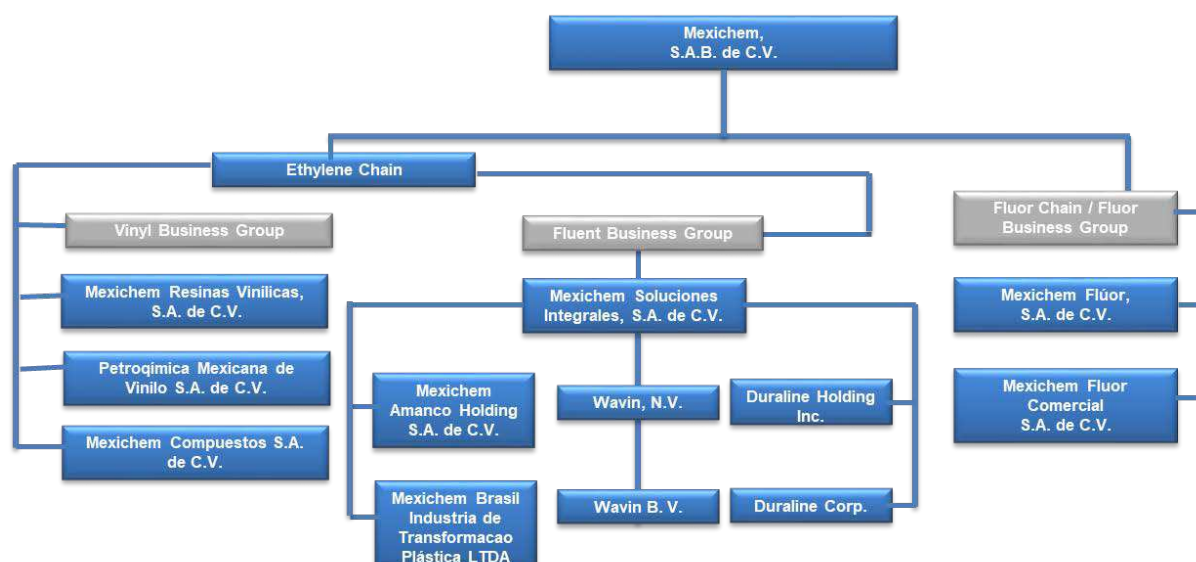
On August 6, 2017, we entered into a share purchase agreement with Bluedrip S.a.r.l, Netafim Hatzerim Holdings, Cooperative Association Limited, Megalron–Cooperative Association for Irrigation and Dripping, Ltd., Tamir Fishman Trusts 2004 Ltd., Tamir Fishman Employee Benefits Ltd., Tamir Fishman Asset Management Ltd., all of them as sellers (jointly, the “Sellers”) to acquire (1) 80% of the voting shares of capital stock of Netafim, Ltd. (“Netafim”), a global leader in smart irrigation solutions, (2) all non-voting shares, representing approximately 0.4% of the capital stock of Netafim, and (3) certain loans made to Netafim by some of its stockholders, including Bluedrip

S.a.r.l, Netafim Hatzerim Holdings and Cooperative Association Limited (the “Acquisition”) for an aggregate purchase price of approximately US\$1,500 million (which will be determined at the closing of the transaction). The share purchase agreement was entered into by our subsidiary, Mexichem Soluciones Integrales Holding, S.A. de C.V. (“MSIH”) and Mexichem, S.A.B. de C.V. acted as guarantor. The proposed acquisition of Netafim, if consummated, is part of our growth strategy, giving us access to smart technology, which may be used in cooling and heating, water management, datacom, and other sectors. The Acquisition’s closing, as provided in the Share Purchase Agreement, is subject to several conditions precedent, among which the following are included (1) the obtainment of all the authorizations, approvals and/or governmental consents required in several jurisdictions, including, the United States, Turkey, Germany, Ukraine, Russia, Ecuador, Brazil and Honduras and (2) the obtainment of the authorization from our stockholders meeting (which was obtained on August 30, 2017, with a total representation of 81.43% of the total outstanding shares, 98.28% of which voted in favor of the acquisition for a total of 80.02% of the total outstanding shares).

We believe that the acquisition of Netafim would be a transformational acquisition, which drives our strategy into specialty products and solutions, establishing us as a leading innovator in the high growth micro- irrigation market. By acquiring Netafim, we will become a leading developer of solutions to address food and water shortages, and respond to the need of increasing crop yields, and meet higher sustainability standards for fertilization. Netafim has a long history of being at the forefront in the creation of smart solutions in the irrigation market. This acquisition will give us access to this smart technology, which eventually may be used in heating and cooling, water management, datacom, and other sectors, offering a platform from which we may create smart industrial solutions around our existing production lines that attend the infrastructure, housing and datacom markets. We believe this acquisition will also strengthen our global footprint and presence in key growth markets, and will allow us to grow in the replacement market and to diversify and expand the end markets in which we sell our products.

Corporate Structure

The following organization chart shows our corporate structure at the date of this offering memorandum, indicating the position of our main subsidiaries with respect to the business groups.



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.....	US\$500,000,000 aggregate principal amount of 4.000% Senior Notes due 2027. US\$500,000,000 aggregate principal amount of 5.500% Senior Notes due 2048.
Offering Price.....	99.186%, plus accrued interest, if any, from October 4, 2017 for the 2027 Notes. 97.874%, plus accrued interest, if any, from October 4, 2017 for the 2048 Notes.
Maturity Date.....	October 4, 2027 for the 2027 Notes. January 15, 2048 for the 2048 Notes.
Interest Rate	Interest on the 2027 Notes will accrue at a rate of 4.000% per year. Interest on the 2048 Notes will accrue at a rate of 5.500% per year.
Interest Payment Dates	April 4 and October 4 of each year, beginning on April 4, 2018 for the 2027 Notes. January 15 and July 15 of each year, beginning on January 15 2018 for the 2048 Notes.
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, 2017, the subsidiary guarantors (in addition to Mexichem, on a stand-alone basis) accounted for 48.9% of our total assets and 46.7% 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, 2017, 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 \$3,302 million. Of this amount, no amount would have been secured by collateral.
Optional Redemption	We may redeem each series of 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 Interests, if any, and any accrued and unpaid interest up to the date of redemption. In addition, we may redeem either series of Notes, in whole or in part, at any time and from time to time, beginning on the date that is three months prior to the scheduled maturity of the notes for the 2027 Notes and on the date that is six months prior to the scheduled maturity of the notes for the 2048 Notes, at our option at a redemption price equal to 100% of the principal amount of the series of Notes to be redeemed, plus accrued and unpaid interest on the principal amount of the Notes being redeemed to the date of redemption. See “Description of Notes—Redemption—Optional redemption.”
Tax Redemption	We may redeem each series of 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 Interests, 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 such 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 Interests through the purchase date. See “Description of Notes—Redemption upon change of control.”
Additional Interests	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 current rate of 4.9%. Subject to certain specified exceptions, we and the subsidiary guarantors will, jointly and severally, pay such additional interests 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 Interests.”
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, to finance prospective strategic acquisitions, including the acquisition of Netafim, and for other general corporate purposes. See “Use of Proceeds.”
Taxation.....	For a summary of certain Mexican federal income tax consequences and U.S. federal income tax consequences of an investment in the Notes, see “Taxation.”
Book Entry; Form and Denominations	Each series of Notes 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. Each series of 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	Each series Notes will be 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. Each series of Notes are subject to restrictions on transfer and may only be offered in transactions exempt from or not subject to the registration requirements of the Securities Act. See “Transfer restrictions.” As required under the Mexican Securities Market Law, we 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 (<i>Registro Nacional de Valores</i>) 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 any available 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.
Securities Codes	The 2027 Notes will be assigned the following securities codes:
	Rule 144A:
	CUSIP: 59284BAF5
	ISIN: US59284BAF58
	Regulation S:
	CUSIP: P57908AG3
	ISIN: USP57908AG32
	The 2048 Notes will be assigned the following securities codes:
	Rule 144A:
	CUSIP: 59284BAG3
	ISIN: US59284BAG32
	Regulation S:
	CUSIP: P57908AH1
	ISIN: USP57908AH15

Risk factors

An investment in the Notes involves risks. See “Risk factors” beginning on page 23 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 AND OTHER INFORMATION

The following table presents our summary consolidated financial data in U.S. dollars.

The summary consolidated financial data as of and for the years ended December 31, 2016, 2015 and 2014 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, 2017 and for the six months ended June 30, 2017 and 2016 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,		
	2017	2016	2016	2015	2014
(Millions of U.S. dollars)					
Statement of Comprehensive Income Data					
Net sales	2,859	2,678	5,350	5,612	5,514
Cost of sales	2,179	2,021	4,109	4,339	4,361
Gross profit.....	680	657	1,241	1,273	1,153
Selling and development expenses	174	176	343	360	361
Administrative expenses.....	141	140	270	280	267
Depreciation and amortization	44	44	91	106	112
Other (income) expenses	(31)	285	(15)	(20)	(37)
Exchange gain.....	(49)	(43)	(95)	(38)	(79)
Exchange loss.....	85	42	93	95	170
Interest expense.....	98	99	192	212	195
Interest income	(12)	(12)	(10)	(22)	(34)
Monetary position loss	(2)	(1)	(18)	(3)	6
Equity in income of associated entity.....	(1)	(4)	(3)	(3)	(3)
Profit (loss) before income taxes.....	233	(68)	393	306	195
Income tax expense (benefit)	88	(4)	135	99	54
Profit (loss) for the year from continuing operations.....	145	(64)	258	207	141
(Loss) gain from discontinued operations, net.	-	(1)	(11)	(54)	3
Consolidated profit for the year.....	145	(65)	247	153	144
Other comprehensive income (loss):					
Items that will not be reclassified subsequently to profit or loss:					
Actuarial losses (gains) recognized during the year	-	-	(34)	40	(58)
Income taxes.....	-	-	11	(9)	15
	-	-	(23)	31	(43)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	86	60	(46)	(381)	(240)
Valuation of financial instruments.....	(53)	(17)	(11)	101	46
Income taxes.....	16	5	3	(30)	(14)
	49	48	(54)	(310)	(208)
Other comprehensive income for the year	49	48	(77)	(279)	(251)
Total consolidated comprehensive profit (loss) for the year	194	(17)	170	(126)	(107)
Consolidated profit for the year:					
Owners of the company.....	119	31	263	156	151
Non-controlling interests	26	(96)	(16)	(3)	(7)
	145	(65)	247	153	144
Total comprehensive income attributable to:					
Owners of the company.....	162	81	181	(120)	(97)
Non-controlling interests	32	(98)	(11)	(6)	(10)
	194	(17)	170	(126)	(107)

	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
(Millions of U.S. dollars)					
Earnings (loss) per share attributable to owners of the company:					
From continuing operations	-	-	-	-	-
From discontinued operations	-	-	-	-	-
Basic earnings per share	-	-	-	-	-
Weighted average common shares outstanding	2,100,000,000	2,100,000,000	2,100,000,000	2,100,000,000	2,100,000,000

	As of June 30,	As of December 31,		
	2017	2016	2015	2014
	(Millions of U.S. dollars)			
Statement of Financial Position Data				
Assets:				
Current assets:				
Cash and cash equivalents	735	714	653	620
Accounts receivable, net	1,526	1,181	884	1,124
Due from related parties	3	3	2	4
Inventories, net	713	606	648	775
Prepaid expenses	46	35	48	48
Assets classified as held for sale	22	21	17	12
Total current assets	3,045	2,560	2,252	2,583
Non-current assets				
Property, plant and equipment, net	3,774	3,750	3,733	3,286
Other assets, net.....	74	64	69	79
Investment in shares of associated entity.....	32	31	31	34
Intangible assets, net	1,215	1,193	1,249	1,408
Deferred income taxes	-	66	187	169
Goodwill	696	690	678	723
Total non-current assets	5,791	5,794	5,947	5,699
Total assets.....	8,836	8,354	8,199	8,282
Liabilities:				
Current liabilities:				
Bank loans and current portion of long-term debt	52	58	44	62
Suppliers	802	653	566	679
Credit letters of suppliers.....	678	617	635	452
Due to related parties	28	51	27	32
Other accounts payable and accrued liabilities	526	500	435	468
Provisions	7	9	17	22
Employee benefits.....	30	32	31	31
Short term finance lease.....	45	52	44	53
Derivative financial instruments	-	-	-	10
Liabilities directly associated with assets held for sale	11	13	20	7
Total current liabilities	2,179	1,985	1,819	1,816
Non-current liabilities				
Bank loans and long-term debt.....	2,270	2,241	2,291	2,366
Long-term other liabilities	25	26	23	34
Long-term provisions.....	19	17	27	34
Employee benefits.....	187	171	155	222
Deferred income taxes	124	151	335	342
Long term finance lease.....	52	69	117	170
Long term income tax	50	13	14	50
Derivative financial instruments	116	99	69	62
Total non-current liabilities	2,843	2,787	3,031	3,280
Total liabilities.....	5,022	4,772	4,850	5,096
Stockholders' equity:				
Paid-in capital				
Nominal	256	256	256	256
Additional paid-in capital	1,475	1,475	1,475	1,475
Cumulative effect of restatement	24	24	24	24
Earned capital				
Retained earnings	975	855	1,107	1,031
Other comprehensive income	(436)	(484)	(429)	(154)
Share repurchase reserve	546	552	156	127
Controlling interest	2,840	2,678	2,589	2,759
Non-controlling interest.....	974	904	760	427
Total stockholders' equity	3,814	3,582	3,349	3,186
Total liabilities and stockholders' equity.....	8,836	8,354	8,199	8,282

Results by business group

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

	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(Thousands of U.S. dollars)				
Vinyl Business Group⁽¹⁾					
Income Statement Data:					
Net sales	1,171,233	998,325	2,031,795	2,139,962	1,907,775
Cost of sales	977,254	832,560	1,752,828	1,820,863	1,705,592
Gross profit	193,979	165,765	278,967	319,099	202,183
Operating expenses ⁽²⁾	44,605	359,569	137,746	142,603	107,056
Other Data:					
EBITDA ⁽³⁾	236,409	(128,306)	272,132	313,230	216,921
Adjustment	-	285,526	42,325	-	-
Adjusted EBITDA ⁽⁴⁾	236,409	157,220	314,457	313,230	216,921
Volume (thousands of tons)	1,284	1,261	2,474	2,541	1,865
Energy Business Unit⁽¹⁾					
Income Statement Data:					
Net sales	811	785	1,601	245	-
Cost of sales	744	717	1,459	232	-
Gross profit	67	68	142	13	-
Operating expenses ⁽²⁾	(13)	214	248	(353)	-
Other Data:					
EBITDA ⁽³⁾	596	370	925	366	-
Volume (thousands of tons)	-	-	-	-	-
Fluent Business Group⁽¹⁾					
Income Statement Data:					
Net sales	1,472,435	1,453,295	2,892,097	3,026,592	3,193,831
Cost of sales	1,110,442	1,083,569	2,169,754	2,312,029	2,504,156
Gross profit	361,993	369,726	722,343	714,563	689,675
Operating expenses ⁽²⁾	229,567	226,569	437,349	455,933	501,131
Other Data:					
EBITDA ⁽³⁾	202,405	208,759	421,274	409,130	354,994
Volume (thousands of tons)	526	544	1,074	1,140	1,013
Fluor Business Group⁽¹⁾					
Income Statement Data:					
Net sales	317,780	304,205	582,858	607,545	637,364
Cost of sales	194,636	182,590	344,537	373,832	388,131
Gross profit	123,144	121,615	238,321	233,713	249,233
Operating expenses ⁽²⁾	26,083	32,534	62,142	47,579	52,711
Other Data:					
EBITDA ⁽³⁾	123,372	114,464	227,774	241,266	256,130
Volume (thousands of tons)	454	443	903	919	1,021
Holding Company					
Income Statement Data:					
Net sales	5,449	4,718	21,509	17,955	33,147
Cost of sales	-	-	3,387	-	-
Gross profit	5,449	4,718	18,122	17,955	33,147
Operating expenses ⁽²⁾	32,371	30,168	67,479	91,718	63,173
Other Data:					
EBITDA ⁽³⁾	(21,592)	(20,466)	(38,348)	(53,571)	(9,631)
Eliminations					
Income Statement Data:					
Net sales	(108,918)	(82,992)	(180,053)	(179,907)	(257,772)

	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(Thousands of U.S. dollars)				
Cost of sales.....	(103,601)	(78,513)	(162,997)	(168,069)	(236,680)
Gross profit.....	(5,317)	(4,479)	(17,056)	(11,838)	(21,092)
Operating expenses ⁽²⁾	(5,317)	(4,479)	(17,056)	(11,838)	(21,092)
Other Data:					
EBITDA ⁽³⁾	-	-	-	-	-
Volume (thousands of tons).....	(98)	(95)	(190)	(180)	(203)

- (1) Amounts set forth have only been adjusted to eliminate intra-business group (but not inter-business group) 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.
- (4) The adjustment amount for the six-months ended June 30, 2016 was calculated considering the following impacts of the PMV incident: (i) \$276 million of asset write-off and (ii) US\$9 million of one-time expenses for indemnifications and other costs. The adjusted amount for year ended December 31, 2016 was calculated considering the following impacts of the PMV incident (i) US\$276 million of asset write-off recognized under other expenses, (ii) US\$42 million related to indemnification, legal expenses and other costs and (iii) a positive impact in other income related to the account receivable of the insurance coverage of US\$(276) million.

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

	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(Thousands of U.S. dollars)				
Consolidated Operations					
Gross profit.....	679,315	657,413	1,240,839	1,273,505	1,153,146
Less: Operating expenses ⁽¹⁾	327,296	644,575	687,911	725,642	702,979
Plus: Depreciation and amortization ⁽²⁾	189,171	161,983	330,826	362,558	368,247
EBITDA.....	541,190	174,821	883,754	910,421	818,414
Adjustments ⁽³⁾	-	285,526	42,325	-	-
Adjusted EBITDA.....	541,190	460,347	926,079	910,421	818,414

- (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.
- (3) The adjustment amount for the six-months ended June 30, 2016 was calculated considering the following impacts of the PMV incident: (i) US\$276 million of asset write-off and (ii) US\$9 million of one-time expenses for indemnifications and other costs. The adjusted amount for year ended December 31, 2016 was calculated considering the following impacts of the PMV incident (i) \$276 million of asset write-off recognized under other expenses, (ii) US\$42 million related to indemnification, legal expenses and other costs and (iii) a positive impact in other income related to the account receivable of the insurance coverage of US\$(276) million.

	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(Thousands of U.S. dollars)				
Vinyl Business Group ⁽¹⁾					
Gross profit.....	193,979	165,765	278,967	319,099	202,183
Less: Operating expenses ⁽²⁾	44,605	359,569	137,746	142,603	107,056
Plus: Depreciation and amortization ⁽³⁾	87,035	65,498	130,911	136,734	121,794
EBITDA.....	236,409	(128,306)	272,132	313,230	216,921
Adjustments.....	-	285,526	42,325	-	-
Adjusted EBITDA ⁽⁴⁾	236,409	157,220	314,457	313,230	216,921
Energy Business Unit ⁽¹⁾					
Gross profit.....	67	68	142	13	-
Less: Operating expenses ⁽²⁾	(13)	214	248	(353)	-
Plus: Depreciation and amortization ⁽³⁾	516	516	1,031	-	-

	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(Thousands of U.S. dollars)				
EBITDA	596	370	925	366	-
Fluent Business Group⁽¹⁾					
Gross profit	361,993	369,726	722,343	714,563	689,675
Less: Operating expenses ⁽²⁾	229,567	226,569	437,349	455,933	501,131
Plus: Depreciation and amortization ⁽³⁾	69,979	65,602	136,280	150,500	166,450
EBITDA	202,405	208,759	421,274	409,130	354,994
Fluor Business Group⁽¹⁾					
Gross profit	123,144	121,615	238,321	233,713	249,233
Less: Operating expenses ⁽²⁾	26,083	32,534	62,142	47,579	52,711
Plus: Depreciation and amortization ⁽³⁾	26,311	25,383	51,595	55,132	59,608
EBITDA	123,372	114,464	227,774	241,266	256,130
Holding Company					
Gross profit	5,449	4,718	18,122	17,955	33,147
Less: Operating expenses ⁽²⁾	32,371	30,168	67,479	91,718	63,173
Plus: Depreciation and amortization ⁽³⁾	5,330	4,984	11,009	20,192	20,395
EBITDA	(21,592)	(20,466)	(38,348)	(53,571)	(9,631)
Eliminations					
Gross profit	(5,317)	(4,479)	(17,056)	(11,838)	(21,092)
Less: Operating expenses ⁽²⁾	(5,317)	(4,479)	(17,056)	(11,838)	(21,092)
Plus: Depreciation and amortization ⁽³⁾	-	-	-	-	-
EBITDA	-	-	-	-	-

- (1) Amounts have only been adjusted to eliminate intra-business group (but not inter-business group) 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.
- (4) The adjustment amount for the six-months ended June 30, 2016 was calculated considering the following impacts of the PMV incident: (i) US\$276 million of asset write-off and (ii) US\$9 million of one-time expenses for indemnifications and other costs. The adjusted amount for year ended December 31, 2016 was calculated considering the following impacts of the PMV incident (i) \$276 million of asset write-off recognized under other expenses, (ii) US\$42 million related to indemnification, legal expenses and other costs and (iii) a positive impact in other income related to the account receivable of the insurance coverage of US\$(276) million.

Other Financial Data

Net Debt to EBITDA Ratio

	As of June 30, (3)	As of December 31,		
	2017	2016	2015	2014
	(Millions of U.S. dollars)			
Interest-bearing liabilities ⁽¹⁾	2,323	2,300	2,356	2,428
Current portion of long-term debt	54	59	65	62
Long-term debt	2,270	2,241	2,291	2,366
Cash and cash equivalents	735	714	653	620
Net debt	1,588	1,587	1,703	1,808
EBITDA ⁽²⁾	1,250	884	910	818
Net debt to EBITDA ratio:	1.27x	1.80x	1.87x	2.21x
Adjusted EBITDA	1,007	926	910	818
Net debt to adjusted EBITDA ratio:	1.58x	1.71x	1.87x	2.21x

- (1) The interest-bearing net debt at June 30, 2017, December 31, 2016 and December 31, 2015 includes US\$1.2 million, US\$1.4 million and US\$21.4 million, respectively, corresponding to letters of credit and suppliers' credits exceeding 180 days, which, only for the purposes of the covenants of the cebures and our revolving credit facility, are considered financial debt, although they are not recorded as debt in our balance sheet.
- (2) For purposes of calculation, the amount used is the actual EBITDA, which only includes the EBITDA of newly acquired businesses from the dates they were acquired. 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.

- (3) Ratios as of June 30, 2017 are calculated based on LTM EBITDA and LTM Adjusted EBITDA, respectively.

	As of June 30, (3)	As of December 31,		
	2017	2016	2015	2014
	(Millions of U.S. dollars)			
Interest-bearing liabilities ⁽¹⁾	2,323	2,300	2,356	2,428
Current portion of long-term debt	54	59	65	62
Long-term debt	2,270	2,241	2,291	2,366
Cash and cash equivalents	735	714	653	620
Net debt	1,588	1,587	1,703	1,808
Pro forma EBITDA (trailing 12 months) ⁽²⁾	1,254	893	910	881
Net debt to Pro-forma EBITDA (trailing 12 months)	1.27x	1.78x	1.87x	2.05x
Pro-forma adjusted EBITDA (trailing 12 months)	1,011	935	910	881
Net debt to Pro-forma adjusted EBITDA ratio: (trailing 12 months)	1.57x	1.70x	1.87x	2.05x

- (1) The interest-bearing net debt at June 30, 2017, December 31, 2016 and December 31, 2015 includes US\$1.2 million, US\$1.4 million and US\$21.4 million, respectively, corresponding to letters of credit and suppliers' credits exceeding 180 days, which, only for the purposes of the covenants of the cebures and our revolving credit facility, are considered financial debt, although they are not recorded as debt in our balance sheet.
- (2) Pro forma EBITDA reflects EBITDA of the newly acquired companies, assuming they were incorporated on January 1, 2016.
- (3) Ratios as of June 30, 2017 are calculated based on LTM Pro-forma EBITDA.

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 industry may reduce our net sales and gross margins.

The industry in which we operate, including those markets in which we compete, experiences a cyclical behavior, is sensitive to changes in supply and demand and is affected by the political and economic conditions prevailing in Mexico, Latin America, United States, Europe, and other countries and regions of the world. This cyclicity 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 cyclicity, 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.

Historically, demand has been vulnerable to such circumstances. This vulnerability may lead to significant changes in our quarterly operating results or in our annual results, thus limiting our ability to forecast our future long-term performance.

The operations of our Fluent Business Group largely depend on the construction and energy industries.

Our Fluent Business Group is dependent on the viability of the construction and energy industries. A decrease in the construction and energy industry's growth in the countries where we operate, or a negative change in the economic and demographic factors influencing said industries, could have a material adverse effect on our results of operations, cash flows and financial condition.

Our operations are highly dependent on the petrochemical and energy industries

The petrochemical and energy industries, including the markets in which we operate, experience a cyclical behavior and historically gone through recessionary periods. The demand for some of our products and services depends on the investment level of companies in the energy industry, which also partially depends on the overall price levels for oil and other sources of energy. Oil and natural gas prices have been highly volatile in last years. A constant reduction in the level of investments from our clients in this industry, either by a decrease in oil or natural gas prices, could provoke delays in our clients' projects therefore decreasing the demand for some of our products and services and pressuring the expected prices for our products, which in turn could have a material adverse effect on our results of operations, cash flows and financial condition.

Some of our clients are subject also to oil and natural gas production levels. Interruptions or decreases in the production of these inputs due to a number of circumstances that are beyond our control including adverse weather conditions, accidents, decrease in access to the system, labor contingencies, stoppages, strikes, or any other, may cause delays in the investment projects of our customers and in turn affect our results of operations, cash flows and financial condition.

Changes in investment levels in the data and voice telecommunications industry could affect the production and sales of our Fluent US / AMEA Business Unit.

The different investments required by telecommunications industry participants to implement fiber optic and broadband communication systems extensively influence this industry, including those markets where we compete. Investment in this industry depends on a variety of factors, including:

- Federal and local regulations on foreign investment in telecommunications.
- Consumer demand for fiber optic, broadband, and wireless networks for products and services.
- Regulatory decisions limiting the installation of new networks and the improvement of existing networks.
- Rights of way and state and local government access permits required for the construction of new networks.
- Evolution and acceptance of new industry standards.
- Pressures related to competition within the sector, including prices.
- Annual budget cycles.
- Impact on industry consolidation.
- Access to financing and general economic conditions of the market.

The lack of investment in data and voice telecommunications for any of the above reasons could have a material adverse effect on our sales, results of operations and financial condition.

The lack of development of new products and production technologies, and the inability to replace our products with other products manufactured with different substances, or implement productivity and cost-reduction initiatives successfully, may adversely affect our competitive position.

The markets for many of our products require continuous improvements in quality and performance. To continue to be competitive, we need to develop and distribute products that cover the market's needs on a timely manner. In the event that the market changes unexpectedly, that new technologies are developed to which we do not have access, that we are unable to develop products that satisfy the market's needs on a timely manner, that our products' life cycles are shorter than those expected and that we are prevented from recuperating the research and development costs or the investments related with said specific products, our operating results could be adversely and significantly affected.

In addition, the research and development of new technologies could result in the creation of new products or raw materials that substitute the ones that we produce to this date. In the event that we are unable to compete with said new product or raw materials, our operating results could be materially and adversely affected.

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

We market our products in about 100 countries. 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, United States, United Kingdom, Brazil, Colombia, Guatemala, Germany, India, Czech Republic, Ecuador, Peru, Denmark, Poland, Turkey, France, and Finland, among other countries. As a result, our business is and will continue to be subject to the risks generally associated with international manufacturing and distribution, including:

- Governmental regulations applicable to manufacturing and/or foreign investment activities;

- Modifications to commercial or custom tariff policies for the importing or exporting from and to countries;
- Changes in social, political and economic conditions;
- Freight delays;
- Shut downs or shortages of electrical energy and other public services;
- Restrictions in currency conversion and volatility in the currency exchange markets;
- Limitations on the supply of qualified workforce and changes in local labor conditions;
- Restrictions related with the sale of products, including trademarks, in relation with ownership rights of intellectual property of third parties;
- Difficulties with the compliance of contractual duties in jurisdictions outside Mexico, as well as account collection abroad;
- Environmental regulations; and
- Amendments to fiscal and other laws and regulations.

Some countries in which we operate have undergone social and political instability in the past and interruptions or closure of operations may occur in any of their production facilities. Sales could be adversely affected by many of the above-mentioned factors, as well as by the governmental regulations applicable to foreign investments and /or the import, export and sale of the products and market protectionist measures. For example, Colombia and Brazil signed a free trade agreement that, in the case of the acquisition of Mexichem Resinas Colombia, has allowed us to export products from Colombia to Brazil that are exempt from custom and countervailing duties. This has enabled us to have a competitive position within the Brazilian market, an advantage shared only with Argentine products. However, we cannot guarantee that the advantages of the PVC export agreement with Colombia will persist over the coming years, or that these same advantages will be granted to other countries. Therefore, in case this trade agreement is eliminated or modified, it could impact our sales, results of operations and cash flows.

Our contract model for HDPE products implies certain risks related to customer retention, and any failure to retain our customers or maintain sales volume could have a material adverse effect on our business and financial condition.

We sell a substantial portion of our HDPE products under short-term contracts. We also have long-term agreements, particularly for voice and data telecommunication products, in the United States and India. Most of our agreements contain price-related terms and conditions, including provisions for any type of resin transfer and, in general, our customers are not required to purchase a minimum volume, and contracts can usually be terminated without cause and at short notice. As a result, customers have the option to discontinue or substantially reduce their purchases of our products at any time. The loss of customers representing a significant volume of sales, as well as a significant reduction in customer orders for any reason whatsoever, changes in manufacturing practices, transfer of part of the business to competitors, a recession of the economy, or the impossibility of adapting services to our customers' needs, may have a material adverse effect on our business and financial condition.

The organizational restructuring of our joint venture partners (Pemex and Ingleside) could have a material adverse effect on our business and financial condition.

On November 25, 2015, the Board of Directors of Pemex approved Pemex's corporate restructure, including the transformation of four subsidiaries into two state-owned productive companies (*empresa productiva del estado* or EPE), as well as the creation of five state-owned productive companies in non-centralized functions. As a result of this and based on the Petróleos Mexicanos Law, Pemex's board approved (1) the transformation of Pemex Exploración y Producción into the state-owned productive subsidiary company Exploración y Producción, as well as (2) the restructuring of the entities Pemex Refinación, Pemex Gas y Petroquímica Básica and Pemex Petroquímica into the EPE Pemex Transformación Industrial. At the same time, the creation of five new subsidiaries was approved, which

eventually will be transformed into affiliate companies of Pemex, among which the following stand out: perforation, logistics, cogeneration and services, fertilizers and Ethylene.

On April 28, 2015, the resolution for the creation of the EPE Subsidiary of Petróleos Mexicanos, denominated Pemex Etileno, was published in the Federation Official Gazette. This entity's purpose is the production, distribution and commercialization of methane, ethane and propylene derivatives, by its own or through third parties.

We maintain several businesses and one strategic alliance with Pemex and its subsidiaries. The strategic alliance is a joint venture with Pemex in the company Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) which was formed in September 2013. Additionally, we maintain a strategic alliance with OxyChem for the construction, operation and production of Ethylene in Texas in a company called Ingleside Ethylene, LLC which was concluded in October 2013.

We cannot anticipate the scope and consequences that these and other corporate restructures of our partners will have within the joint ventures, or could have in the productive relationships and businesses between both parties, including the PMV joint venture and Ingleside, or if there will be alterations related to the decision-making process, business strategy or responsibilities frameworks applicable to Pemex's officers and their subsidiaries.

As a result, there can be no assurances in respect of how Pemex, its subsidiaries or OxyChem, if applicable, or any other strategic related partner could act in the future, nor the response time of their decision-making process, or how the new business conditions adopted by said companies and their subsidiaries will affect us, which could have a material adverse effect in our business and results of operations.

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 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.

The agreements we executed with Oxy and with Pemex (Pemex Etileno before Pemex Petroquímica, Pemex Transformación Industrial, Pemex Logística, et al.) could be insufficient to satisfy all our operating and commercial needs, which could have an impact in the price of the raw materials or the services that we require.

VCM is a raw material necessary for the production and supply of PVC, while ethane and Ethylene are raw materials necessary to produce VCM. Before September 2013, Pemex, was the only producer of VCM in Mexico and was the main purchaser of the Chlorine that we produced. In the past, due to operative irregularities in Pemex Etileno's VCM production plant located in the Pajaritos Complex, Pemex did not purchase Chlorine from us at the expected levels, nor did it supply us with the VCM that we anticipated. As a result, we experimented a lesser supply of VCM to the one expected, and we were unable to reach our maximum Chlorine and PVC production capacity.

Our acquisition and joint venture strategy has sought to vertically integrate our operations to generate economies of scale and reduce operating costs, by generating a direct access to raw materials, including VCM and certain services essential for our operations. In September 2013, we executed with Pemex a joint venture through an investment in

PMV. It was expected that as a result of this joint venture, the Pajaritos' plant total production capacity of VCM would increase from 200,000 tons annually to 400,000 tons annually, once the necessary investments were made, and that as a result of said increase, we would have direct access to an important portion of the VCM necessary for the operation of our Vinyl Business Group. By achieving the above, we would have had an increase in the internal consumption of Chlorine, consequently reducing the sales of Chlorine to third parties. On April 20, 2016, an unfortunate explosion in the Pajaritos Petrochemical Complex occurred, where two (the VCM and Ethylene plants) of the three plants of the PMV subsidiary are located. The VCM plant (Colorados III) suffered the most damages, the greater economic impact being the loss of assets recognition and the closing of the plant. In a separate site, PMV has the Chlorine and Caustic Soda production plant, which did not suffer any damage within its facilities, but did suffer a business interruption since said plant supplied raw material (Chlorine) to the VCM plant (Colorados III). Although the plant is insured, the damages covered by the insurance policies at this time are in the process of being recuperated from the insurance company or companies. In the event that the amounts insured are not recuperated, or that the amounts obtained from the insurance companies are not sufficient to cover the economic impacts suffered or the substitution in the production of VCM, our operating results and financial condition may be adversely affected.

Additionally, in October 2013, we also executed a joint venture with OxyChem, Ingleside, for the construction and installment of an Ethylene cracker in Ingleside, Texas pursuant to which OxyChem will grant VCM direct access to us.

We cannot guarantee that OxyChem or PMV will be able to supply the VCM that we require to be able to comply with the contractual duties in respect of our PVC production. We cannot assure you that the joint ventures with Pemex or OxyChem will generate the VCM production level they anticipate, as a result of any adverse event. Additionally, we could lose any of our expected investments in these projects, which could have an adverse effect in our business and financial condition. If we are unable to obtain VCM in the free market, as we have done in the past, our capacity to comply with our production times could be adversely affected which would in turn affect our results of operations.

We have an ethane supply agreement with Pemex for a term of 20 years based on the reference prices of pure ethane. The price of ethane has decreased since 2008 and the price of Ethylene in North America, until the end of 2014, was priced at its historical maximum. However, during 2015 the price of Ethylene in North America decreased 30% on average, and during the last quarter of 2015, it decreased 62% compared with the same quarter of 2014. In 2016 the price of ethane increased 7% and Ethylene decreased 3% against 2015, consequently the variations in the prices of ethane and Ethylene in the future could affect our operating results and hinder or delay the recuperation of our investment in PMV and Ingleside.

Even taking into consideration the supply agreements and joint ventures with Pemex and OxyChem, we continue to be susceptible to the volatility in the prices of ethane and Ethylene, as well as, the supply of ethane by Pemex for our PMV operations. We depend on Pemex, through its affiliates, to cover the ethane requirements for our operations in PMV. To this date, Pemex is the only Mexican supplier of ethane and it has historically supplied this raw material for the consumption in the PVM petrochemical complex. Consequently, any shortage and/or lack of ethane could affect our results of operations and financial condition.

Mexican authorities have initiated investigation proceedings following the incident at the Pajaritos Petrochemical Complex and the results are uncertain

On April 20, 2016, an explosion occurred at the Pajaritos Petrochemical Complex, where two of the three plants of the PMV subsidiary are located. Shortly thereafter, the Attorney General's Office (*Procuraduría General de la República*) commenced an investigation into this incident, focusing on two criminal complaints: (1) property damages against Mexico and (2) probable environmental damages. While we have complied with the Attorney General's Office and have performed the necessary environmental assessments, as of the date of this offering memorandum this investigation remains underway. We cannot assure you that we will receive a favorable outcome to the Attorney General's Office investigation, or that other civil or criminal claims will not be brought. If we are found liable as a result of this incident, we may be required to pay penalties and fines which could have a material adverse effect on our results of operations and financial condition.

Insurance companies are evaluating the size of the impact of the explosion at PMV's Clorados III plant and the results are uncertain

During the investigation process initiated at the Pajaritos Petrochemical Complex, the Attorney General's Office secured the Clorados III plant and established restrictions on access to the plant. These restrictions delayed our insurance adjuster's access to the plant. As of July 2017, the Attorney General's Office ended the restriction on the plant, and in August 2017 the insurance adjusters were granted access in order to commence their adjustment process, which remains underway as of the date of this offering memorandum. If at the conclusion of the adjustment process our insurers determine that the insured damages from the incident are lower than we anticipated, we may decide to pursue legal recourse against our insurers, the final result of which would be uncertain. If we do not receive a favorable result from the insurance adjustment process, or any ensuing legal proceedings, this could have an adverse effect on our results of operations and financial condition. For more information, see "Business—Legal Proceedings—PMV's legal proceedings after the explosion in April 2016."

Fluctuations in the price of our key raw materials, including natural gas, sulfur, ethane and Ethylene, among others, as well as electric power, may adversely affect our business and operating results.

In recent years, the prices for electric power, natural gas, sulfur, ethane, and Ethylene, among other raw materials and inputs, have undergone significant fluctuations in the international markets. Such fluctuations, in turn, cause variations in our production costs, which, in turn, affect the profit margins of our manufactured and marketed products. In addition, prices for oil and its by-products have declined recently, affecting the selling price of products, such as Ethylene, VCM, and PVC, which in some regions of the world, except in North America and Asia, are produced directly from crude oil. Future fluctuations in the prices for electric power, natural gas, sulfur, ethane, and Ethylene, among others, could result in variations in the cost of inputs we use for our operations, and, in turn, may negatively affect our results of operations and financial position.

Prices for the electric power, natural gas, ethane, Ethylene, and sulfur we use in the manufacturing processes have recently experienced significant volatility in the regional and international markets, affecting our production costs. At the same time, variations in oil prices have affected the prices for some of our products, thus affecting our results.

Future fluctuations in the prices of such products could result in a cost increase in the inputs used in our operations, or in a reduction in sale prices, a situation that could have an adverse effect on our results of operations. Although we generally transfer any price increase in raw materials to our customers, we are not always able to do so. In such case, increases in raw material prices may have an adverse negative effect on our results of operations.

Any interruption in the supply of raw materials could disrupt our manufacturing operations.

Our capability to achieve our strategic objectives continues to depend largely on a successful, timely, and profitable acquisition of electric power and raw materials such as natural gas, ethane, VCM, PVC and PE (polyethylene). We currently depend on a limited number of suppliers for the production and delivery of such inputs. We cannot ensure stability in gas supply, or the availability of inputs at reasonable prices, or that suppliers will continue providing them. Therefore, any interruption, stoppage, or any other alteration in the supply of electric power and raw materials, or a substantial increase in their costs, could negatively affect our financial position and operating results. Likewise, a reduction in the supply of certain raw materials, or in the number of their suppliers, could lead to an increase in the prices paid for such raw materials, in which case our results of operations and financial condition could also be negatively affected.

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 capacity, environmental security and protection, efficiency and modernization. For example, in 2016, 2015 and 2014, we made capital investments of US\$414 million, US\$666 million and US\$460 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 acquiring or forming, partnerships or co-investment joint ventures to increase our production capacity. For example, in 2016 we announced the acquisition of Vinyl Compounds Holdings, Ltd. (VCHL) in the United Kingdom, a leading supplier of PVC compounds which serves a broad spectrum

of industries including building and construction, piping and profiles manufacturing, footwear and consumer products. On October 18, 2016, we announced the acquisition of Gravenhurst Plastics Ltd. (GPL) in Canada, with the purpose of reinforcing the global growth model in added value specialty products. The 2016 capital expenditures total including said acquisitions came to US\$414 million. In September 2014, we completed the acquisition of Dura-Line, world leader in HDPE products, for US\$630 million, including liabilities assumed, and at the end of 2014 we acquired Vestolit, the sole European producer of HIS-PVC resins, for €219 million, including liabilities assumed. In October 2013, we and OxyChem incorporated Ingleside Ethylene, LLC, with a 50/50 shareholding, for the construction of an Ethylene cracker unit in Texas, with a production capacity of 550,000 tons. For the years ended December 31, 2016, 2015 and 2014, the total amount invested in Ingleside was US\$332 million, US\$650 million and US\$332 million, of which we contributed 50%.

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 mining concessions could be subject to nullification, cancellation, suspension, or annulment of rights according to applicable legal provisions, or we could not be able to renew our existing concessions, which could have a significant adverse effect on our operations and financial condition.

We hold the rights to several renewable mining concessions, all of which are located in Mexico. Within the Fluor Business Group, there are several mining concessions that will expire in 2029 and others that will expire in 2061, all of which are renewable in accordance with article 15 of the effective Mining Act. The Fluor Business Group will undertake the necessary procedures, in accordance with the times established by the law, to ensure the renewal of the concessions that will expire in the near future. However, we cannot assure that such renewals will be granted. Additionally, and in accordance with Mexican legislation, the Fluor Business Group has the duty to evidence the exploration and exploitation investments within these concessions, that to this date have been undertaken in due time and form. In respect to PMV, it has a mining concession for the salt dome in Veracruz that expires in 2043.

According to Mexican legislation, mineral resources belong to the nation and the Federal Government may grant concessions to individuals and private entities to explore and exploit mineral reserves. Our mining rights arise from concessions granted by the Ministry of Economy (Secretaría de Economía), pursuant to the Mining Act (Ley Minera), which regulates Article 27 of the Mexican Constitution, and its regulations.

Our mining operations are located in Mexico and are governed by the regulations and under the supervision of the corresponding government agencies. Mexican law stipulates that the Federal Government has the right to declare the nullification, cancellation, suspension, or annulment of rights of the concessions granted and, at the same time, such concessions may be subject to cancellation based on additional reasons set forth in Article 42 of the Mining Act, or they may not be renewed upon expiration in case the legal reasons for said non-renewal are admissible and applicable.

Accordingly, the concessions we hold in Mexico may be revoked without right to compensation in case we are unable to meet the terms and conditions established for said concessions. Additionally, the lands covered by the mining concessions could be expropriated for reasons of public interest, with right to compensation. Such compensation could be limited to less than the market value of the assets. In case of dispute over the amount of compensation, we may ask a competent court to determine such amount. The compensation amount will be paid by the State in Mexican pesos, notwithstanding an agreement for payment in kind. The Mining Act and its regulations do not stipulate that, if a competent court decides to cancel a concession, the State has to pay any compensation to the holder of the concession.

Likewise, Mexican legislation provides that the mining concessions will have a duration of fifty years, counted from the date of the registration in the Public Registry of Mining and can be renewed for a term equal to that of the original concession, if the renewal is requested within five years prior to the expiration date of the original concession and all the requirements set forth in the concession agreement and in the governing laws are met. Although we plan

to request such renewals and will meet all necessary conditions to obtain the concession renewals, we cannot ensure that the concessions will be renewed since the government has discretionary powers regarding the renewal of concessions. Our inability to renew any of our concessions could have a significant adverse impact on our operations, results of operations and financial condition.

According to the terms and conditions of the concessions, we are bound to meet certain obligations set forth in the Mining Act. Failure to comply would result in administrative sanctions imposed by the Ministry of Economy or, if applicable, before filing the corresponding administrative proceeding, the competent authority could order the cancellation of the concessions. This could result in an important adverse effect on our results of operations and financial condition and would hinder our capability to perform our operations as we do at present.

Thus, in the case of an expropriation of the mining lots, or of assets used to exploit the mining concessions, or if a nullification, cancellation, suspension, or annulment of rights is declared on the concessions, or if it is impossible to renew the concessions, in which case a timely or adequate compensation may not be received, our results of operations and financial condition may be adversely affected.

Our concessions could be expropriated 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.

The expropriation of our assets 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 0.3% of the total value of our assets as of December 31, 2016 are located in Venezuela (at the official exchange rate of 673.76 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 proven and probable 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 operations.

The costs of noncompliance with environmental protection, health, and safety laws, and of any contingency arising in relation to such laws may increase, adversely affecting our operations, operating results, cash flows, or financial position.

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, 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.”

Our customer base has some degree of concentration and the loss of all or part of the business with certain important customers may adversely affect our operating results.

In 2016, ten of our major customers together represented 14% of total net sales. Our largest individual customer represented 3.5% of our total net sales in the same year. Since our profitability depends on maintaining a high capacity utilization rate, the loss of all or a substantial part of the volume of sales to an important customer or end user, could have a negative effect on our sales or operating results. If any of our relevant customers is facing financial difficulties, it could affect our operating results, by reducing our sales, or resulting in the inability to collect accounts receivable and recover the investment made in our production facilities. Additionally, a consolidation of our customers could reduce our net sales and profitability, particularly if one of our most important customers was acquired by a company related to any of our competitors.

Thus, any negative financial impact on some of our main customers could lead to reduced production and sale of our products, affecting our results of operations and financial condition.

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

As a result of the acquisition of new companies and of our organic growth, between 2014 and 2016, our EBITDA has experienced a compound annual average growth rate of 3.9%. Additionally, our operating income and cash flows have increased substantially, providing flexibility to continue growing and, at the same time, maintaining our fundamental strengths. This has resulted, and will continue resulting, in a significant effort on our administrative, operational, and financial infrastructure.

However, the integration of our new businesses and their operations is a complex and demanding process. Before each acquisition, the businesses acquired operated independently, with their own business plan, corporate culture, locations, employees, and systems. Any integration of other businesses to those of ours could involve important difficulties, costs, and delays, including: (1) distraction of management from daily operations; (2) a potential incompatibility of corporate cultures; and (3) inability to achieve the planned synergies, in addition to costs and delays in the implementation of common processes and systems.

Likewise, we believe that we will require additional growth to expand the scope of our operations and the size of our customer base. Our success will depend partly on the ability of our key executives to manage this growth efficiently.

To manage our business and growth effectively, we have to continue improving our operational, financial, and administrative processes, controls, systems, and procedures, as well as our reporting systems and procedures. Additionally, the hiring of new personnel will increase costs, which could make it difficult, in the short-term, to offset such expenses against income. In case we are unable to manage our growth efficiently, our expenses will increase more than expected, our revenues may decrease or increase at a slower rate than anticipated, and we may not be able to implement our business strategy, which could affect our operations, financial condition, and results.

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:

- The acquired businesses may not achieve the expected results.
- Non-achievement of expected savings arising from synergies.
- Difficulties encountered in the integration of operations, technologies, and control systems.
- Possible inability to hire or retain key personnel of the acquired operations.
- Possible inability to achieve the expected economies of scale.
- Unforeseen liabilities.
- Unforeseen economic competition and regulatory considerations.

We faced, and may face in the future, difficulties in integrating the operations and accounting systems of some of the companies acquired. In case we are not able to integrate or manage successfully the operations acquired, we may not achieve the expected cost savings, income increase and levels of integration. This could result in reduced profitability or losses in the operations arising from asset impairment tests. Additionally, we expect to incur significant expenses associated with the integration of the accounts and systems of the companies acquired. Such costs and impacts may have a negative effect on our results of operations and financial condition.

We are exposed to product risks that could cause damages to third parties.

We could be exposed to third party liability risks or damages resulting from the use of our products; as well as for the resulting litigation, regardless of whether such products are used contrary to their indication. Also, we could be exposed to damages related to the use of our products in medical grade applications and for the food and beverage industry.

We have procured market-standard insurance coverage in respect of this type of risk. However, we cannot ensure that the safety measures taken to prevent product risk are sufficient or that our insurance coverage will be sufficient to cover the totality of the risks that we could incur in, in which case, our operating results or our financial condition could be adversely affected.

Impacts related to climate change, could result in additional legal or regulatory requirements, and investments not contemplated by us.

We have performed different analyses to determine the grade of exposure before possible effects in climate change in our operations.

The climate change effects identified within the different zones where we have operations or market share are desertification and drought, increase in the sea level, changes in the pluvial patterns, diminishment in water availability, deforestation and illnesses, all phenomena that could affect our results of operations and financial condition, among other things, due to the need to undertake investments from the operation's adaptation, to the increase in price of the inputs and energetics, the closing of affected operations and relocation of suppliers, protection measures as a result of natural phenomena (for example, dike construction at maritime facilities, protection against flooding or fire), relocation of facilities to locations with more favorable conditions and greater environmental regulatory requirements.

We are exposed to risks related to extreme meteorological events, including potential damage to our facilities and the lack of availability of water resources to maintain the operation of our facilities.

Extreme meteorological events may also have a grave repercussion in our logistics. Our production facilities could be isolated without the possibility of receiving or shipping product by land or sea, as the case may be; also the flow of materials could be interrupted in places unrelated to us, but which are strategic for the transportation of merchandize (for example, closed ports in the United States due to hurricanes or inaccessible borders in connection with flooding in Europe). The Intergovernmental Panel on Climate Change, or IPCC, estimates that extreme meteorological events will grow in number and intensity. Consequently, our operation sites are exposed to hurricanes, cyclones and tropical storms derived from climate change and if they are affected by said phenomena, our results of operations and financial condition could be affected. In addition, we could be subject to the imposition of sanctions, third party actions and investigations by the regulatory authority if we are unable to comply with current or future approved environmental legislation.

Natural disasters, production danger and other events could adversely affect our operations.

Natural disasters, such as storms, hurricanes and earthquakes, could disrupt operations, damage infrastructure or adversely affect our production plants. Additionally, we are subject to acts of vandalism or riots that could affect the infrastructure and/or our distribution network. Any of these events could increase our expenses or investments and/or result in a *force majeure* event under certain of our contracts and consequently affect our results of operations and financial condition.

Our operations are subjected to dangers such as fires, explosions and other accidents related with the manufacturing, the storage and transportation of chemical products. These dangers may cause from injuries to individuals to loss of lives, material damages and/or asset and equipment destruction, as well as environmental damages. A relevant incident in one of our plants or storage facilities could force the temporary suspension of operations, and it could result in incurring in significant compensatory costs and loss of income from net sales.

We have insured the plants against damages caused from accidents or other similar occurrences as well as resulting consequential damages, such as business interruption. However, if losses are generated from these events, they may exceed the limits of the insurance policies or if they do not exceed them, they may not be completely recovered. Damages that significantly exceed insurance policy limits, damages that are not able to be recovered for any cause, even if they are within the limits of the insurance policies, or that were not foreseeable or covered by the same, could have an important negative effect in our operations, operating results, financial situation and prospects. Additionally, even if we receive payment from the insurance policies as a result of an event, the facilities could suffer production interruptions while the repairs are concluded, which could materially and adversely affect our results of operations, financial conditions and prospects.

The use of social media could adversely affect and impact our reputation.

Recently there has been a significant increase in the use of social media platforms and similar media, including blogs, social medial cyber sites, and other forms of communications based on the internet platform, which allow individual access to a broad audience and interested individuals. Inadequate and/or unauthorized use of certain social

media vehicles could cause damages to the trademarks or leak information which could lead to legal implications, including the incorrect dissemination and/or divulging of personal identification information. Additionally, negative or inaccurate information or comments in respect of us sent through social media could damage our reputation, trademark image and good will.

Consumers value information readily available in respect to retailers, manufacturers and their assets and services, and frequently act on said information without further investigation, verification and without any consideration to its accuracy. Easy access to information in the social media platforms and mobile devices is virtually immediate, as well as its impact. Social media platforms and mobile devices immediately publish the content that their subscribers and participants place in them, frequently without any filters or revisions in respect to the accuracy of their content.

The opportunity in the dissemination of information, including inaccurate or false information, is virtually unlimited. Information concerning us, or that could potentially affect us, could be transmitted through said platforms and devices at any time. This information could be inaccurate and adverse to us, and could damage our business. The damage could be immediate, without giving us the opportunity to adjust it to reality or even correct it. These platforms could also be used to divulge commercial secrets or jeopardize other valuable assets, and in both cases damage or affect our business, results of operations and financial condition.

Reliance on or loss of key staff and employees could have a significant adverse effect on our operations.

We depend largely on the talent, skills, and experience of our key executives, each one of whom would be difficult to replace because of their vast experience in leadership positions in top-level global companies and their operations-related expertise. The loss of any one of these individuals could have a significant adverse effect on our operations, operating results, and financial position and outlook.

Labor disputes could affect our operating results.

At the end of the 2016 fiscal year, approximately 63.3% of our employees were subject to collective bargaining agreements executed with unions. During the last three years, we have not had any important labor conflicts at our plants and have been able to maintain a positive relationship with the unions. However, we are unable to guarantee that there will not be a temporary suspension, or a strike could take place, before or at the expiry of the collective bargaining agreements as a result of political or economic conditions, or for any other reason. Additionally, we may not calculate the adverse effects that, if they were to occur, said temporary suspension or strikes could have on our sales. Any temporary suspension, strike or other labor occurrence could have a material adverse effect on our activities, results of operation or financial condition.

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 a 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 inability to obtain enough capital to finance acquisitions or expansions could delay or impede the implementation of our commercial strategy.

We expect that the expansion and continued development of our operations will require significant amounts of capital. We may not be able to obtain in whole, or at least under acceptable terms, the capital necessary to finance investments and operating expenses, including working capital needs.

Additionally, our operations may not generate sufficient cash flow to meet cash requirements, or capital requirements may vary significantly with respect to planned capital spending. In such cases, additional financing may be required sooner than planned, or else some of the new development and expansion plans would have to be delayed, or market opportunities could be wasted. It is probable that future credit instruments, such as lines of credit, will contain restrictive clauses and may require us to pledge assets to guarantee disbursements from said lines of credit. The inability to obtain additional capital under satisfactory terms may delay or impede our expansion and negatively affect our results of operations.

We are subject to certain restrictive performance and non-performance obligations by virtue of the execution of our credit agreements, which could limit our future commercial activities.

As of December 31, 2016, we had debt with cost for a total of US\$2,420 million (US\$2,300 million in respect to covenants contained in debt agreements and US\$121 million in leases) plus US\$1.4 million corresponding to letters of credit with maturity dates of more than 180 days in accordance with a series of lines of credit procured by us and certain issuances of securities within the local and international markets. In accordance with the agreements that govern our long-term credits, we are obliged to comply with certain obligations that limit our operations and financial decisions. These obligations could affect our capacity to obtain additional financing, finance our expansion or refinance existing debt. Compliance with our obligations in accordance with the credit agreements could limit our capacity to undertake future acquisitions including future financing or the refinancing of our debts, which could have a negative impact in our operations, operating results and prospects.

Our capacity to sell additional shares to obtain capital for the expansion of our business will depend, in part, of the market price of our shares, and not complying with the market's expectations in respect to our business could have a negative effect in the market price of the shares and limit our capacity to sell shares.

Our capacity to finance ourselves through equity depends, in part, on the market price of our shares, which in turn, depends on several market conditions and other factors that could change from time to time, including:

- Investors interest;
- Our financial development;
- Analysts reports in respect of us and the economic, political and social climate in Mexico, or the countries where we operate;
- General conditions of the capital and debt markets, which depend greatly, on the cash flows of our operations, which in turn, depend on the increase of income derived from occurrences, acquisitions or rents;
- Other factors such as, changes in governmental regulations or fiscal laws;
- Judicial or administrative procedures in any jurisdiction where we operate, which could have an adverse effect on our financial situation or results; and
- Our inability or impossibility to finance ourselves with capital, due to any of the mentioned circumstances or any other, could affect our plans and future projections, and could negatively affect our financial position results.

The impossibility to finance ourselves through capital, due to any of the circumstances mentioned above or any other circumstance, could affect our future plans and projects and could negatively affect our financial position results. In addition, lack of compliance with the market's expectations in respect of future earnings and cash distributions could adversely affect the market value of our shares and our ability to finance ourselves through capital. Consequently, if we are unable to obtain the necessary capital, our operating results could be adversely affected.

We have opted to cover part of our interest-rate risk using currency hedging contracts (swaps).

We are exposed to interest rate risk (as we have debt at a variable interest rate), and to exchange rate risk (as we have debts and investments in foreign currencies). Our exposure to interest rates is mainly concentrated in TIIE and

LIBOR, rates used for financial liabilities when the exposure to exchange rates is mainly in debts and investments in assets in euros, reals, pounds and Colombian pesos. Stress tests are performed to determine our exposure to fluctuations in interest rates using as basis the total financial debt linked to variable rates that are not hedged, and to the exchange rates using as basis the amounts of principal debts and the investments in assets made in currencies other than the dollar, and rendering quarterly reports to our Board of Directors, in respect to the risk exposure form interest rates and exchange rates. Our Corporate Finance and Corporate Treasury monitor and manage the financial risks related with the different operations by means of internal risk reports, through which the risk exposure by grade and magnitude are analyzed. These risks include market risks (monetary risks, exchange rate, interest rates and market value), credit risk, liquidity risk and cash flow interest rates.

Hedging operations are regularly evaluated to ensure that the same are aligned with the interest rates and the risks related, to get the most effective hedging strategy possible. If the THIE and LIBOR interest rates would have had an increase of 100 base points in each period being reported and all other variable ones would have remained constant, the earnings before taxes of fiscal years 2016, 2015 and 2014 would have decreased in US\$2 million, US\$2 million and US\$4 million, respectively. This is mainly attributable to the Entity's exposure to the Libor and THIE interest rates in respect to long term loans.

We perform sensitivity analysis to an increase or decrease of 10% in American dollars, against relevant foreign currencies. The sensitivity analysis only includes the monetary items denominated in foreign currency and adjusts its conversion at the end of the period with a fluctuation of 10%. Thus, by weakening the foreign currency by 10% in respect to the main currencies, the greatest effect in respect to the results in 2016 would have been in Brazilian Reais of US\$4.6 million, of US\$1.7 million in 2015 and in 2014 US\$12.5 million, in respect to the same currency.

We cannot assure you that the stress tests and the hedging we undertake are sufficient to cover all possible contingencies derived from the stress tests scenarios considered, or for significant fluctuations in the interest rate or exchange rate, events that would affect adversely results of operations and financial condition.

Moreover, transactions with financial derivatives involve certain risks other than interest rate and exchange rate risk, such as counterparty risk (default risk), risks posed by unusual movements in underlying assets or reference assets, and risks arising from the need to increase the guarantees provided, among others. In case any of such risks arises, we may suffer a material adverse effect on our results and financial condition.

Market practices and the documentation of derivatives in Mexico may be different to those of other countries. The execution and performance of these type of transactions depends on our ability to develop suitable control and management systems and to hire and retain qualified personnel. These factors could further increase the risks associated with such transactions and, consequently, may have a substantial adverse effect on our results of operations and financial condition.

Our financial results may be negatively affected by changes to accounting standards.

From time to time, the IASB reviews and updates its accounting standards, issues interpretations on existing standards and issues new standards. We report our results and financial position in accordance with IFRS. Changes to IFRS, interpretations thereof and the issuance of new standards may cause our future reported results and financial position to differ from current expectations, or our historical results to differ from those previously reported due to the adoption of those changes, interpretations or new accounting standards.

We regularly monitor potential accounting changes, interpretations and the issuance of new standards and when these are finalized by the IASB, we determine the potential impact and disclose significant future changes in our financial statements. Currently, there are a number of issued but not yet effective IFRS changes, such as IFRS 9, 15 and 16, as well as potential IFRS changes, some of which could be expected to impact our reported results and financial position. For more information, see Note 3 to our audited consolidated financial statements included elsewhere in this offering memorandum.

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 use and develop technologies that may infringe certain third-party intellectual property rights.

We cannot ensure that our processes and products do not infringe, or will not infringe at any time, intellectual property rights of third parties, or that third parties will not file claims or take legal action in this regard in the future. We cannot ensure that third parties will not take any legal action for possible infringement by us of their intellectual property rights, or that such third parties will not win any of such legal actions.

Any legal action or proceeding by a third party could:

- be time-consuming;
- result in a lawsuit or arbitral proceeding, distraction of attention on the part of the administrative and technical personnel of our main business, and diversion of financial resources of our operating businesses to use them to protect us against such actions;
- require the development of products and services that do not infringe third-party intellectual property rights, or that seek to fit into royalty schemes or license agreements; and
- require suspending the use of any product or process that infringes third-party rights.

Thus, if any or all of these cases arise, our results of operations and financial condition could be adversely affected.

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 more than 30 countries around the world, and distribute in more than 100 nations. In some of these countries we have an active or passive part in several judicial or administrative proceedings derived from our ordinary operation. For example, our subsidiary Mexichem Brasil Indústria de Transformação Plástica, Ltda. (before Amanco Brasil, Ltda.) was notified during 2016 by the Administrative Council for Economic Defense (CADE for its acronym in Portuguese), of alleged violations to the antitrust regulations of said country, committed by the subsidiary and some of its executives from 2003 to 2009. We are fully committed with the compliance with local regulations in all the countries where we operate. As of the date of this offering memorandum, the stage in which this administrative process is does not allow our management to estimate the amount of the contingency which could result from this procedure. We are unable to predict the results of said proceedings and if any of them could result against our interests and therefore our financial condition could be affected.

We operate in different jurisdictions and could result affected by violations of different anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act (FCPA) and the Bribery Act of the United Kingdom or by similar foreign laws against corruption.

The Foreign Corrupt Practices Act of the United States of America, also known as FCPA, and all other similar anticorruption foreign laws, generally prohibit companies and their intermediaries to make wrongful payments or render any type of amount or resource that could influence the decisions of foreign officials so as to obtain or maintain any business or obtain any undue advantage. In recent years, there has been a substantial increase in the enactment of anticorruption legislation. Consequently, companies with more frequency divulge information voluntarily. Also in recent years, authorities have undertaken more aggressive investigations and the execution of proceedings by the Securities Exchange Commission (SEC) and the United States Department of Justice (US DOJ) has increased, resulting in fines, criminal proceedings and other sanctions. Another effect has been the increase in surveillance by foreign regulators against companies and individuals. Since many of our clients and final consumers work in the construction and energy production sectors, they are subject to a growing scrutiny from the regulators. Our internal regulations contemplate the compliance with these anticorruption laws. We have government clients and final users located in different regions that are known for having a corruption problem, to a certain extent, at a governmental

level, and in which the strict compliance of the anticorruption law is in conflict with local practices and customs. Our continuous operation and expansion outside the United States, including developing countries, could increase the risk of incurring in violations in the future. It is possible that our policies, internal controls and procedures are not able to prevent and protect us efficiently from circumstances out of our control or criminal acts committed by our employees or agents. In the event that we believe or have sufficient reasons to believe that any of our employees or agents have or had violated any anticorruption law, including FCPA, we must investigate or request outside counsel to reveal any facts and circumstances related with said situation, events which could be expensive and require time and attention by our management. Violations to these laws could result in civil or criminal sanctions, which could affect our business and result in a material adverse effect in our reputation, results of operations and financial condition.

Changes in information technology could negatively affect our operation.

Our business growth should go hand in hand with the evolution and constant progress in information technology (IT) and the various hardware and software updates released. If our information systems become unstable or obsolete, it could affect our business, by reducing the flexibility of our customer value propositions or by increasing the operative complexity. Any such consequences could have a material adverse effect on our business and results of operations.

Our operations could be affected by a failure, interruption, or breakdown of our IT system.

The efficient development of our operations is based on the implementation of IT-related processes and systems, which are used to manage effectively the data, communications, network connectivity, and other operating and business processes. Although we are constantly improving our IT systems and protecting our data with advanced security measures, system errors, interruptions, or security failures can occur, such as computer viruses or theft of information or data. These failures, interruptions, or breakdowns could have a material adverse effect on our results of operations or financial condition.

Security breaches of our information and technological systems and processes could materially affect our subsidiaries, affiliates, suppliers, and customers, as well as restrict or adversely affect access to our operating systems and networks, or expose us to significant legal, financial, operating, and even reputation-related consequences.

The development of our businesses requires the use and storage of personally identifiable information (PII) of customers, employees and business partners. This information can include, among other data, names, addresses, telephone numbers, e-mail addresses, contact preferences, tax identification numbers, and payment account information. Due to our profile and to the amount of PII that we handle in our business, and the amount of strategic information of industrial and technological nature stored in our different internal systems, we are vulnerable to cyber-attacks and data breaches.

We require usernames and passwords to access our IT systems. We also use authentication and encryption technology designed to secure data transmission and storage and restrict access to our data or accounts. These security measures are exposed to third-party breaches or to human errors, alterations, incorrect password management, or other irregularities. For example, third parties can attempt to fraudulently induce employees or customers to reveal usernames, passwords, or other sensitive information that could be used to gain access to our IT systems, directly affect our Treasury Department, and extract confidential or sensitive information for illegal transactions. E-mails with executable attachments containing malware that, due to their complexity, are difficult to block and change the send pattern, can cause data breaches.

We spend a significant amount of resources in network security, data encryption, and other security measures to protect our systems and data, but these security measures cannot provide absolute protection. If we suffered a breach of our internal systems, and are unable to protect sensitive or strategic data, such breach could cause a material adverse change in our business and operating results and in our relationships with our business partners and customers.

Risk factors related to the proposed Acquisition of Netafim

There is no certainty that the governmental authorities will approve the Acquisition in the terms agreed to in the Share Purchase Agreement.

The Sellers, MSIH and us will submit to the corresponding governmental authority's requests for the Acquisition's authorization. Even when we consider that the Acquisition may not affect the market, the industry, the antitrust and free market process in any way, we cannot assure that governmental authorities will approve the Acquisition and, if approved, that governmental authorities would approve it in accordance with the terms agreed to in the Share Purchase Agreement.

The closing of the Acquisition is subject to the compliance of several conditions established in the Share Purchase Agreement.

The Acquisition is subject to the compliance with the conditions provided in the Share Purchase Agreement, which are common for these types of operations. If the purchase of Netafim is not concluded, we may be exposed to an excess of liquidity following the issuance of the Notes.

The loss of key executives from Netafim as a result of the Acquisition could affect our operations.

The integration of the management and operations of both companies depends in great manner on certain key executives from Netafim who know in detail its management and operations, and have a vast experience within the micro-irrigation industry. Consequently, the Acquisition's projected results will depend to a certain extent on the efforts and integration into our operations of said individuals and, the loss of the services of any of them in the near future, for any reason, could affect our operations and results.

We could face financial risk.

The Acquisition involves risks, some of which are:

- that Netafim does not obtain the expected results;
- that the economic context with an expectancy of growth within the markets, where Netafim is present, changes;
- that the financial context in respect to the cost and financing availability deteriorate; and
- that the costs and inputs and energy increases.

If any of these risks materialize, our results of operations and financial condition could be adversely affected.

We could require additional financing, such as capital expenditure requirements.

In order for the Acquisition to reach the expected economic results, capital investments are required ("capex") which entails risks, some of which are:

- that the investments made by Netafim do not generate the expected results;
- that the investments are made in a slower manner for a lack of equipment availability;
- that the flow generated is not sufficient to recuperate said investments; and
- that the estimated costs in capital expenditures are greater as a result of changes in the commodities prices.

We may have limited access to financing sources.

During the last few years we have been able to finance the growth of our business through several financing sources with third parties as well as with related parties. The transaction with Netafim is expected to strengthen our ability to access new financing sources. However, it is not possible to ensure that the Acquisition may positively

affect us and would effectively strengthen our ability to access new or existing financing sources, affecting Netafim's results and our financial position and consolidated results.

There are significant differences between our accounting policies and Netafim's.

Netafim's consolidated statements of financial position as of June 30, 2017 and December 31, 2016 and Netafim's consolidated statements of income and statements of other comprehensive income for the six- months ended June 30, 2017, and for the year ended December 31, 2016 have been prepared in accordance with US GAAP, while our financial statements are prepared in accordance with IFRS. Our management is in the process of identifying the existing differences between the US GAAP and IFRS as well as the accounting policies we use to prepare our financial statements. As of the date of this offering memorandum, such evaluation has not been concluded and the effect they may have in the figures of Netafim, once converted and applied to our accounting policies, is unknown.

The Acquisition could affect the Price of our shares.

Investors could perceive in a negative manner the Acquisition, which could bring repercussions on the market price of the representative shares of our share capital.

Failure to maintain updated technological advances in our industry or looking for technologies not commercially accepted could affect our business, our results of operation or financial condition.

Technology is a very important concept for our business as well as for our growth strategy. Our success depends significantly on new designs and improvements in irrigation products being developed, implemented and accepted by the market. Our capacity to rapidly adapt and be able to develop new products and technologies to be updated with the industry's evolution and offering reasonable prices to our clients will determine our competitiveness within the markets where we operate. Our competitors may develop new products or technologies superior to ours, they may develop more efficient or effective methods to supply products and services or they may adapt faster to new products. If our products and technologies are not able to obtain the market's acceptance because we fail in the innovation of the same or if our competitors offer more attractive products, could affect adversely our business, financial position and operative result.

Net sales and earnings could be adversely affected by economic conditions and outlook in countries in which we operate.

Adverse economic conditions and outlook in countries in which we conduct business can impact demand for our products and, ultimately, our net sales and earnings. These conditions include, but are not limited to, recessionary conditions; slow or negative economic growth rates; the impact of decisions made by the U.S. federal reserve with respect to interest rate increases in the regions in which we operate, austerity measures in countries in which Netafim operates, such as, Israel, Brazil, Colombia, Mexico, Ecuador, India and China in which governmental subsidies are reduced as well as financial incentives to the agriculture industry may inhibit demand for Netafim products and growth in the sector it serves. In the past, some of these factors have caused Netafim's distributors, dealers, and end-user customers to reduce spending and delay or forego purchases of products, which could generate an adverse effect on our net sales and results.

Certain changes in agriculture and other policies of governments and international organizations may prove unfavorable in the industry.

Changes in governmental policies may impact the agriculture industry and may inhibit the growth of markets for Netafim products. However, it is difficult to predict accurately whether, and if so when, such changes will occur. Reductions in allowances, restrictions in policies of governments and international organizations may affect the income available to growers to purchase products used in agriculture and, accordingly, the operating results of the agribusiness industry, which could affect adversely the interest on our products and negatively affect our business, results of operation and financial condition.

Fluctuations in foreign currency exchange rates with respect to Dollar have in the past affected our operating results and could continue to result in declines in our reported net sales and net earnings.

Because the functional currency of most of Netafim operations is the applicable local currency, and because Netafim financial reporting currency is the Dollar, preparation of Netafim consolidated financial statements requires

Netafim to translate the assets, liabilities, expenses, and revenues of its operations out from Israel into U.S. Dollars at applicable exchange rates. Accordingly, Netafim is exposed to foreign currency exchange rate risk into U.S. Dollars from in the countries in which operates arising from transactions in the normal course of business, such as sales and loans to wholly owned subsidiaries, as well as sales to third party customers, purchases from suppliers, and bank lines of credit with creditors denominated in foreign currencies different to Dollars. The net sales and net earnings of Netafim are subject to fluctuations in foreign currency exchange rates that have in the past affected its operating results and could continue to result in declines in its reported net sales and net earnings.

Conditions in Israel could affect the business' operations.

Netafim is incorporated under the laws of Israel, its main offices and three of its production plants, including all of its sprinklers plants are located in Israel. Netafim's operations in Israel depend on imported materials and they also export a significant amount of its products from Israel. Additionally, all of its information and data is located in Israel. Since the establishment of the State of Israel in 1948, several military conflicts have taken place in Israel and its neighboring countries, and Islamic military movements, as well as terrorist activities incidents and other hostilities (including the Second Lebanon War during the summer of 2006 and the Israeli military campaigns in Gaza during December 2008, November 2012 and the summer of 2014).

Political, economic and safety conditions in Israel, may directly affect Netafim's operations. Netafim could be adversely affected by the hostilities that involve Israel, including terrorist attacks or any other hostility or threat to Israel, the interruption or reduction of treaties between Israel and its commercial allies, a significant increase in the inflation or a significant reduction of the economic and financial conditions in Israel. Any conflict, terrorist attack, or present of future tension within Israel's borders or political instability in the region may interrupt the international commercial activities, adversely affecting Netafim's business and it could damage its financial conditions and operative results. Additionally, these military conflicts could damage the production plants in Israel, which would not be easy to replace. Even though Israeli legislation obliges the Israeli government to pay for the reinstallation value for damages caused from terrorist attack or acts of war, we are unable to ensure that the government policy will be maintained, or sufficient to compensate Netafim for all expenses that it could incur in. Additionally, indirect damages could not be covered. Any loss or damage incurred by Netafim, and not paid by the Israeli government could have an adverse effect in its business. Certain countries, as well as certain companies and organizations continue or intend to participate in boycotting Israeli companies, companies with important operations in Israel and others. The current boycotts and future strikes or embargos, restrictive laws, policies or practices that involve Israel or Israeli businesses or citizens or directly against Israel, could adversely affect our business, financial conditions or future operative results.

Netafim's operations could be interrupted as a result of the duty of its key management team established in Israel, to comply with military service.

Some of the employees in Israel are obliged to report to the military reserves for their service, depending on the age and rank within the armed forces. Additionally, they may be called to the active reserves service at any time, under emergency circumstances for extended periods of time. Netafim's operations could be interrupted by the absence, for a significant period of time, of one or more of its employees as a result of the military service, and any interruption in operation could affect our business, results of operations or financial condition.

A greater monetary compensation to the employees could be required to be paid as a result of their invention services.

Under the Israeli patents law, 5727-1967, inventions conceived by any employee during their employment period with a company will be considered "invention service" which is owned by the employer. However, the employee who invents an invention service has a right to royalties from the earnings generated by the employer as a result of the commercialization of said invention service, unless said employee waive his/her right to receive royalties. Even when Netafim's employees generally agree to waive said claims, Netafim could face claims in respect to royalties or other compensation in respect to the invention service, in respect to employees who rejected said waiver. As a result of said claims, Netafim would have to pay an additional compensation or royalties to its employees, or be forced to litigate said claims, which could adversely affect our business and results of operations.

In the event Netafim does not effectively integrate with us, our results of operation could be adversely affected.

The Acquisition involves risks, some of which are:

- that Netafim does not obtain the expected results;
- Difficulties in the integration of operations, technologies and control systems;
- Possible inability to hire or maintain key personnel of Netafim;
- Possible inability to reach the expected economies of scale; and
- Unforeseen liabilities.

If the Acquisition is unable to be integrated or managed successfully, there is a possibility that the increase in income and integration levels will not be obtained; which could result in a reduced profitability or losses in the operations derived from asset impairment trials.

In addition, we may have difficulties in the integration of Netafim's operations and accounting systems and we expect to incur in significant expenses related to Netafim's accounting and systems integration. These expenses and impacts could generate a negative effect to 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, telecommunications (voice and data), energy, urban and rural infrastructure markets. We actively contribute to Mexican development and to the development of the countries in which we have industrial and commercial presence through our subsidiaries, by serving each of our strategic sectors and channeling 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, Canada, Colombia, Costa Rica, Ecuador, El Salvador, the United States, Guatemala, Honduras, Nicaragua, Panama, Peru and Venezuela. We also have operations in Europe, Africa, Middle East and Asia as a result of the acquisitions of AlphaGary (today known as Mexichem Specialty Compounds), Fluent Europe (Wavin), Vestolit, and Fluent US/AMEA (Dura-Line). In accordance with this, we have 120 plants distributed in 37 countries with commercial activity in over 100 nations. As a result, 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 main countries in which we operate could adversely affect our business, results of operations, financial condition and prospects

Mexico's federal government, as well as the governments of other main countries where we operate, including the United States, Brazil, Germany, United Kingdom, Colombia, India, and other European countries, have had, and continue having, significant influence on the economy of their respective countries or on their political communities.

In 2016, of our net sales to third parties per geographical area, Europe generated 37%, to which Germany and the United Kingdom contributed 13% and 8%, respectively. Mexico generated approximately 20%, United States 16%, Colombia 9%, and Brazil 6%, among others.

Consequently, the actions and policies of the governments of abovementioned countries, relative to the economy in general, and to the sectors where we operate in particular, could have a significant impact on us and, in a broader sense, in the conditions prices and yield of our securities that are that are traded today in local and international markets. For example, during 2014, the Venezuelan government undertook several amendments to its exchange policies that took the official conversion exchange rate of the Venezuelan currency from 6.30 bolivars per dollar, to the one which corresponds to the one adjudicated in the last tender that, from time to time, the Venezuelan government undertakes under the system known as SICAD. This affected the valuation of our assets and liabilities and our statement of earnings by considering the exchange rate from 6.30 bolivars per dollar to 12 bolivars per dollar, affecting our operating results and financial situation in 2014. Since the second quarter of 2015, as a result of the changes in the exchange rate policies in Venezuela, we used the most conservative exchange rate available to conservative operating

results into its reporting currency at a rate of 198.69 bolivars per dollar, in 2016 an exchange rate of 673.76 was used. In 2016, our operations in Venezuela represented less than 0.5% of the sales and the total EBITDA.

We cannot assure that the changes in policies of the governments of the countries where we operate, will not adversely affect our operations, operating results, financial situation and prospects.

We are subject to foreign exchange controls in some countries where we operate.

We are currently subject to exchange controls in some of the countries where it operates, such as Venezuela, Brazil, Argentina, India, South Africa, and China, among others. These controls restrict access to foreign currencies and limit the ability to transfer funds outside such countries, including funds for interest or principal payment on outstanding debt. Additionally, these controls affect the ability to receive dividends and other distributions from subsidiaries in those countries.

For example, Pavco de Venezuela, one of our subsidiaries, has faced certain difficulties in obtaining the foreign currency required for commercial transactions in its daily operations. In February 2013, the Venezuelan government significantly devalued its local currency from 4.30 to 6.30 bolivars per U.S. dollar, and during 2013 and 2014 made various changes to its foreign exchange system. Starting in the fourth quarter of 2014, we decided to use the exchange rate of the SICAD system to convert the results of our operations in Venezuela, therefore using an exchange rate of 12 bolivars per U.S. dollar, according to the foreign currency auction held on September 25, 2014. However, starting in the second quarter of 2015, we adopted a new foreign currency complementary management system implemented by the Venezuelan government, called SIMADI (now DICOM), thus opting to convert our results at an exchange rate of 198.69 bolivars per U.S. dollar. At June 30, 2017, the exchange rate used was 2,640.00 bolivars per dollar. For the first half ended June 30, 2017, our net sales in Venezuela represented less than 0.1% of our total consolidated sales, consequently being a significant decrease of our total contribution.

If we are unable to transfer funds outside the countries mentioned above, or if we are subject to similar restrictions in other countries where we operate, our operating results and financial position could be adversely affected.

Political, geopolitical, and economic events around the world, especially in the countries where we operate, or to which we export our products and services, could adversely affect our business plans, financial position, and operating results.

According to the International Monetary Fund (IMF) in a publication of January 2017, called “*Perspectives of the World’s Economy*”, the global economy will grow at rates of 3.4% in 2017 and 3.7% in 2018. As such, the world will experiment more significant growth rates than those registered in 2016 (+3.1%). Differently from previous years, the economic growth estimates are divergent due to uncertainty of several international events, such as the end of an ultra-accommodating monetary policy of the United States Federal Reserve and the departure of the United Kingdom from the European Union. It is expected that the advanced economies experiment a growth of 1.9% in 2017, led by the United States that will register an economic expansion of 2.3%, since more fiscal benefits are expected. The growth projections of the German economy (+1.5%), United Kingdom (+1.5%), Japan (+0.8%) and Spain (2.3%) have also been revised with a growth tendency, in comparison with the publication reported in October 2016. It is expected that China will report an economic expansion of 6.5% in 2017, while India would grow 7.2% in same year. For Latin America, the growth tendencies have deteriorated due to low expectations of a short-term recovery of the economies of Brazil (+0.2%) and Argentina. For Venezuela, a greater economic deterioration is expected. For Mexico, the International Monetary Fund anticipates a growth of 1.7% in 2017 and 2.0% for 2018. On the other hand, the Expectations of Economy Specialists of the Private Sector survey published by Banco de Mexico indicates, in its February edition, that the average of 34 forecasters anticipates a growth of 1.49% in the GDP for 2017 and of 2.09% for 2018. The inflation expectations at the closing of 2017 are of 4.38% and 3.71%.

According to the International Monetary Fund, the following are among the main economic risks that could occur in 2017: a) the development of political ideologies that could derive in a lesser economic integration, b) deflation and a low demand in advanced economies, c) vulnerability in emerging economies and d) geopolitical risks in Middle East and Africa.

Therefore, on balance and given our geographical presence in more than 30 countries, any political, geopolitical, or economic event in the world, and especially in those countries where we operate, or to which we export our products and services, may adversely affect our business plans, results of operation and financial condition.

For example, in Latin America we produce PVC resins from non-oil raw materials and inputs, except for natural gas and electric power. However, in those markets where we primarily sell products, local PVC producers use oil by-products, leading to a significant reduction in PVC prices.

Thus, given that we use raw materials in our products whose prices have not decreased at the same pace as oil prices, and that, on the other hand, we sell our products in markets where the prices of the end products have decreased at the same pace as oil prices, the operating margins have been affected and, with them, our financial condition. Consequently, any political, geopolitical, or economic condition, or any other event that affects the raw materials that substitute those used by us, leading to changes in the market prices of our end products, could affect our operating margins and financial condition.

We may feel an impact by the 2016 U.S. presidential election.

The 2016 U.S. presidential election and the change in the U.S. administration have had an impact on the worldwide economy and in Mexico. The current U.S. governmental policies towards Mexico have created instability, uncertainty and may adversely affect the Mexican economy. The global economic slowdown in general, in addition to the considerable decline in oil prices since 2014, have had, and may continue to have a negative impact on the Mexican economy as well as on our business, financial condition and results of operation.

Events 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.

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.

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 2016, 2015, and 2014, we recognized the effects of inflation on our operations in Venezuela.

Exchange rate fluctuations of the currencies of the countries where we operate, with respect to the U.S. dollar, and a significant change in variable interest rates, could negatively affect us.

As of January 1, 2013, we considered that the functional currency applicable to certain subsidiaries was the respective local currency. In that same year, we conducted a review of the functional currency and decided that, according to current operating circumstances, including new operations and expansion of plant capacity, the functional currency should be changed to the U.S. dollar. Consequently, we are exposed to the foreign-exchange risk with respect to the U.S. dollar in those subsidiaries with operations in which the reporting and functional currency is other than the U.S. dollar. The currencies to which we are exposed are the Mexican peso, the Brazilian Reais, the Colombian peso, the Euro, the British pound, the Czech koruna (crown), the South African rand, the Turkish lira, the Indian rupee, and the Polish zloty, among others.

Approximately 86.4% of outstanding loans and substantially most of our capital investments are denominated in U.S. dollars; however, if we account for hedges in place, 61.4% of our outstanding credits are stated in U.S. dollars, 34.4% in euros, 3.5% in Mexican pesos and 0.7% in other currencies (including the Turkish lira, Argentinian pesos, Indian rupees and British pounds). Approximately 40% of our total income is denominated in a local currency other than the U.S. dollar, and 60% is denominated in U.S. dollars and euros. Loans in U.S. dollars generate interest based on fixed and variable interest rates. Our loans in U.S. dollars that have a fixed interest rate represent 84.2% of our total loans and 97.5% of our loans in U.S. dollars.

On the other hand, 12.9% of our loans are denominated in Mexican pesos (and, if we account for hedges in place, 3.5%), of which 55.0% (or 7.1% of our total loans) generate interest at a fixed rate, while 45.0% (or 5.8% of our total loans) generate interest at a variable rate (linked to the TIIE). Any devaluation, with respect to the U.S. dollar, of the different currencies of the countries where we operate and which have a functional currency other than the U.S. dollar, particularly the Mexican peso, or any increase of interest rates in the countries whose currency is the base currency of any of our variable rate loans, would have an adverse impact on our net profits, results of operation and financial condition.

Antitrust laws in Mexico and in other countries where we operate may limit its ability to expand operations.

In Mexico and in other countries where we operate, antitrust laws and related regulations could adversely affect our ability to acquire, sell, and execute joint venture agreements. Significant acquisitions, transfer and sale of securities, and joint venture agreements require the approval of Mexico's Federal Antitrust Commission (*Comisión Federal de Competencia Económica*, or *Cofece*) and of the competent authorities of each country. Failure to obtain authorizations from antitrust authorities could result in penalties in the form of fines, mandatory disinvestment of assets, termination of relevant acquisition agreements, or inability to continue business acquisitions or to complete acquisitions already agreed. We continue expanding our operations and, therefore, it is possible that we may face stricter inspections by competent antitrust authorities in the different countries where we operate or in those countries where we intend to operate.

We currently hold a leading position in most of the markets where we operate in both Latin America and in Europe, according to data contained in reports published by IHS Chemical WVA, IHS Chemical Market Advisory Service: Global Chlor-Alkali, Eurostat, and The Economist Intelligence Unit, as well as in market studies conducted by us. Therefore, as our operations and market position increase, the effect that future acquisitions may have given the antitrust regulations could also increase, and this situation could have a substantial adverse effect on our results of operation and financial condition.

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.

The Mexican Congress and the authorities of the countries where we are present could pass legislation resulting in increased tax obligations.

In recent years, the Mexican government and the governments of some of the other countries where we operate have implemented different reforms to tax legislation applicable to companies, including us. If the Mexican government, or any of the governments of the countries where we operate, were to carry out tax reforms resulting in significant increases in tax obligations, we would be required to pay more money in accordance with such changes, which could have a significant negative impact on our results of operation.

For example, in December 2013, the Mexican government enacted various amendments to tax law, effective on January 1, 2014. Among other changes, these reforms: (1) imposed a tax withholding rate of 10% on the payment of dividends and capital gains from the sale of shares by and to Mexican and foreign shareholders; (2) eliminated deductions previously allowed with respect to payments between related parties or by certain foreign corporations; (3) limited tax deductions for certain benefits paid to employees; (4) increased the value-added tax in certain regions of Mexico; and (5) increased taxes for mining activities.

On the other hand, in 2015, in response to the Base Erosion and Profit Shifting (BEPS) Project initiated by the Organisation for Economic Co-operation and Development (OECD) in 2013, the Mexican legislation incorporated the obligation to report to the tax authorities explanatory statements on transfer pricing, based on the “Transfer Pricing Documentation and Country-by-Country Reporting, Action 13” BEPS guide. Said guide includes minimum requirement standards for country-by-country reporting, which, for the first time, will provide the tax administration agencies a global perspective on multinational enterprises’ operations.

Other actions by the BEPS include: the limitation on deduction of interests and other financial payments, the strengthening of the Controlling Foreign Corporation regulations (CFC), the modification of the definition of permanent establishment, the inclusion of controls to prevent the abuse of treaties (which is known as “*treaty shopping*”) with the intent of eradicating the use of conduit corporations, the limitation of detrimental taxing practices (mainly with respect to intellectual property and by means of an automatic exchange of certain determinations or agreements between the authority and the taxpayer (tax rulings)) and effective mutual agreement procedures established with the intent of warranting that the fight against double taxation does not generate double taxation situations; among others. The simple modification of the regulations of the transfer prices guidelines issued by the OECD and the amendments to local legislations where we operate could result in significant increases of fiscal duties and we could be forced to pay greater amounts.

Our business, financial condition and results of operations could be adversely affected by the changes mentioned above and as a result of the increase in taxes on salaries and the cost increase due to additional measures to be met, including an increase in taxes and contributions on mining activities.

Other governments may make significant changes to their tax policies as a response to their weakened economies. Also, adverse or unanticipated fiscal consequences regarding our business can have a substantial adverse impact on our results of operation and financial condition.

Additionally, taxation in several of the jurisdictions where we operate or do business is frequently complex and subject to different interpretations. The fiscal position of the authorities could differ from our current or historical fiscal position. This could imply the payment of greater contributions in cases in which we did not pay tax before, as

well as to conduct audits on past fiscal years and contributions and to the imposition of additional taxes. Some of these actions and assessments may be exhaustive and result in material sanctions, fines, or restatements. We require an analysis focused on each one of the jurisdictions where we operate to assess the various fiscal positions of current authorities and be able to undertake the corresponding actions. Diverse unfavorable rulings from the authorities, the payment of additional taxes, the imposition of penalties, the payment of fines, sanctions, costs, or adjustments resulting from changes and restatements in the fiscal position of the different authorities in any of the jurisdictions where we have businesses, could materially and unfavorably affect our results of operations, financial condition and cash flow.

IFRS differ in several aspects from the financial information standards of the United States or of many of the countries where we operate or trade our securities.

Mexico, the United States, and other countries have enacted laws in matters of securities that promote a full and accurate disclosure of corporate information to investors. However, we are not bound to comply with most of the securities-related legislation in force in the United States or other countries and, therefore, the reported information may differ from, and presented in a different manner, the available information of companies that operate in the United States or in other countries and that must report their information or securities listing standards pursuant to such regulations. Our financial statements are prepared in accordance with IFRS, which are different from U.S. GAAP for financial reporting in several aspects.

Risk factors related to our Notes and this Offering

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, 2017, our total debt was US\$2.3 billion and our stockholders' equity was approximately US\$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 each series of Notes will permit, and the instruments governing our existing debt currently permit, us and our existing and future subsidiaries to incur additional debt. If we incur additional debt, the risks described above could be exacerbated.

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

The indenture governing each series of Notes, and the instruments governing our existing indebtedness, contain covenants that limit future actions to be taken, or transactions to be entered into, by us and our subsidiaries. In addition, under some of our existing indebtedness, we are required to satisfy and maintain specified financial ratios and tests at all times. Events beyond our control may affect our ability to comply with those provisions and we may not be able to meet those ratios and tests.

The breach of any of these covenants would result in a default, which could, in turn, lead to all the outstanding amounts under those debt documents becoming immediately due and payable. The covenants in the indenture, and the instruments governing our existing indebtedness, could limit our ability to seize attractive growth opportunities for our business that are currently unforeseeable, particularly if we are unable to incur financing or make investments to take advantage of these opportunities.

The debt agreements and securities, including the Notes, contain cross-default clauses that may cause all debt issued under such agreements and securities to become due in advance and immediately payable as a result of a noncompliance event resulting under another unrelated debt instrument.

The indenture governing each series of Notes contains certain covenants and the instruments or securities that regulate other debt also set forth covenants and, in some cases, require that we and our subsidiaries comply with and demonstrate compliance with certain financial ratios. Any failure to comply with these covenants could lead to an event of default with respect to the corresponding agreement or security, which may, in turn, result in the related debt or other credits and loans under different instruments becoming due in advance and immediately payable. In such event, we would need to obtain financial resources from alternative sources, which may not be available to us on favorable terms, on a timely basis, or else be unable to obtain any funds 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. The events mentioned above could affect our growth capability, results of operations or financial condition.

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

The subsidiary guarantees may not be enforceable.

Each series of Notes are fully and unconditionally guaranteed, jointly and severally, by certain of our subsidiaries. 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 each series of Notes would (1) 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; (2) be satisfied at the time claims of all our creditors are satisfied; (3) be subject to the outcome of, and priorities recognized in, the relevant proceedings; and (4) 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 each series of 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, each series of Notes would effectively be subordinated to all liabilities, including trade payables, of the subsidiary guarantors. On June 30, 2017, our subsidiary guarantors had total liabilities of US\$2.3 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 each series of 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 interests 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.

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.

Each series of Notes will constitute our unsecured obligations and will rank equal in right of payment with each other and with all of our and our subsidiary guarantors other existing and future unsecured indebtedness, including our unsecured senior notes due 2022, 2024 and 2042. Although the holders of the Notes will have a direct but unsecured claim on our assets and property, payment by us in respect of the Notes will be subordinated to our secured debt to the extent of the assets and property securing such debt. Payment by us in respect of the Notes will also be structurally subordinated to the payment of secured and unsecured debt and other creditors of our non-guarantor subsidiaries. As of June 30, 2017, we and the Subsidiary Guarantors had US\$2.3 billion of total indebtedness, none of which is secured, and US\$70.9 million of which is unsecured debt of our non-guarantor subsidiaries, all of which is structurally senior to the Notes. In addition, under Mexican law, our obligations under the Notes are subordinated to certain statutory preferences, including claims for salaries, wages, secured obligations (to the extent of the security provided), social security, employee housing fund contributions, taxes and court fees and expenses. Similar statutory preferences may be applicable in other jurisdictions where the subsidiary guarantors are incorporated. In the event of our liquidation, such statutory preferences will have 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, 2017, after giving effect to this offering and the use of net proceeds therefrom and taking into account related derivative financial instruments, approximately 5.4 % of our outstanding indebtedness will bear 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 51.7% of our outstanding voting capital stock, 42.9% 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.

There are restrictions on your ability to transfer the Notes.

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

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

Each series of Notes constitutes a new issue of securities, for which there is no existing market. Although we have applied to admit each series of Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market, we cannot provide investors with any assurances that the application will be accepted. Further, no assurance can be provided regarding the future development of a market for the Notes, the ability of holders of the Notes to sell their Notes, or the price at which such holders may be able to sell their Notes. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, our results of operations and financial condition, prospects for other companies in our industry, political and economic developments in and affecting Mexico or in the countries in which our main subsidiaries operate, risk associated with Mexican issuers of such type of securities and the market for similar securities. The liquidity of the Notes may be negatively affected in case a secondary market does not develop and their holders may not be able to transfer them in the primary market. For this reason, holders must be prepared to keep the Notes until their maturity and assume all resulting risks. Neither we nor the initial purchasers are bound to create a secondary market for the Notes or to guarantee its development. Therefore, the holders must assume the risk of not finding buyers for said securities in the future. 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.

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 “consider,” “believes,” “expects,” “foresee,” “intends,” “plans,” “projects,” “predict,” “forecast,” “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 US\$979.9 million. We will use the net proceeds of the offering to repay our indebtedness, to finance prospective strategic acquisitions, including the acquisition of Netafim, and for other general corporate purposes.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2017, 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 operations” and our consolidated financial statements, and the notes thereto, included elsewhere in this offering memorandum.

	As of June 30, 2017	
	Actual	As adjusted
	(Thousands of U.S. dollars)	
Short-term debt ⁽¹⁾	52,479	52,479
Long-term debt ⁽²⁾	2,269,683	3,249,583
Total debt.....	2,322,162	3,302,062
Total stockholders’ equity.....	3,814,527	3,814,527
Total capitalization	6,136,689	7,116,589

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

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

Since June 30, 2017, there has not been any material change in our capitalization other than as described above.

SELECTED CONSOLIDATED FINANCIAL DATA AND OTHER INFORMATION

The following table presents our selected consolidated financial data in U.S. dollars.

The selected consolidated financial data as of and for the years ended December 31, 2016, 2015 and 2014 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, 2017 and for the six months ended June 30, 2017 and 2016 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,		
	2017	2016	2016	2015	2014
	(Millions of U.S. dollars)				
Statement of Comprehensive Income Data					
Net sales	2,859	2,678	5,350	5,612	5,514
Cost of sales	2,179	2,021	4,109	4,339	4,361
Gross profit.....	680	657	1,241	1,273	1,153
Selling and development expenses	174	176	343	360	361
Administrative expenses.....	141	140	270	280	267
Depreciation and amortization	44	44	91	106	112
Other (income) expenses	(31)	285	(15)	(20)	(37)
Exchange gain	(49)	(43)	(95)	(38)	(79)
Exchange loss.....	85	42	93	95	170
Interest expense.....	98	99	192	212	195
Interest income	(12)	(12)	(10)	(22)	(34)
Monetary position loss	(2)	(1)	(18)	(3)	6
Equity in income of associated entity.....	(1)	(4)	(3)	(3)	(3)
Profit (loss) before income taxes	233	(68)	393	306	195
Income tax expense (benefit)	88	(4)	135	99	54
Profit (loss) for the year from continuing operations.....	145	(64)	258	207	141
(Loss) gain from discontinued operations, net.	-	(1)	(11)	(54)	3
Consolidated profit (loss) for the year	145	(65)	247	153	144
Other comprehensive income (loss):					
Items that will not be reclassified subsequently to profit or loss:					
Actuarial losses (gains) recognized during the year	-	-	(34)	40	(58)
Income taxes.....	-	-	11	(9)	15
	-	-	(23)	31	(43)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	86	60	(46)	(381)	(240)
Valuation of financial instruments.....	(53)	(17)	(11)	101	46
Income taxes.....	16	5	3	(30)	(14)
	49	48	(54)	(310)	(208)
Other comprehensive income for the year	49	48	(77)	(279)	(251)
Total consolidated comprehensive profit (loss) for the year	194	(17)	170	(126)	(107)
Consolidated profit for the year:					
Owners of the company	119	31	263	156	151
Non-controlling interests	26	(96)	(16)	(3)	(7)
	145	(65)	247	153	144
Total comprehensive income attributable to:					
Owners of the company	162	81	181	(120)	(97)
Non-controlling interests	32	(98)	(11)	(6)	(10)
	194	(17)	170	(126)	(107)
Earnings (loss) per share attributable to owners of the company:					
From continuing operations	-	-	-	-	-
From discontinued operations	-	-	-	-	-
Basic earnings per share	-	-	-	-	-
Weighted average common shares outstanding	2,100,000,000	2,100,000,000	2,100,000,000	2,100,000,000	2,100,000,000

	As of June 30,	As of December 31,		
	2017	2016	2015	2014
(Millions of U.S. dollars)				
Statement of Financial Position Data				
Assets:				
Current assets:				
Cash and cash equivalents	735	714	653	620
Accounts receivable, net	1,526	1,181	884	1,124
Due from related parties.....	3	3	2	4
Inventories, net	713	606	648	775
Prepaid expenses	46	35	48	48
Assets classified as held for sale	22	21	17	12
Total current assets.....	3,045	2,560	2,252	2,583
Non-current assets				
Property, plant and equipment, net.....	3,774	3,750	3,733	3,286
Other assets, net	74	64	69	79
Investment in shares of associated entity.....	32	31	31	34
Intangible assets, net	1,215	1,193	1,249	1,408
Deferred income taxes.....	-	66	187	169
Goodwill.....	696	690	678	723
Total non-current assets	5,791	5,794	5,947	5,699
Total assets.....	8,836	8,354	8,199	8,282
Liabilities:				
Current liabilities:				
Bank loans and current portion of long-term debt	52	58	44	62
Suppliers	802	653	566	679
Credit letters of suppliers.....	678	617	635	452
Due to related parties	28	51	27	32
Other accounts payable and accrued liabilities	526	500	435	468
Provisions.....	7	9	17	22
Employee benefits	30	32	31	31
Short term finance lease.....	45	52	44	53
Derivative financial instruments.....	-	-	-	10
Liabilities directly associated with assets held for sale	11	13	20	7
Total current liabilities	2,179	1,985	1,819	1,816
Non-current liabilities				
Bank loans and long-term debt	2,270	2,241	2,291	2,366
Long-term other liabilities	25	26	23	34
Long-term provisions	19	17	27	34
Employee benefits	187	171	155	222
Deferred income taxes.....	124	151	335	342
Long term finance lease	52	69	117	170
Long term income tax	50	13	14	50
Derivative financial instruments.....	116	99	69	62
Total non-current liabilities.....	2,843	2,787	3,031	3,280
Total liabilities.....	5,022	4,772	4,850	5,096
Stockholders' equity:				
Paid-in capital				
Nominal.....	256	256	256	256
Additional paid-in capital.....	1,475	1,475	1,475	1,475
Cumulative effect of restatement.....	24	24	24	24
Earned capital				
Retained earnings	975	855	1,107	1,031
Other comprehensive income	(436)	(484)	(429)	(154)
Share repurchase reserve.....	546	552	156	127
Controlling interest.....	2,840	2,678	2,589	2,759
Non-controlling interest	974	904	760	427
Total stockholders' equity	3,814	3,582	3,349	3,186
Total liabilities and stockholders' equity	8,836	8,354	8,199	8,282

Results by business group

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

	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(Thousands of U.S. dollars)				
Vinyl Business Group⁽¹⁾					
Income Statement Data:					
Net sales	1,171,233	998,325	2,031,795	2,139,962	1,907,775
Cost of sales	977,254	832,560	1,752,828	1,820,863	1,705,592
Gross profit	193,979	165,765	278,967	319,099	202,183
Operating expenses ⁽²⁾	44,605	359,569	137,746	142,603	107,056
Other Data:					
EBITDA ⁽³⁾	236,409	(128,306)	272,132	313,230	216,921
Adjustment	-	285,526	42,325	-	-
Adjusted EBITDA ⁽⁴⁾	236,409	157,220	314,457	313,230	216,921
Volume (thousands of tons)	1,284	1,261	2,474	2,541	1,865
Energy Business Unit⁽¹⁾					
Income Statement Data:					
Net sales	811	785	1,601	245	-
Cost of sales	744	717	1,459	232	-
Gross profit	67	68	142	13	-
Operating expenses ⁽²⁾	(13)	214	248	(353)	-
Other Data:					
EBITDA ⁽³⁾	596	370	925	366	-
Volume (thousands of tons)	-	-	-	-	-
Fluent Business Group⁽¹⁾					
Income Statement Data:					
Net sales	1,472,435	1,453,295	2,892,097	3,026,592	3,193,831
Cost of sales	1,110,442	1,083,569	2,169,754	2,312,029	2,504,156
Gross profit	361,993	369,726	722,343	714,563	689,675
Operating expenses ⁽²⁾	229,567	226,569	437,349	455,933	501,131
Other Data:					
EBITDA ⁽³⁾	202,405	208,759	421,274	409,130	354,994
Volume (thousands of tons)	526	544	1,074	1,140	1,013
Fluor Business Group⁽¹⁾					
Income Statement Data:					
Net sales	317,780	304,205	582,858	607,545	637,364
Cost of sales	194,636	182,590	344,537	373,832	388,131
Gross profit	123,144	121,615	238,321	233,713	249,233
Operating expenses ⁽²⁾	26,083	32,534	62,142	47,579	52,711
Other Data:					
EBITDA ⁽³⁾	123,372	114,464	227,774	241,266	256,130
Volume (thousands of tons)	454	443	903	919	1,021
Holding Company					
Income Statement Data:					
Net sales	5,449	4,718	21,509	17,955	33,147
Cost of sales	-	-	3,387	-	-
Gross profit	5,449	4,718	18,122	17,955	33,147
Operating expenses ⁽²⁾	32,371	30,168	67,479	91,718	63,173
Other Data:					
EBITDA ⁽³⁾	(21,592)	(20,466)	(38,348)	(53,571)	(9,631)
Eliminations					
Income Statement Data:					
Net sales	(108,918)	(82,992)	(180,053)	(179,907)	(257,772)
Cost of sales	(103,601)	(78,513)	(162,997)	(168,069)	(236,680)
Gross profit	(5,317)	(4,479)	(17,056)	(11,838)	(21,092)
Operating expenses ⁽²⁾	(5,317)	(4,479)	(17,056)	(11,838)	(21,092)
Other Data:					
EBITDA ⁽³⁾	-	-	-	-	-

	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(Thousands of U.S. dollars)				
Volume (thousands of tons).....	(98)	(95)	(190)	(180)	(203)

- (1) Amounts set forth have only been adjusted to eliminate intra-business group (but not inter-business group) 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.
- (4) The adjustment amount for the six months ended June 30, 2016 was calculated considering the following impacts of the PMV incident: (i) US\$276 million of asset write-off and (ii) US\$9 million of one-time expenses for indemnifications and other costs. The adjusted amount for year ended December 31, 2016 was calculated considering the following impacts of the PMV incident (i) \$276 million of asset write-off recognized under other expenses, (ii) US\$42 million related to indemnification, legal expenses and other costs and (iii) a positive impact in other income related to the account receivable of the insurance coverage of US\$(276) million.

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

	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(Thousands of U.S. dollars)				
Consolidated Operations					
Gross profit.....	679,315	657,413	1,240,839	1,273,505	1,153,146
Less: Operating expenses ⁽¹⁾	327,296	644,575	687,911	725,642	702,979
Plus: Depreciation and amortization ⁽²⁾	189,171	161,983	330,826	362,558	368,247
EBITDA.....	541,190	174,821	883,754	910,421	818,414
Adjustments ⁽³⁾	-	285,526	42,325	-	-
Adjusted EBITDA.....	541,190	460,347	926,079	910,421	818,414

- (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.
- (3) The adjustment amount for the six months ended June 30, 2016 was calculated considering the following impacts of the PMV incident: (i) US\$276 million of asset write-off and (ii) US\$9 million of one-time expenses for indemnifications and other costs. The adjusted amount for year ended December 31, 2016 was calculated considering the following impacts of the PMV incident (i) \$276 million of asset write-off recognized under other expenses, (ii) US\$42 million related to indemnification, legal expenses and other costs and (iii) a positive impact in other income related to the account receivable of the insurance coverage of US\$(276) million.

	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(Thousands of U.S. dollars)				
Vinyl Business Group⁽¹⁾					
Gross profit.....	193,979	165,765	278,967	319,099	202,183
Less: Operating expenses ⁽²⁾	44,605	359,569	137,746	142,603	107,056
Plus: Depreciation and amortization ⁽³⁾	87,035	65,498	130,911	136,734	121,794
EBITDA.....	236,409	(128,306)	272,132	313,230	216,921
Adjustments.....	-	285,526	42,325	-	-
Adjusted EBITDA ⁽⁴⁾	236,409	157,220	314,457	313,230	216,921
Energy Business Unit⁽¹⁾					
Gross profit.....	67	68	142	13	-
Less: Operating expenses ⁽²⁾	(13)	214	248	(353)	-
Plus: Depreciation and amortization ⁽³⁾	516	516	1,031	-	-
EBITDA.....	596	370	925	366	-
Fluent Business Group⁽¹⁾					
Gross profit.....	361,993	369,726	722,343	714,563	689,675
Less: Operating expenses ⁽²⁾	229,567	226,569	437,349	455,933	501,131
Plus: Depreciation and amortization ⁽³⁾	69,979	65,602	136,280	150,500	166,450
EBITDA.....	202,405	208,759	421,274	409,130	354,994
Fluor Business Group⁽¹⁾					
Gross profit.....	123,144	121,615	238,321	233,713	249,233

	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(Thousands of U.S. dollars)				
Less: Operating expenses ⁽²⁾	26,083	32,534	62,142	47,579	52,711
Plus: Depreciation and amortization ⁽³⁾	26,311	25,383	51,595	55,132	59,608
EBITDA	123,372	114,464	227,774	241,266	256,130
Holding Company					
Gross profit	5,449	4,718	18,122	17,955	33,147
Less: Operating expenses ⁽²⁾	32,371	30,168	67,479	91,718	63,173
Plus: Depreciation and amortization ⁽³⁾	5,330	4,984	11,009	20,192	20,395
EBITDA	(21,592)	(20,466)	(38,348)	(53,571)	(9,631)
Eliminations					
Gross profit	(5,317)	(4,479)	(17,056)	(11,838)	(21,092)
Less: Operating expenses ⁽²⁾	(5,317)	(4,479)	(17,056)	(11,838)	(21,092)
Plus: Depreciation and amortization ⁽³⁾	-	-	-	-	-
EBITDA	-	-	-	-	-

- (1) Amounts have only been adjusted to eliminate intra-business group (but not inter-business group) 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.
- (4) The adjustment amount for the six months ended June 30, 2016 was calculated considering the following impacts of the PMV incident: (i) US\$276 million of asset write-off and (ii) US\$9 million of one-time expenses for indemnifications and other costs. The adjusted amount for year ended December 31, 2016 was calculated considering the following impacts of the PMV incident (i) \$276 million of asset write-off recognized under other expenses, (ii) US\$42 million related to indemnification, legal expenses and other costs and (iii) a positive impact in other income related to the account receivable of the insurance coverage of US\$(276) million.

Other Financial Data

Net Debt to EBITDA Ratio

	As of June 30, ⁽³⁾	As of December 31,		
	2017	2016	2015	2014
	(Millions of U.S. dollars)			
Interest-bearing liabilities ⁽¹⁾	2,323	2,300	2,356	2,428
Current portion of long-term debt	54	59	65	62
Long-term debt	2,270	2,241	2,291	2,366
Cash and cash equivalents	735	714	653	620
Net debt	1,588	1,587	1,703	1,808
EBITDA ⁽²⁾	1,250	884	910	818
Net debt to EBITDA ratio:	1.27x	1.80x	1.87x	2.21x
Adjusted EBITDA	1,007	926	910	818
Net debt to adjusted EBITDA	1.58x	1.71x	1.87x	2.21x

- (1) The interest-bearing net debt at June 30, 2017, December 31, 2016 and December 31, 2015 includes US\$1.2 million, US\$1.4 million and US\$21.4 million, respectively, corresponding to letters of credit and suppliers' credits exceeding 180 days, which, only for the purposes of the covenants of the cures and our revolving credit facility, are considered financial debt, although they are not recorded as debt in our balance sheet.
- (2) For purposes of calculation, the amount used is the actual EBITDA, which only includes the EBITDA of newly acquired businesses from the dates they were acquired. 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.
- (3) Ratios as of June 30, 2017 are calculated based on LTM EBITDA and LTM Adjusted EBITDA, respectively.

	As of June 30, ⁽³⁾	As of December 31,		
	2017	2016	2015	2014
		(Millions of U.S. dollars)		
Interest-bearing liabilities ⁽¹⁾	2,323	2,300	2,356	2,428
Current portion of long-term debt	54	59	65	62
Long-term debt	2,270	2,241	2,291	2,366
Cash and cash equivalents	735	714	653	620
Net debt	1,588	1,587	1,703	1,808
Pro forma EBITDA (trailing 12 months) ⁽²⁾	1,254	893	910	881
Net debt to Pro-forma EBITDA ratio				
(trailing 12 months):	1.27x	1.78x	1.87x	2.05x
Pro-forma adjusted EBITDA (trailing 12 months)	1,011	935	910	881
Net debt to Pro-forma adjusted EBITDA ratio: (trailing 12 months):	1.57x	1.70x	1.87x	2.05x

- (1) The interest-bearing net debt at June 30, 2017, December 31, 2016 and December 31, 2015 includes US\$1.2 million, US\$1.4 million and US\$21.4 million, respectively, corresponding to letters of credit and suppliers' credits exceeding 180 days, which, only for the purposes of the covenants of the cebures and our revolving credit facility, are considered financial debt, although they are not recorded as debt in our balance sheet.
- (2) Pro forma EBITDA reflects EBITDA of the newly acquired companies, assuming they were incorporated on January 1, 2016.
- (3) Ratios as of June 30, 2017 are calculated based on LTM Pro-forma EBITDA.

THE PROPOSED ACQUISITION OF NETAFIM

We have included herein information concerning Netafim insofar as it is known or reasonably available to us. In connection with Netafim, we reviewed certain information related to Netafim through June 30, 2017. Since that date, we have had only limited access to information related to Netafim, including its books and records. Although we have no knowledge that would indicate that information relating to Netafim contained in this offering memorandum is materially inaccurate or incomplete, we do not control Netafim and as a result cannot provide any assurance as to the accuracy of any such information or statements. You should read the information below with the risk factors under the caption “Risk factors—Risk factors related to the proposed Acquisition of Netafim” and Netafim’s financial statements and accompanying notes contained in this offering memorandum.

Overview

On August 6, 2017, we entered into a share purchase agreement with Bluedrip S.a.r.l, Netafim Hatzetim Holdings, Cooperative Association Limited, Megalron—Cooperative Association for Irrigation and Dripping, Ltd., Tamir Fishman Trusts 2004 Ltd., Tamir Fishman Employee Benefits Ltd., Tamir Fishman Asset Management Ltd., all of them as sellers (jointly, the “Sellers”) to acquire (1) 80% of the voting shares of capital stock of Netafim, Ltd. (“Netafim”), a global leader in smart irrigation solutions, (2) all non-voting shares, representing approximately 0.4% of the capital stock of Netafim, and (3) certain loans made to Netafim by some of its stockholders, including Bluedrip S.a.r.l, Netafim Hatzetim Holdings and Cooperative Association Limited (the “Acquisition”) for an aggregate purchase price of approximately US\$1,500 million (which will be determined at the closing of the transaction). The share purchase agreement was entered into by our subsidiary, Mexichem Soluciones Integrales Holding, S.A. de C.V. (“MSIH”) and Mexichem, S.A.B. de C.V. acted as guarantor. The proposed acquisition of Netafim, if consummated, is part of our growth strategy, giving us access to smart technology, which may be used in cooling and heating, water management, Datacom, and other sectors.

The Share Purchase Agreement establishes a series of provisions common for these types of operations, including among others: (1) purchase price and its determination and the post-closing adjustment mechanism; (2) Seller’s representations; (3) MSIH’s and our representations; (4) Seller’s performance duties; and (5) conditions precedent for the final closing of the Acquisition.

Simultaneously with the execution of the Share Purchase Agreement, MSIH and Netafim Hatzetim Holdings, Cooperative Association Limited, who will hold the remaining 20% of the representative voting shares of Netafim’s share capital, have executed a shareholders agreement among them, which effectiveness is subject to the Acquisition becoming effective, and which establishes certain rights, restrictions and duties to said corporations as shareholders of Netafim, including aspects such as ownership, retention and disposition of the representative shares of the share capital of said company.

The Acquisition’s closing, as provided in the Share Purchase Agreement, is subject to several conditions precedent, among which the following are included (1) the obtainment of all the authorizations, approvals and/or governmental consents required in several jurisdictions, including, the United States, Turkey, Germany, Ukraine, Russia, Ecuador, Brazil and Honduras and (2) the obtainment of the authorization from our stockholders meeting (which was obtained on August 30, 2017, with a total representation of 81.43% of the total outstanding shares, 98.28% of which voted in favor of the acquisition for a total of 80.02% of the total outstanding shares).

We believe that the acquisition of Netafim would be a transformational acquisition, which drives our strategy into specialty products and solutions, establishing us as a leading innovator in the high growth micro- irrigation market. By acquiring Netafim, we will become a leading developer of solutions to address food and water shortages, and respond to the need of increasing crop yields, and meet higher sustainability standards for fertilization. Netafim has a long history of being at the forefront in the creation of smart solutions in the irrigation market. This acquisition will give us access to this smart technology, which eventually may be used in heating and cooling, water management, datacom, and other sectors, offering a platform from which we may create smart industrial solutions around our existing production lines that attend the infrastructure, housing and datacom markets. We believe this acquisition will also strengthen our global footprint and presence in key growth markets, and will allow us to grow in the replacement market and to diversify and expand the end markets in which we sell our products.

Netafim's Operations

According to information provided by Netafim, Netafim is a global leader in smart irrigation solutions for a sustainable future. It holds 29 subsidiaries, 17 production plants, and more than 4,300 employees worldwide. Netafim provides innovative solutions to farmers of all sizes, from small farmers to farmers of a grand scale, in more than 110 countries. Founded in 1965, Netafim has been a pioneer in the drip irrigation revolution, creating a paradigm shift towards low flow irrigation. Currently, Netafim supplies the most advanced irrigation solutions for agriculture, landscaping and for fluid conduction in mining operations. Specializing in irrigation integral solutions which conduct fluids from the source up to the roots zone. Netafim offers integral solutions for irrigation projects – including water supply, advanced irrigation systems, as well as the digital management of crops and automatization systems supported by engineering, agricultural, technical and financial services. Netafim's cutting edge solutions allow for an efficient irrigation helping the world to "grow more with less". In the fiscal year that concluded on December 31, 2016, Netafim obtained sales for US\$854.7 million and a consolidated net profit of US\$40.6 million.

The advanced technological solutions in micro-irrigation offered by Netafim mainly consist in drip irrigation solutions, but it also distributes sprinklers and micro-sprinklers. Netafim primarily serves the agricultural market (approximately 90% of its sales in 2016), while some of its products are used in landscaping and mining applications.

The portfolio of Netafim products includes, drippers, dripping lines, components for strategic systems (such as filters, valves, and air valves), intelligent solutions and advanced digital technology for agriculture, that offers among other things, solutions for irrigation and fertilization, cloud based systems and monitoring intelligent devices, analysis and crop control. Additionally, Netafim also supplies integral solutions, for high output water supply, and executes feasibility, design and implementation studies as well as post sale technical support, and therefore by being a pioneer in the irrigation market, Netafim has built the basis of an important knowledge in agriculture and it has helped to maximize its client's productivity through support and the use of Netafim's systems.

Netafim operates under the "*Netafim*" brand, which is positioned in key agricultural markets and symbolizes Netafim's development as a pioneer and an innovator in the advanced micro-irrigation market.

Ever since Netafim introduced the first drip irrigation system in the world in 1966, it has undertaken investigations in micro-irrigation systems to maximize the advantages of this technology. As a result of this investment in investigations, we understand that Netafim has obtained important technological goals in micro-irrigation, such as compensated pressure and low flow dripping. Netafim has become the global leader in advanced micro-irrigation since it has been able to obtain a greater performance of the crops by using a lesser amount of water, land, energy resources and inputs such as labor, fertilizers and crop protection "*grow more with less*".

An important part of Netafim's sales (approximately 82% in 2016) correspond to the sale of irrigation products through distributors, which purchase and resale the products to new farmers or farmers with an existing commercial relation. The remaining sales correspond to customized irrigation solutions for major projects, where Netafim sells the integral system directly to the final consumer.

Netafim's sales are diversified geographically, with the United States, its main market, representing approximately 17% of sales in 2016, followed by India, representing approximately 14% of sales during the same period.

Netafim develops and produces its main technology in Israel, and operates through 17 plants strategically located in relevant markets around the world and employs more than 4,300 people in 6 continents.

Selected Financial and Other information of Netafim

We have included herein information concerning Netafim insofar as it is known or reasonably available to us. We have had only limited access to information related to Netafim. Although we have no knowledge that would indicate that information relating to Netafim contained in this offering memorandum is materially inaccurate or incomplete, we do not control Netafim and as a result cannot provide any assurance as to the accuracy of any such information or statements. See "Risk factors—Risk factors related to the proposed Acquisition of Netafim".

We have included herein:

- Netafim's consolidated statements of financial position as of December 31, 2016; and
- Netafim's consolidated statements of income and statements of other comprehensive income for the year ended December 31, 2016.

The financial statements of Netafim for the year ended December 31, 2016, and for the 12-month period then ended have been prepared according to US GAAP. We are in the process of identifying the differences between US GAAP and IFRS, together with the accounting policies used by us to prepare our financial statements. As of the date of this offering memorandum, this evaluation has not been concluded, meaning that the possible effect for the figures of Netafim is still unknown.

Selected statement of financial position of Netafim as of December 31, 2016

	<u>As of December 31, 2016</u>
Current assets:	
Cash and cash equivalents	\$ 59,698
Accounts and notes receivable.....	205,257
Inventories.....	144,728
Other current assets	41,696
Assets available-for-sale	-
Total current assets	451,379
Non-current assets:.....	
Property, plant and equipment, Net.....	125,714
Investment in the shares of associated entities	3,202
Other assets, Net.....	17,067
Deferred taxes.....	11,587
Intangible assets, Net.....	2,069
Goodwill.....	6,245
Total non-current assets.....	165,884
Total	\$ 617,263

	<u>As of December 31, 2016</u>
Current liabilities:	
Bank loans and the current portion of the long - term debt	\$ 23,232
Suppliers	123,455
Suppliers' letters of credit.....	-
Other short-term liabilities.....	101,592
Short-term capital leases.....	-
Liabilities associated with assets held for sale	-
Total current liabilities	248,279
Non-current liabilities.....	
Bank loans and long-term debt.....	126,175
Employee benefits	6,446
Other long-term liabilities	45,673
Derivative financial instruments.....	-
Deferred taxes.....	4,393
Long-term capital leases	-
Redeemable non-controlling interest	-
Total non-current liabilities.....	182,687
Total liabilities	430,966
Stockholders' equity	
Contributed capital	
Common stock	176,944
Share issuance premium.....	-
Restatement of common stock	-
	176,944

	As of December 31, 2016
Earned capital.....	
Retained earnings	37,170
Reserve for the acquisition of the Company's own shares	-
Other comprehensive income	(29,295)
	7,875
Total controlling interest	184,819
Total non-controlling interest.....	1,478
Total capital	186,297
Total.....	\$ 617,263

Selected statement of income and statement of other comprehensive income of Netafim for the year ended December 31, 2016

	December 31, 2016
Continuing operations:	
Net sales.....	\$ 854,715
Cost of sales.....	585,399
Gross profit	269,316
General expenses.....	191,769
Financial expenses	22,818
Financial income	-
Monetary position gain	-
Equity in profits of associated companies	-
Profit before income taxes	54,729
Income taxes.....	14,121
Profit from continuing operations.....	40,608
Loss from discontinued operations, Net	-
Net consolidated profit for the period and year	40,608
Items that will not be subsequently reclassified to results.....	-
Items that will be subsequently reclassified to results	1,911
Other comprehensive income entries	1,911
Consolidated comprehensive income for the period and year.....	\$ 42,519
Net consolidated profit (loss) for the period and year:	
Controlling interest	\$ 40,256
Non-controlling interest	352
	\$ 40,608
Comprehensive income for the period and year:	
Controlling interest.....	\$ 41,925
Non-controlling interest	594
	\$ 42,519

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

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 are a leading supplier of products and solutions in multiple sectors, from petrochemical to construction, infrastructure, agricultural, health, transportation, telecommunications and energy, among others, through a group of companies located in the American and European continents, as well as in some Asian and African countries. We are one of the leading producers of plastic pipes and fittings worldwide and one of the leading chemical and petrochemical companies of Latin America.

In the year ended December 31, 2016, we generated US\$5,350 million in sales and employed more than 18,000 people in more than 37 countries where we operate 120 production plants, concessions for the exploitation of two Fluorite mines in Mexico, eight formation academies and 15 research and development laboratories.

We have a business model based on vertical integration and strategic acquisitions through which we have direct access to raw materials employing proprietary technology, enabling us to compete in a global environment. As a result, we supply a wide range of value-added raw materials and finished products that contribute to the success of our customers and to improving quality of life.

Significant events

Related with the VCM plant in the Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) subsidiary

On April 20, 2016, an explosion occurred in the Pajaritos Petrochemical Complex, where two of the three plants of the PMV subsidiary are located; namely the VCM and Ethylene plants. The VCM plant (Colorados III) suffered the most damage, and the greatest economic impact resulted from the loss of asset recognition and the plant's closing. At a separate site, PMV has the Chlorine and Soda production plant, which did not suffer any damage within its facilities, but it did suffer a business interruption since this plant supplied raw material to Colorados III. The economic impact was the one registered for the loss of assets for US\$285 million (US\$276 million and US\$9 million in other net income item, and in other integral results item, respectively, within the consolidated financial reports and other integral results) and costs related with plant's closing for US\$42 million, which represented a charge to the results for US\$318 million. As of December 31, 2016, PMV complied with the sufficient elements to conclude that the claims to the insurance companies have become an effective account payable, related with the property damages, damages to directors (liability insurance) and officers, additionally PMV and Mexichem Resinas recognized for business interruption US\$51 million. From this event assets and contingent liabilities arise, which are further explained in Note 26 of the Consolidated Financial Statements, included elsewhere in this offering memorandum.

PMV, along with its shareholders (us and Pemex) are evaluating several strategic options for the business in the future, for this, it was resolved to adopt a conservative policy with respect to the amount recognized in accounts receivable, by reflecting the plant's real value in cash as of December 31, 2015. When the business plan is finalized, the amount of the account to be collected from the insurance, may change.

As of June 30, 2017, the event continues under investigation by the Attorney General's Office (*Procuraduría General de la República*) as a result of two criminal complaints presented after the explosion: i) property damages to the nation and ii) probable damages to the environment. Consequently, after the incident at the VCM plant (Colorados III) described above, PMV performed an environmental assessment to determine if a pollutant was deposited in the plant's surrounding areas. Said evaluation was submitted to the authorities working jointly to determine if there were any environmental consequences. Additionally, PMV could be responsible for paying damages to third parties, if there are any. With the information obtained as of the date of this offering memorandum, there is no evidence that said liabilities, if there are any, would be material.

Process by the Administrative Council for Economic Defense (CADE)

Mexichem Brasil Industria de Transformação Plástica, Ltda. (before Amanco Brasil, Ltda.) a subsidiary of ours was notified in 2016 by Brazil's Administrative Council for Economic Defense (CADE), of alleged violations of the antitrust regulations in Brazil, committed by the subsidiary and some of its executives from 2003 to 2009. We are fully committed to complying with local regulations in all the countries in which we operate. As of the date of this offering memorandum, the stage in which this administrative process is, does not allow our management to estimate the amount of the contingency that could result from this procedure, if applicable.

Discontinued Operations

We initiated a restructuring procedure within our Fluor Business Group as a result of the current competition from Chinese cooling gases producers and the low profit margins of certain products. Consequently, we decided to close certain operations of said business Group. The discontinued operations within the 2016, 2015 and 2014 results reflect the impact of keeping the operations in certain markets, in which the business conditions were not adequate, and are presented as such in the financial statements in accordance with IFRS 5 “*Non-current Assets held for sale and discontinued operations*”.

As part of our strategy to migrate to products with a greater margin within our Fluent Business Group, at the end of the first quarter of 2016 we decided to abandon the market related with the pressure piping business in the United States, which impacted the Fluent business within the US/AMEA region. The decision was the result of our strategy to focus the capacity that we dedicated to pressure piping, which are low margin products, on datacom where the margins are higher. In order to obtain a comparable base, the 2016, 2015 and 2014 amounts were reclassified as discontinued operations having a net effect of US\$31 million in sales and a loss of US\$10 million in the net result of discontinued operations for 2016, US\$111 million in sales and a loss of US\$54 million in the net result of discontinued operations for 2015, and of US\$71 million in sales and a gain of US\$3 million in the net result from discontinued operations in 2014.

Accounting evaluations and reclassifications

During 2016, we performed an analysis to define if we were an “agent” or a “principal” in accordance with the terms of the IAS 18 “Revenue from Ordinary Operations”, with the purpose of determining the manner in which freight costs should be recognized and reported within the Statement of Earnings. The conclusion was that we are a “principal” and consequently, the freight cost must be presented within the sales costs instead of administrative and sales expenses, as reported in some case, during previous years. Consequently, within the consolidated statement of earnings and other integral results presented in our financial statements, the amounts corresponding to the years concluding on December 31, 2016, 2015 and 2014, have been reclassified and presented with the corresponding classification within sales costs.

With respect to the consolidated statement of earnings and other integral results corresponding to the year ended December 31, 2016, the amounts are now with the correct classification within cost of sales. As a result, with the purpose of presenting comparable amounts, the amounts presented in herein which correspond to the years ended December 31, 2015 and 2014 have been reclassified to account for differences in administrative expenses and cost of sale for an amount of US\$314 million and US\$281 million, respectively.

Additionally, during 2016, we performed an evaluation and analysis which resulted in presenting the eliminations in investments in its subsidiaries under the “Other Assets” item by Business Group instead of doing it under the “Eliminations in Consolidation” item.

Formation and acquisition of new businesses

During 2016, 2015 and 2014 we established and acquired new businesses as described below:

- As of December 31, 2016 the joint venture formalized on October 31, 2013 between us and Occidental Chemical Corporation (OxyChem), with an equal participation denominated Ingleside Ethylene LLC, to build an Ethylene cracker with an annual capacity of 1,200 million pounds (550 thousand tons), represented a total investment of US\$1,376 million. So far in 2017, this investment has increased by US\$77 million, reaching a total investment of US\$1,453 million as of June 30, 2017. This investment is located within the OxyChem facilities in Ingleside, Texas, and it will employ the ducts and storage system located in Markham,

Texas. The joint venture is consolidated in our financial statements and is reported as part of the Vinyl Business Group within the Ethylene Chain.

- On November 25, 2016, we announced the acquisition in the United Kingdom of 100% of the shares of Vinyl Compounds Holdings Ltd. (VCHL), leading supplier of PVC compounds which serves a broad spectrum of industries including: building and construction, pipes and profiles manufacturing, footwear and consumer products. Our manufacturer of PVC compounds is located in Derbyshire, and annually generates revenue of approximately US\$40 million. We consolidated VCHL's operations under its Compounds Business Unit, leading supplier of PVC compounds serving the global market and is a part of the Vinyl Business Group within the Ethylene Chain. This acquisition enabled further vertical integration of our Compounds Business unit through stabilizer technologies and recycled PVC capabilities. This transaction had a value of £24 million, paid in cash, equivalent to approximately US\$30 million.
- On October 18, 2016, we announced the acquisition of Gravenhurst Plastics Ltd. (GPL), in Temiskaming, Ontario, Canada with the purpose of reinforcing the global growth model in added value specialty products. GPL provides HDPE pipes and fittings and fiber optic piping, as well as construction products within the Canadian market. The transaction was consolidated in the Fluent Business Group within the Ethylene Chain and had a value of US\$13 million paid in cash.
- On May 12, 2015, we inaugurated a new manufacturing plant in Hyderabad, India. This new plant produces conduits and high-pressure pipes for the water and gas transportation and voice and data telecommunications markets. This plant is our fourth manufacturing facility in India, with two other plants located in Goa and another one in Neemrana, near Delhi. The strategic location of the Hyderabad plant in southern India will allow us to export products to Southeast Asia, serve customers in the southern region of India, and capture new business opportunities in the region. The opening of this plant forms part of our ongoing strategy to become a global chemical company, vertically integrated and focused on specialty products and solutions. The acquisition price was US\$3.4 million.
- On December 31, 2014, Mexichem UK, Ltd. (belonging to the Fluor Business Group), acquired a license from E.I. du Pont de Nemours and Company for the distribution and sale of pharmaceutical-grade hydrofluorocarbon HFC-227ea/P, a propellant used in medical applications. This business transaction supports our strategy to focus on global growth by participating in the specialty product markets. The acquisition price was US\$4.1 million.
- On December 1, 2014, we acquired 100% of the shares of Vesto PVC Holding GmbH (Vestolit), the sixth-largest PVC producer in Europe. The Vestolit manufacturing facility is located in Marl, Germany. Vestolit is the sole European producer of HIS-PVC resins, used to manufacture weather-resistant windows, and one of the largest European producers of PVC paste, used for automobile chassis coatings, ladies handbags, plastic containers, floorings, and wallpapers. Vestolit also produces Chlorine-Alkali, emulsion and suspension PVC, microsuspension PVC and window compounds. The value of this acquisition was €219 million in cash and liabilities assumed, equivalent to US\$273.2 million.
- On September 19, 2014, we acquired Dura-Line Corporation from CHS Capital. Dura-Line, based in Knoxville, Tennessee (USA), a global leader in HDPE conduit, duct, and pressure pipe solutions for voice and data telecommunications, as well as for the energy and infrastructure industries. Dura-Line has production operations in the United States, Mexico, India, Oman, the Czech Republic, and South Africa.

Change to the accounting policies related with the valuation of property, machinery and equipment

On February 21, 2017, we issued our audited consolidated financial statements as of December 31, 2016, 2015 and 2014. In these financial statements, under Note 28 (Subsequent Events), we disclosed that our Audit Committee and the Board of Directors had authorized a change in the accounting policy related to the valuation of property, machinery and equipment, from the revaluation model to the historical cost model, as of January 1, 2017. We performed an analysis in which we identified that the main purpose of our asset acquisitions is their continuous use during their useful life, and it is industry practice to recognize the property, machinery and equipment based on the historical cost model. This change to our accounting policy required a restatement of our consolidated financial statements. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", in our restated audited consolidated financial statements issued on September 14, 2017, we recognized the effects of this

change retroactively. This change mainly impacted the subsidiaries in Latin America, without having an effect on our cash flows, and there were no other adjustments in our financial settlements. For more information, see Note 3c of our audited consolidated financial statements included herein.

Energy Business Unit

We created the Mexichem Energy Business Unit in 2014 with the purpose of gaining access to energy cogeneration projects. However, the operations of this business unit as of the date of this offering memorandum have not been significant and have therefore not been separately discussed.

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, 2017 and 2016 and the years ended December 31, 2016, 2015 and 2014, including the analysis by business groups contained therein, are not necessarily comparable due to, among others, the following reasons:

Six months ended June 30, 2017 vs. six months ended June 30, 2016

- On February 27, 2017, we announced that the joint venture with OxyChem, which is located at OxyChem's Ingleside, Texas complex, began operations on schedule and on budget. For more information, see "—Formation and acquisitions of new businesses."
- On March 23, 2017, the U.S. ITC determined that the importing of R-134A is causing material damages to the production industry of R-134a in the United States. After a one year investigation, the U.S. DOC found that the imports of R-134a from China were introduced into the United States with prices below fair market price. On February 22, 2017, the U.S. DOC announced that imports from China of R-134a had been sold at dumping prices and it imposed antidumping fees between 148.79% and 167.02% of such imports. For more information see "Business—Legal Proceedings—Refrigerant gases ITC proceeding against Chinese imports into the US market."
- On April 20, 2016, an explosion occurred in the Pajaritos Petrochemical Complex, where two of the three plants of the PMV subsidiary are located; namely the VCM and Ethylene plants. The VCM plant (Colorados III) suffered the most damage, and the greatest economic impact resulted from the loss of asset recognition and the plant's closing. For more information, see "—Significant events— Related with the VCM plant in the Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) subsidiary."

2016 vs. 2015

- On October 26, 2016, we announced the acquisition of GPL, in Temiskaming, Ontario, Canada with the purpose of reinforcing the global growth model in added value specialty products. GPL provides HDPE and fiberoptic tubing, as well as construction products within the Canadian market. For more information, see "—Formation and acquisitions of new businesses."
- On November 25, 2016, we announced the acquisition in the United Kingdom of 100% of the shares of Vinyl Compounds Holdings Ltd. (VCHL), leading supplier of PVC compounds. For more information, see "—Formation and acquisitions of new businesses."
- On April 20, 2016, an explosion occurred in the Pajaritos Petrochemical Complex, where two of the three plants of the PMV subsidiary are located; namely the VCM and Ethylene plants. The VCM plant (Colorados III) suffered the most damage, and the greatest economic impact resulted from the loss of asset recognition and the plant's closing. For more information, see "—Significant events— Related with the VCM plant in the Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) subsidiary."

2015 vs. 2014

- On September 19, 2014, we acquired Dura-Line Corporation from CHS Capital. Dura-Line, based in Knoxville, Tennessee (USA), a global leader in HDPE conduit, duct, and pressure pipe solutions for voice and data telecommunications, as well as for the energy and infrastructure industries. For more information, see "—Formation and acquisitions of new businesses."

- On December 1, 2014, we acquired Vestolit, the sixth largest producer of PVC resin in Europe, from Strategic Value Partners, LLC. For more information, see “—Formation and acquisitions of new businesses.”

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-business group transactions. In contrast, the financial information provided for each of our business groups under “—Results of operations by business groups—Results of operations by business group” only gives effect to the elimination of intra-business group (but not inter-business group) 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, Africa, Asia and Europe, including Argentina, Brazil, Canada, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Venezuela and the United States. With the acquisition of Fluent Europe (Wavin), our presence expanded to several European countries, including the Netherlands, Germany, Belgium, Denmark, Norway, Sweden, Finland, the United Kingdom, Poland, Czech Republic, and Turkey, among others. 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 15 countries in the Americas, including primarily Mexico, Colombia, Brazil and the United States, and more than 25 European countries. In the past, the economies of these countries have been affected by a number of adverse factors, including:

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

	Real GDP Growth		
	2016	2015	2014
Mexico.....	2.30%	2.60%	2.30%
United States.....	1.60%	2.60%	2.40%
Brazil.....	(3.60)%	(3.80)%	0.50%
Colombia.....	2.00%	3.10%	4.40%
Euro Zone (27 countries).....	1.90%	1.90%	1.30%
United Kingdom.....	1.80%	2.20%	3.10%
Germany.....	1.80%	1.50%	1.60%
Netherlands.....	2.10%	2.00%	1.40%
France.....	1.20%	1.30%	0.60%
Belgium.....	1.20%	1.50%	1.70%
Denmark.....	1.10%	1.60%	1.70%
Norway.....	1.00%	1.60%	1.90%
Sweden.....	3.30%	4.10%	2.60%
Finland.....	1.40%	0.30%	(0.60)%
Ireland.....	5.20%	26.30%	8.40%
India.....	6.80%	7.90%	7.20%

Source: International Monetary Fund, except for the 27 Euro Zone countries, for which the source was Bloomberg.

- Inflation and high interest rates. In the past, high interest rates in the countries where we operate have had a significant effect on 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 increase the 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 certain 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.”

- Uncertainty with respect to future political, social and economic conditions, particularly during the years immediately preceding presidential and legislative elections.
- 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, and the potential imposition of foreign exchange restrictions. During 2016, 2015 and 2014, the currency used in many of the countries in which we operate depreciated against the U.S. dollar, which had a negative impact on our consolidated financial statements in the form of lower revenues from export sales and in the translation effects associated with consolidating financial statements under local currencies into our financial statements, which are in U.S. dollars, as the dollar is our functional and reporting currency.
- 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 activity around the world, which generate revenue in currencies other than the U.S. dollar, which is our functional currency. A benefit of these U.S. dollar-denominated revenue is that it serves as a natural hedge to service our foreign-currency denominated debt, which as of June 30, 2017, was US\$1.5 billion out of our total debt (swapped) of US\$2.3 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 currently a market for our products in various industries, including infrastructure and housing, water management, heating and cooling, irrigation, datacom, and medicine, among others. Our business strategy emphasizes the importance of being a vertically integrated company, focused on specialty products for the purpose of reducing the volatility of our raw materials and, in this manner, focus on the production and marketing of products with higher profitability and added value. We have grown through the acquisition of companies operating along our production chains, which has allowed us to be vertically integrated, consolidate our leadership and to maintain a geographical presence in countries where we sell our products. This business strategy has enabled us to become one of the world’s top five producers of chemical products, the fifth largest global producer of PVC resins and second largest global producer of specialty PVC resins, as well as one of the global leaders in manufacturing plastic pipes and fittings of PVC and PE, among others. In addition, we are the world’s largest fully vertically integrated fluorochemical company.

There are also certain macroeconomic trends that we believe could impact our strategy and business operations:

Urbanization

By 2030, the UN projects that 4.9 billion people will be urban dwellers. By 2050, the world’s urban population is expected to have increased by 75% from 3.6 billion in 2011, and to make up 66% of the world’s population, according to UN Department of Economic and Social Affairs. Many of the world’s largest cities already have GDPs larger than mid-size countries. With increased urbanization, cities are expected to be important agents for job creation, and will likely have increased construction and infrastructure needs.

According to the IHS, demand for PVC over the last four years has increased by 4%. Developing countries are expected to drive growth in demand, as investments in infrastructure and housing are needed to keep up with growing populations. The key markets for Mexichem’s PVC products are the United States, Mexico, much of Latin America, particularly Brazil and Colombia, Eastern Europe, and the Middle East.

PVC is one of the most widely used plastics in the world due to its versatility, durability and resilience. When plasticized, PVC offers a wide range of high performance, flexible applications such as membranes for water treatment, insulating films or durable electrical cables and wires. These and many other flexible PVC solutions effectively contribute to reduce energy consumption and enhance resource efficiency. The largest application for PVC is pipes and fittings, and profiles and tubes is the second largest category in the building and construction sector. Together, both account for 60% of global PVC demand.

Deficiencies in infrastructure create serious safety risks and affect long-term economic growth, but adapting to climate change raises bar for infrastructure push. Moreover, China may be looking to front-load transport infrastructure investment over the next few years as a way to support economic growth. As a consequence of the demand for increased infrastructure, according to the IHS, PVC pipes and fittings are expected to account for 50% of global consumption of construction materials by 2021.

Technological breakthroughs

Automation, robotics and the internet of things are developing quickly, all of which is dramatically changing the nature and number of jobs available. Technology has the power to improve our lives, raising productivity, living standards and average life span, and free people to focus on personal fulfilment. But it also brings the threat of social unrest and political upheaval if economic advantages are not shared equitably; thus, we have micro conduit solutions under the Dura-Line brand. We have developed a line of micro conduit solutions, designed to be used inside and outside of buildings to improve the network requirements of companies. Our technology provides wide-ranging solutions to meet future growth requirements with affordable installation costs. We also sell an extensive range of fittings and accessories for the voice and data telecommunications sector and for cable TV and equipment installation, such as connectors and woven fiber-optic fabric tapes, designed to improve and make the installation of pipe and conduit solutions more efficient.

Resource scarcity and climate change

Demand for energy and water is forecasted to increase by as much as 50% and 40%, respectively, by 2030. New types of jobs in alternative energy, new engineering processes, product design and waste management and re-use will need to be created to deal with these needs. Traditional energy industries, and the millions of people employed by them, will see a rapid restructuring. We have solutions in water management in Europe as well as irrigation systems in Latin America

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.

Organic growth and growth through acquisitions and joint ventures

We are developing a global organic growth model with an approach of strengthening twelve product categories in five countries where we are already operating (India, the United States, Turkey, Colombia and Brazil), maximizing our current capabilities, thus improving margins, and driving our organic growth through cross selling. We seek to create a platform to offer integral solutions and projects, provide solutions directly to our customers and create long-term relationships. Through the integration of our latest acquisitions, we seek to promote collaboration and to create the greatest possible synergies, maximizing our resources under our existing financial structure.

During the first half of 2016, we completed the strategic analysis of our new organic growth model. This led to a list of geographical priorities by product, which enabled us to establish an action plan for the coming years. However, we have started a pilot program in the abovementioned five countries, among others, to maximize the use of the capabilities that we already have in those countries. Different categories of products from the three business groups have been identified for the purpose of cross selling in the existing platforms in these countries mentioned above, maximizing in this manner the assets and the expertise used to develop the business. Additionally, we have adopted a stricter discipline in respect of capital allocation decisions, either in organic or inorganic projects, by utilizing a capital allocation model, by risks, mitigations, alignment with our strategy, global and local growth potential, profitability and operative capacity.

Accordingly, we have acquired and integrated businesses with higher value-added products and in high-growth regions of Latin America and Europe. The acquisitions we completed in 2014 contributed US\$214 million and US\$13 million to net sales and EBITDA, respectively, which represented 3.9% and 1.6% of our total net sales and EBITDA. In 2015, we did not make any new acquisitions. The acquisitions concluded in 2016, which were intended and achieved to emphasize the vertical integration contributed US\$7 million and US\$0.3 million to 2016 net sales and the EBITDA for 2016, respectively, that represents approximately less than 1% of the total net sales and the EBITDA in said period. For more information, please see “Summary—Competitive Strengths— Vertically integrated operations with direct access to raw materials that provide economies of scale and reduce operating expenses” and “—Significant Events—Formation and acquisitions of new businesses” above.

Cyclical

The Chlor-Alkali (also known as Chlorine-Alkali) industry experiences cyclical behavior in light of global economic trends, such as periods of low profitability or growth which are followed by periods of considerable margins. Demand for Chlorine depends on the construction industry, and the demand for Caustic Soda depends on the manufacturing center.

We are the largest producer of PVC in Latin America, the fifth largest PVC producer worldwide, and the second largest producer of specialty resins worldwide. The PVC market is subject to significant fluctuations in both demand and price, which respond to growth or contraction in the global economy. Overall, on a global scale supply exceeds demand, with new production capacity being created in Asia, and great supply-demand balance in North America.

Sales of the Fluent Business Group’s products are influenced by the economic cycle of the countries in which they operate, and in particular activity in the construction, housing, telecommunications, agriculture, and energy sectors.

Fluent Europe and Fluent US/AMEA experience similar market seasonality. Typically as a result of the colder winter months, we experience a decrease in demand and sales during the first and fourth quarters of each year. However, recent climate conditions have resulted in milder winters, and demand has decreased less during the first and fourth quarter than in prior years. We cannot assure that future winters will continue to be mild, or that winter-time demand will not decrease as it has in prior years.

Demand for fluorite from the Fluor Business Group does not tend to be cyclical.

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 2016 (millions of dollars)	Percentage of our total net sales in 2016
PVC resin	1,482	27
Compounds	424	8
Pipe	2,892	52
Chlorine and Caustic Soda		
.....	179	3
Fluorspar and hydrofluoric acid	583	10

Source: IHS and WVA 2016, except for PVC resin and Pipe with 2016 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, 2017 and 2016 and our consolidated financial statements as of December 31, 2016, 2015 and 2014, have been prepared in accordance with IFRS.

Revenues

We derive revenues from the production and sale of PVC and PE pipes and fittings, PVC resins and compounds, and fluorspar and HF through our subsidiaries, which are organized in business groups 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 through the Fluent Business Group in various regions, including in Latin America through Fluent LatAm under the brands Amanco, Plastigama and Pavco; in Europe through Fluent Europe under the brand Wavin; and in the United States, Asia, the Middle East and Africa through Fluent US/AMEA under the Dura-Line brand, are primarily used in the construction, infrastructure, housing, water management, heating and cooling, irrigation and datacom industries, through more than 70 thousand points of sale;
- PVC resin, which is produced in Mexico, Germany and Colombia and sold to a number of companies for the subsequent production of PVC pipes, containers, medical equipment and other applications;
- 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 business groups as of the dates indicated (without elimination for inter-business group transactions):

Business Group (in %)	Six months ended June 30,	Year ended December 31,		
	2017	2016	2015	2014
Vinyl Business Group.....	40	37	37	33
Fluent Business Group.....	50	53	52	56
Fluor Business Group	10	10	11	11

Expenditures

Costs of sales

The principal components of our cost of sales are our raw materials, freight and the depreciation of our plants and industrial equipment. In 2016, our cost of sales, as a percentage of our sales, decreased to 76.8% as compared with 77.3% in 2015 and 79.1% in 2014.

Operating expenses

Our principal operating expenses consist of:

- Selling and development expenses, including sales, marketing and advertising expenses, sales commissions 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 subsidiaries are subject to income tax. Income tax is calculated based on our fiscal profit, which differs from our reported revenue in the consolidated statement of earnings and other consolidated results, as a result of taxable revenue or expenses or deductible items in other years and items that never are taxable or deductible. The tax liabilities of a subsidiary are calculated using the fiscal rates promulgated or substantially approved at the end of the reported period by the countries where the subsidiary is located.

The following table shows the income tax rates applicable for 2016 in each of the countries where we operate:

Country	%	Country	%
Germany.....	34	Ireland.....	13
Argentina.....	35	Italy.....	28
Austria.....	25	Japan.....	36
Belgium.....	33	Latvia.....	15
Brazil.....	34	Lithuania.....	15
Bulgaria.....	10	Mexico.....	30
Canada.....	27	Nicaragua.....	30
China.....	25	Norway.....	25
Colombia.....	39	Oman.....	12
Costa Rica.....	30	Panama.....	25
Croatia.....	20	Peru.....	28
Denmark.....	22	Poland.....	19
Ecuador.....	22	United Kingdom.....	20
El Salvador.....	30	Czech Republic.....	19
Slovakia.....	22	Serbia.....	15
United States of America.....	42	Romania.....	16
Estonia.....	20	Russia.....	20
Finland.....	20	South Africa.....	28
France.....	33	Sweden.....	22
Guatemala.....	25	Switzerland.....	24
The Netherlands.....	25	Taiwan.....	17
Honduras.....	25	Turkey.....	20
Hungary.....	19	Ukraine.....	18
India.....	34	Venezuela.....	34

Minimum Alternative Tax

Some of the countries where we operate, including Argentina, Colombia, Guatemala, Italy, Belgium, Nicaragua, among others, have implemented a minimum alternative tax that, in general terms, is only enforceable if the same exceeds the amount of income tax to be paid during that year. This tax may be credited against any income tax to be paid. The amount of the minimum alternative tax enforceable and to be paid is determined in respect to the majority of the net assets in accordance with the local laws of each country, subject to the following rates:

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

During our ordinary course of business, we rely on several treaties to avoid double taxation and to inform tax withholdings. Mexico has entered into double taxation treaties with the following countries with which we operate:

Australia	Finland	Lithuania	South Africa
Austria	France	Netherlands	Sweden
Brazil	Germany	Norway	Switzerland
Canada	Hungary	Panama	Turkey
China	India	Peru	Ukraine
Colombia	Ireland	Poland	United Arab Emirates
Czech Republic	Italy	Romania	United Kingdom
Denmark	Japan	Russia	United States
Estonia	Latvia	Slovakia	South Africa

In addition, Mexico is also renegotiating and revising double-taxation treaties with Belgium and Spain.

Critical accounting policies

In the application of accounting policies, our management is required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities. The estimates and associated assumptions are based on experience and other factors that are considered as relevant. Actual results could differ from estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the review period and future periods if the revision affects both the current period and subsequent periods.

Critical accounting judgments and key sources of uncertainty when determining estimates included in the consolidated financial statements, and which could have a significant risk adjustment to the carrying value of assets and liabilities during the next financial period are as follows:

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by us in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

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

Inventories

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

Allowance for doubtful accounts

We use estimates to determine 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 recorded at acquisition cost less depreciations and impairments. The cost of debt incurred during the period of construction and installation of qualifying property, plant and equipment, are capitalized. The gain or loss arising from the sale or retirement of an item of property, plant and equipment, is calculated as the difference between the proceeds received from the sale and the carrying value of the asset, which is recognized in profit or loss.

Properties that are in the process of construction for purposes of production are recorded at cost less any impairment loss recognized. Cost includes professional fees and, in the case of qualifying assets, the costs of loan

capitalized in accordance with the accounting policy of the Entity. The depreciation of these assets is initiated when assets are ready for their planned use.

Depreciation on property, plant and equipment is recognized in profit or loss.

Depreciation is recognized so as to write off the cost 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.

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.

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.

Financial assets

All financial assets are recognized and derecognized on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: “financial assets at fair value through profit or loss”, “held-to-maturity investments”, “available-for-sale financial assets” and “loans and accounts receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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. For more information, see “Business”—Legal Proceedings” and Note 26 of our audited consolidated financial statements included elsewhere in this offering memorandum.

Results of operations by business group

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

Six months ended June 30, 2017					
	Net sales	Cost of sales	Gross profit	Operating expenses ⁽¹⁾	EBITDA
	(Thousands of U.S. dollars)				
Vinyl Business Group.....	1,171,233	977,254	193,979	44,605	236,409
Energy Business Unit	811	744	67	(13)	596
Fluent Business Group	1,472,435	1,110,442	361,993	229,567	202,405
Fluor Business Group	317,780	194,636	123,144	26,083	123,372
Eliminations ⁽²⁾	(108,918)	(103,601)	(5,317)	(5,317)	-
Holding Company	5,449	-	5,449	32,371	(21,592)
Consolidated.....	2,858,790	2,179,475	679,315	327,296	541,190

- (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 US\$5,317 million constituting income from services which corresponded to the operative expenses of the operating company.

Six months ended June 30, 2016							
	Net sales	Cost of sales	Gross profit	Operating expenses ⁽¹⁾	EBITDA	Adjustment ⁽³⁾	Adjusted EBITDA
	(Thousands of U.S. dollars)						
Vinyl Business Group.....	998,325	832,560	165,765	359,569	(128,306)	285,526	157,220
Energy Business Unit	785	717	68	214	370	-	370
Fluent Business Group	1,453,295	1,083,569	369,726	226,569	208,759	-	208,759
Fluor Business Group	304,205	182,590	121,615	32,534	114,464	-	114,464
Eliminations ⁽²⁾	(82,992)	(78,513)	(4,479)	(4,479)	-	-	-
Holding Company	4,718	-	4,718	30,168	(20,466)	-	(20,466)
Consolidated.....	2,678,336	2,020,923	657,413	644,575	174,821	285,526	460,347

- (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 US\$4,479 million constituting income from services which corresponded to the operative expenses of the operating company.
- (3) The adjustment amount for the six-months ended June 30, 2016 was calculated considering the following impacts of the PMV incident: (i) US\$276 million of asset write-off and (ii) US\$9 million of one-time expenses for indemnifications and other costs. The adjusted amount for year ended December 31, 2016 was calculated considering the following impacts of the PMV incident (i) \$276 million of asset write-off recognized under other expenses, (ii) US\$42 million related to indemnification, legal expenses and other costs and (iii) a positive impact in other income related to the account receivable of the insurance coverage of US\$(276) million.

Year ended December 31, 2016							
	Net sales	Cost of sales	Gross profit	Operating expenses ⁽¹⁾	EBITDA	Adjustment ⁽³⁾	Adjusted EBITDA
	(Thousands of U.S. dollars)						
Vinyl Business Group....	2,031,795	1,752,828	278,967	137,746	272,132	42,325	314,457
Energy Business Unit	1,601	1,459	142	248	925	-	925
Fluent Business Group ..	2,892,097	2,169,754	722,343	437,349	421,274	-	421,274
Fluor Business Group	582,858	344,537	238,321	62,142	227,774	-	227,774
Eliminations ⁽²⁾	(180,053)	(162,997)	(17,056)	(17,056)	-	-	-
Holding Company	21,509	3,387	18,122	67,479	(38,348)	-	(38,348)
Consolidated.....	5,349,807	4,108,968	1,240,839	687,911	883,754	42,325	926,079

- (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 US\$17,056 million constituting income from services which corresponded to the operative expenses of the operating company.

- (3) The adjustment amount for the six months ended June 30, 2016 was calculated considering the following impacts of the PMV incident: (i) US\$276 million of asset write-off and (ii) US\$9 million of one-time expenses for indemnifications and other costs. The adjusted amount for year ended December 31, 2016 was calculated considering the following impacts of the PMV incident (i) \$276 million of asset write-off recognized under other expenses, (ii) US\$42 million related to indemnification, legal expenses and other costs and (iii) a positive impact in other income related to the account receivable of the insurance coverage of US\$(276) million.

Year ended December 31, 2015					
	Net sales	Cost of sales	Gross profit	Operating expenses ⁽¹⁾	EBITDA
	(Thousands of U.S. dollars)				
Vinyl Business Group.....	2,139,962	1,820,863	319,099	142,603	313,230
Energy Business Unit	245	232	13	(353)	366
Fluent Business Group	3,026,592	2,312,029	714,563	455,933	409,130
Fluor Business Group.....	607,545	373,832	233,713	47,579	241,266
Eliminations ⁽²⁾	(179,907)	(168,069)	(11,838)	(11,838)	-
Holding Company.....	17,955	-	17,955	91,718	(53,571)
Consolidated.....	5,612,392	4,338,887	1,273,505	725,642	910,421

- (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 US\$11,838 million constituting income from services which corresponded to the operative expenses of the operating company.

Year ended December 31, 2014					
	Net sales	Cost of sales	Gross profit	Operating expenses ⁽¹⁾	EBITDA
	(Thousands of U.S. dollars)				
Vinyl Business Group.....	1,907,775	1,705,592	202,183	107,056	216,921
Energy Business Unit	-	-	-	-	-
Fluent Business Group	3,193,831	2,504,156	689,675	501,131	354,994
Fluor Business Group.....	637,364	388,131	249,233	52,711	256,130
Eliminations ⁽²⁾	(257,772)	(236,680)	(21,092)	(21,092)	-
Holding Company.....	33,147	-	33,147	63,173	(9,631)
Consolidated.....	5,514,345	4,361,199	1,153,146	702,979	818,414

- (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 US\$21,092 million constituting income from services which corresponded to the operative expenses of the operating company.

Six months ended June 30, 2017 compared with the six months ended June 30, 2016

Consolidated results of operations

The following table sets forth our results of operations for the six months ended June 30, 2017 and 2016.

	Six months ended June 30,	
	2017	2016
	(Thousands of U.S. dollars)	
Net sales	2,858,790	2,678,336
Cost of sales	2,179,475	2,020,923
Gross profit.....	679,315	657,413
Operating expenses ⁽¹⁾	327,296	644,575
Net financial expense and exchange rate variation ⁽²⁾	119,194	84,927
Equity in profits of associated companies.....	(728)	(3,615)
Income taxes (loss)	88,116	(4,450)
Income (loss) from continuing operations	145,437	(64,024)
Discontinued operations net.....	(154)	(1,490)
Consolidated net income (loss)	145,283	(65,514)

- (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 US\$2,096 million and US\$1,365 million for the first six months ended June 30, 2017 and 2016, respectively.

Net sales

Our net sales increased 7%, to US\$2,859 million for the six months ended June 30, 2017 from US\$2,678 million for the six months ended June 30, 2016. This increase was mainly the result of (1) better PVC market conditions, (2) the integration of Vinyl Compounds Holdings Ltd., and (3) higher prices for refrigerant gases.

Cost of sales

Our cost of sales increased 8%, to US\$2,179 million for the six months ended June 30, 2017 from US\$2,021 million for the six months ended June 30, 2016. This increase was mainly the result of (1) higher sales volumes in our Vinyl and Fluor Business Groups and (2) higher prices for raw materials used by the Fluent Business Group.

Gross profit

For the reasons described above, our gross profit increased 3%, to US\$679 million for the six months ended June 30, 2017 from US\$657 million for the six months ended June 30, 2016. Our gross margin, which is calculated by dividing gross profit by net sales, decreased from 25% in the first six months ended June 30, 2016, to 24% in the first six months ended June 30, 2017. This decrease was mainly the result of higher prices for raw materials used by the Fluent Business Group.

Operating expenses

Our operating expenses decreased 49%, to US\$327 million for the six months ended June 30, 2017, from US\$645 million for the six months ended June 30, 2016. This decrease was mainly the result of an asset write-off of the PMV plants. Our operating expenses represented 11% of our net sales during the first six months ended June 30, 2017, compared to 24% during the first six months ended June 30, 2016. For more information, see “—Significant Events.”

Net financial expense and exchange rate variation

Our net financial expense and exchange rate variation increased 40%, to US\$119 million for the six months ended June 30, 2017, from US\$85 million for the six months ended June 30, 2016. This increase was mainly due to the appreciation of the Mexican peso against the U.S. dollar that led to a foreign exchange loss in 2017 as compared to a foreign exchange gain in 2016, which had resulted from the long-term debt denominated in Mexican pesos.

Income tax

Our income taxes amounted to an expense of US\$88 million for the six months ended June 30, 2017 and a credit of US\$4.5 million for the six months ended June 30, 2016. This change was mainly the result of (1) lower cash tax due in 2016 due to lower income before income taxes and (2) the impact in 2016 of the recognition of the asset write off of the PMV plants.

Consolidated net income

Consolidated net income increased 322%, to US\$145.3 million for the six months ended June 30, 2017 from a loss of US\$65.5 million for the six months ended June 30, 2016, due to the factors discussed above.

Results of operations by division

Vinyl Business Group

	Six months ended June 30,	
	2017	2016
	(Thousands of U.S. dollars)	
Net sales	1,171,233	998,325
Cost of sales	977,254	832,560
Gross profit.....	193,979	165,765
Operating expenses ⁽²⁾	44,605	359,569

(1) Amounts set forth have only been adjusted to eliminate intra-business group (but not inter-business group) 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 Vinyl Business Group's net sales increased 15%, to US\$1,171 million for the six months ended June 30, 2017, from US\$998 million for the six months ended June 30, 2016. This increase was mainly the result of increased demand, particularly in Asia and Europe, and higher prices for PVC products as well as the integration of Vinyl Compounds Holdings Ltd.

Cost of sales

Our Vinyl Business Group's cost of sales increased 15% to US\$977 million for the six months ended June 30, 2017, from US\$833 million for the six months ended June 30, 2016. This increase was mainly the result of an increase in volumes and sales of the Resins and Compounds Business Units.

Gross profit

As a result, our Vinyl Business Group's gross profits increased 15%, to US\$194 million for the six months ended June 30, 2017, from US\$165.9 million for the six months ended June 30, 2016.

Operating expenses

Our Vinyl Business Group's operating expenses decreased by US\$315 million, to US\$45 million for the six months ended June 30, 2017, from US\$360 million for the six months ended June 30, 2016. This decrease was mainly the result of the recognition of the asset write off of the PMV plants following an explosion in the VCM plant (Clorados III) in the Pajaritos Complex. For more information, see "—Significant events— Related with the VCM plant in the Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) subsidiary."

Fluent Business Group

	Six months ended June 30,	
	2017	2016
	(Thousands of U.S. dollars)	
Net sales	1,472,435	1,453,295
Cost of sales	1,110,442	1,083,569
Gross profit.....	361,993	369,726
Operating expenses ⁽²⁾	229,567	226,569

(1) Amounts set forth have only been adjusted to eliminate intra- business group (but not inter- business group) 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 Fluent Business Group's net sales increased 1%, to US\$1,472 million for the six months ended June 30, 2017, from US\$1,453 million for the six months ended June 30, 2016. This increase was mainly the result of an increase in the net sales for our Latin America and United States business units, respectively.

Cost of sales

Our Fluent Business Group's cost of sales increased 2%, to US\$1,110 million for the six months ended June 30, 2017, from US\$1,084 million for the six months ended June 30, 2016. This increase was mainly the result of higher prices for the raw materials used by Fluent Business Group.

Gross profit

As a result, our Fluent Business Group's gross profit decreased 2%, to US\$362 million for the six months ended June 30, 2017, from US\$370 million for the six months ended June 30, 2016.

Operating expenses

Our Fluor Business Group's operating expenses increased 1%, to US\$230 million for the six months ended June 30, 2017, from US\$227 million for the six months ended June 30, 2016. This increase was mainly the result of reorganization expenses associated with the streamlining of our structure.

Fluor Business Group

	Six months ended June 30,	
	2017	2016
	(Thousands of U.S. dollars)	
Net sales	317,780	304,205
Cost of sales	194,636	182,590
Gross profit.....	123,144	121,615
Operating expenses ⁽²⁾	26,083	32,534

(1) Amounts set forth have only been adjusted to eliminate intra- business group (but not inter- business group) 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 Fluor Business Group's net sales increased 4%, to US\$318 million for the six months ended June 30, 2017, from US\$304 million for the six months ended June 30, 2016. This increase was mainly the result of higher prices for refrigerant gases in the United States and Europe, partially as a result of the U.S. ITC legal proceeding. For more information, see "Business—Legal Proceedings—Refrigerant gases ITC proceeding against Chinese imports into US market."

Cost of sales

Our Fluor Business Group's cost of sales increased 7%, to US\$195 million for the six months ended June 30, 2017, from US\$183 million for the six months ended June 30, 2016. This increase was mainly the result of an increase in sales of our downstream business unit, higher prices for raw materials and an increase in our resale costs.

Gross profit

As a result, our Fluor Business Group's gross profit increased 1%, to US\$123 million for the six months ended June 30, 2017, from US\$122 million for the six months ended June 30, 2016.

Operating expenses

Our Fluor Business Group's operating expenses decreased 25%, to US\$26 million for the six months ended June 30, 2017, from US\$32 million for the six months ended June 30, 2016. This decrease was mainly the result of (1) lower depreciation and amortization expenses, which are not included under cost of sales, (2) cancelation of certain provisions, and (3) restructuring costs.

Year ended December 31, 2016 compared with the year ended December 31, 2015

Consolidated results of operations

The following table sets forth our results of operations for the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	2015
	(Thousands of U.S. dollars)	
Net sales	5,349,807	5,612,392
Cost of sales	4,108,968	4,338,887
Gross profit.....	1,240,839	1,273,505
Operating expenses ⁽¹⁾	687,911	725,642
Net financial expense and exchange rate variation ⁽²⁾	162,931	245,215
Equity in profits of associated companies.....	(2,873)	(3,080)
Income taxes	134,756	98,946

	Year ended December 31,	
	2016	2015
	(Thousands of U.S. dollars)	
Income from continuing operations.....	258,117	206,782
Discontinued operations net.....	(10,780)	(54,165)
Consolidated net income	247,334	152,617

- (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 gain by US\$18 million and US\$3 million for the year ended December 31, 2016 and 2015, respectively.

Net sales

Our net sales decreased 5%, to US\$5,350 million in 2016, from US\$5,612 million in 2015. This decrease was mainly the result of (1) a currency translation effect, (2) a decrease in sales volumes and (3) a decrease in PMV sales following the Pajaritos Complex incident. For more information, see “—Significant events— Related with the VCM plant in the Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) subsidiary.”

Cost of sales

Our cost of sales decreased 5%, to US\$4,109 million in 2016, from US\$4,339 million in 2015. This decrease was mainly the result of a decrease in production in our Fluent and Fluor Business Groups, as well as a decrease in sales volumes and sales following the Pajaritos Complex incident. For more information, see “—Significant events— Related with the VCM plant in the Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) subsidiary.”

Gross profit

Our gross profit decreased 3%, to US\$1,241 million in 2016, from US\$1,273 million in 2015. Our gross margin, which is calculated by dividing gross profit by net sales, increased 23.2% in 2016, from 22.7% in 2015.

Operating expenses

Our operating expenses decreased 5%, to US\$688 million in 2016, from US\$726 million in 2015. Our operating expenses represented 12.9% of our net sales in 2016 and 2015.

Net financial expense and exchange rate variation

Our net financial expenses and exchange rate variation decreased 51%, to US\$163 million in 2016 compared to US\$245 million in 2015. This decrease was mainly the result of (1) a financial expense in 2015 as a result of a Euro-denominated intercompany loan, which was paid off and the corresponding hedge unwound in 2016 and (2) an exchange rate gain on Mexican peso-denominated debt in 2016.

Income tax

Income taxes increased 36%, to US\$134.8 million in 2016, from US\$98.9 million in 2015. This increase was mainly the result of a mining tax provision adjustment in 2015 in line with legal criteria changes in the second half of 2015, which was partially offset by an increase in deferred taxes as a result of the PMV incident. For more information, see “—Significant events— Related with the VCM plant in the Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) subsidiary.”

Consolidated net income

Our consolidated net income increased 61%, to US\$247.3 million in 2016, from US\$152.6 million in 2015.

Results of operations by division

Vinyl Business Group

	Year ended December 31,	
	2016	2015
	(Thousands of U.S. dollars)	
Net sales	2,031,795	2,139,962
Cost of sales	1,752,828	1,820,863
Gross profit.....	278,967	319,099
Operating expenses ⁽²⁾	137,746	142,603

(1) Amounts set forth have only been adjusted to eliminate intra-division (but not inter-business group) 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 Vinyl Business Group's net sales decreased 5%, to US\$2,032 million in 2016, from US\$2,140 million in 2015. This decrease was mainly the result of (1) the closing of operations following the Pajaritos Complex incident and (2) lower prices for our Resins, Compounds, and Derivatives business units. For more information, see “—Significant events— Related with the VCM plant in the Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) subsidiary.”

Cost of sales

Our Vinyl Business Group's cost of sales decreased 4% to US\$1,753 million in 2016, from US\$1,821 million in 2015. This decrease was mainly the result of the closing of operations following the Pajaritos Complex incident. For more information, see “—Significant events— Related with the VCM plant in the Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) subsidiary.”

Gross profit

As a result, our Vinyl Business Group's gross profit decreased 13%, to US\$279 million in 2016, from US\$319 million in 2015.

Operating expenses

Our Vinyl Business Group's operating expenses decreased 3%, to US\$138 million in 2016, from US\$143 million in 2015. This decrease was mainly the result of depreciation of local currencies against the U.S. dollar, as most of our LatAm Vinyl operations use the U.S. dollar as their functional currency while part of their expenses are paid in local currencies.

Fluent Business Group

	Year ended December 31,	
	2016	2015
	(Thousands of U.S. dollars)	
Net sales	2,892,097	3,026,592
Cost of sales	2,169,754	2,312,029
Gross profit.....	722,343	714,563
Operating expenses ⁽²⁾	437,349	455,933

(1) Amounts set forth have only been adjusted to eliminate intra-business group (but not inter-business group) 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 Fluent Business Group's net sales decreased 4%, to US\$2,892 million in 2016, from US\$3,027 million in 2015. This decrease was mainly the result of (1) the appreciation of the U.S. dollar against almost all other global currencies used in sales made by Fluent LatAm and Fluent Europe and (2) lower sales volumes.

Cost of sales

Our Fluent Business Group's cost of sales decreased 6%, to US\$2,170 million in 2016, from US\$2,312 million in 2015. This decrease was mainly the result of a decrease in sales volumes of the business group.

Gross profit

Our Fluent Business Group's gross profit increased 1%, to US\$722 million in 2016, from US\$715 million in 2015.

Operating expenses

Our Fluent Business Group's operating expenses decreased 4%, to US\$437 million in 2016, from US\$456 million in 2015. This decrease was mainly the result of the appreciation of the U.S. dollar against most other currencies used in sales in Latin America and Europe.

Fluor Business Group

	Year ended December 31,	
	2016	2015
	(Thousands of U.S. dollars)	
Net sales	582,858	607,545
Cost of sales	344,537	373,832
Gross profit.....	238,221	233,713
Operating expenses ⁽²⁾	62,142	47,579

(1) Amounts set forth have only been adjusted to eliminate intra-business group (but not inter-business group) 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 Fluor Business Group's net sales decreased 4%, to US\$583 million in 2016, from \$607 million in 2015. This decrease was mainly the result of a decrease in prices and, during the first nine months, a decrease in sales volumes for fluorspar.

Cost of sales

Our Fluor Business Group's cost of sales decreased 8%, to US\$344 million in 2016, from US\$374 million in 2015. This decrease was mainly the result of (1) a different product mix, (2) the devaluation of the Mexican peso relative to the U.S. Dollar in our mining operations in Mexico, and (3) lower sales volumes.

Gross profit

Our Fluor Business Group's gross profit increased 2%, to US\$238 million in 2016, from US\$234 million in 2015.

Operating expenses

Our Fluor Business Group's operating expenses increased 23%, to US\$62 million in 2016, from US\$48 million in 2015. This increase was mainly the result of a one-time benefit of US\$16 million associated with a legal settlement.

Year ended December 31, 2015 compared with the year ended December 31, 2014

Consolidated results of operations

The following table sets forth our results of operations for 2015 and 2014.

	Year ended December 31,	
	2015	2014
	(Thousands of U.S. dollars)	
Net sales	5,612,392	5,514,345
Cost of sales	4,338,887	4,361,199
Gross profit	1,273,505	1,153,146
Operating expenses ⁽¹⁾	725,642	702,979
Net financial expense and exchange rate variation (2)	245,215	258,024
Equity in profits of associated companies	(3,080)	(2,729)
Income taxes	98,946	53,853
Income from continuing operations	206,782	141,019
Discontinued operations net	(54,165)	3,005
Consolidated net income	152,617	144,024

- (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 gain by US\$3 million and loss of US\$6 million for the years ended December 31, 2015 and 2014 respectively.

Net sales

Our net sales increased 2%, to US\$5,612 million in 2015, from US\$5,514 million in 2014. This increase was mainly the result of the inclusion of Dura-Line and Vestolit in our consolidated results.

Cost of sales

Our cost of sales remained nearly constant at US\$4.3 billion in 2015 and 2014, as we experienced an increase in costs from the consolidation of Vestolit and Dura-Line that was offset by lower costs in Latin America and Europe due to lower sales volumes and lower raw material prices.

Gross profit

Our gross profit increased 10%, to US\$1,273 million in 2015, from US\$1,153 million in 2014.

Operating expenses

Our operating expenses increased 3%, to US\$726 million in 2015, from US\$703 million in 2014. This increase was mainly the result of the inclusion of Dura-Line and Vestolit in our consolidated results.

Net financial expense and exchange rate variation

Our net financial expenses and exchange rate variation decreased 5% to US\$245 million in 2015 compared to US\$258 million in 2014. This decrease was mainly the result of foreign exchange losses in our Venezuela operations in 2014, which did not occur in 2015.

Income tax

Income taxes increased 83%, to US\$99 million in 2015, from US\$54 million in 2014. In annual terms, the effective income tax rate in 2015 increased by 500 basis points, from 27% to 32%, mainly due to an increase in operating income. Nevertheless, this increase in current income tax does not occur in the same proportion as income generated, because consolidated earnings before taxes include those of both companies with losses and companies with profits.

Consolidated net income

Our consolidated net income increased 6%, to US\$153 million in 2015, from US\$144 million in 2014 due to the reasons described above.

Results of operations by division

Vinyl Business Group

	Year ended December 31,	
	2015	2014
	(Thousands of U.S. dollars)	
Net sales	2,139,962	1,907,775
Cost of sales	1,820,863	1,705,592
Gross profit.....	319,099	202,183
Operating expenses ⁽²⁾	142,603	107,056

(1) Amounts set forth have only been adjusted to eliminate intra-business group (but not inter-business group) 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 Vinyl Business Group's net sales increased 12%, to US\$2,140 million in 2015, from US\$1,908 million in 2014. This increase was mainly the result of (1) a decrease in PVC-resin prices, which was offset by the consolidation of Vestolit and (2) 68% increase in the production volumes of PMV.

Cost of sales

Our Vinyl Business Group's cost of sales increased 7%, to US\$1,821 million in 2015, from US\$1,706 million in 2014. This increase was mainly the result of (1) higher sales volumes in the business group and (2) the consolidation of Vestolit.

Gross profit

Our Vinyl Business Group's gross profit increased 37%, to US\$319 million in 2015, from US\$202 million in 2014.

Operating expenses

Our Vinyl Business Group's operating expenses increased 25%, to US\$143 million in 2015, from US\$107 million in 2014. This increase was mainly the result of the consolidation of Vestolit for a full year.

Fluent Business Group

	Year ended December 31,	
	2015	2014
	(Thousands of U.S. dollars)	
Net sales	3,026,592	3,193,831
Cost of sales	2,312,029	2,504,156
Gross profit.....	714,563	689,675
Operating expenses ⁽²⁾	455,933	501,131

(1) Amounts set forth have only been adjusted to eliminate intra-business group (but not inter-business group) 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 Fluent Business Group's net sales decreased 5%, to US\$3,027 million in 2015, from US\$3,194 million in 2014. This decrease was mainly the result of a decrease in sales of Fluent LatAm and Fluent Europe by 20% and 17%, respectively, largely due to the depreciation of foreign currencies against the U.S. dollar and a corresponding negative exchange rate impact.

Cost of sales

Our Fluent Business Group's cost of sales decreased 8%, to US\$2,312 million in 2015, from US\$2,504 million in 2014. This decrease was mainly the result of decreased production in our Latin America and Europe business units and lower raw material prices for PVC Resin.

Gross profit

Our Fluent Business Group's gross profit increased 4%, to US\$715 million in 2015, from US\$690 million in 2014.

Operating expenses

Our Fluent Business Group's operating expenses decreased 9%, to US\$456 million in 2015, from US\$501 million in 2014. This decrease was mainly the result of the depreciation of major currencies, such as the Brazilian Reais and the euro, against the U.S. Dollar.

Fluor Business Group

	Year ended December 31,	
	2015	2014
	(Thousands of U.S. dollars)	
Net sales	607,545	637,364
Cost of sales	373,832	388,131
Gross profit.....	233,713	249,233
Operating expenses ⁽²⁾	47,579	52,711

(1) Amounts set forth have only been adjusted to eliminate intra-business group (but not inter-business group) 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 Fluor Business Group's net sales decreased 5%, to US\$607 million in 2015, from US\$637 million in 2014. This decrease was mainly the result of a decrease in demand and selling price of metallurgical-grade fluorite, which was partially offset by an increase in sales of acid-grade fluorite and refrigerant gases in Europe.

Cost of sales

Our Fluor Business Group's cost of sales decreased 4%, to US\$374 million in 2015, from US\$388 million in 2014. This decrease was mainly the result of a decrease in volumes sold in our upstream business unit.

Gross profit

Our Fluor Business Group's gross profit decreased 6%, to US\$234 million in 2015, from US\$249 million in 2014.

Operating expenses

Our Fluor Business Group's operating expenses decreased 10%, to US\$48 million in 2015, from US\$53 million in 2014. This decrease was mainly the result of the recognition in 2014 of non-recurring income related to a legal settlement.

Liquidity and capital resources

Liquidity

We are able to meet our liquidity needs through the generation of cash flows from ordinary business operations, the sale of discontinued businesses, financing through loans and the issuance of debt securities traded on the Mexican Stock Exchange (BMV) or in international markets, and through capital increases by our stockholders, either through subscription of current shareholders or through public offerings in the stock market.

Liquidity ratios	2016	2015	2014
Current assets/current liabilities	1.29	1.24	1.42
Current assets - inventories/current liabilities	0.98	0.88	1.00
Current assets/total liabilities.....	0.54	0.46	0.51

We have funding needs related primarily to the following purposes:

- working capital;
- interest payments, from time to time, related to current debt;
- capital investments related to our operations, construction of new plants, maintenance of facilities, and plant expansions;
- funds required for potential acquisition of companies that align with our strategy; and
- payment of dividends.

As described above, the main sources of our liquidity have historically been the following:

- Cash generated from operations.
- Cash from short-, medium-, and long-term financing.
- Capital increases.
- Company divestitures.

Projected sources and uses of cash

We have, as of the date of this offering memorandum, access to a committed revolving line of credit with an undrawn balance of US\$1.5 billion with a consortium of Mexican and international banks. Additionally, we are in the process of renewing a Cebur Program of Ps. 10.0 billion, of which we have used Ps. 3.0 billion in 2012 (maturing in 2022), as of the date of this offering memorandum. Once this program is renewed we will have the option to issue new debt, for an amount of up to an additional Ps. 7.0 billion.

By means of a General Ordinary Shareholders Meeting held on December 7, 2016, the payment of an additional dividend to the shareholders was approved, with a compulsory and immediate reinvestment in our shares at a rate of one new share for every 40 outstanding shares, excluding the shares in our repurchase fund on the date of the meeting, which were used for the payment of said dividend. The dividend was paid on December 19, 2016.

For the first six months of 2017 and in 2016, our operating cash flows were used primarily for acquisitions, capital expenditures, working capital and our debt service requirements. As of June 30, 2017, we had cash, cash equivalents and other investments of US\$735 million, and working capital of US\$341 million.

Cash flows

Cash flows provided by (used in) operating activities

In 2016, 2015 and 2014, cash flows provided by our operating activities amounted to US\$718 million, US\$1,099 million and US\$805 million, respectively.

In the six months ended June 30, 2017, cash flows provided by our operating activities were derived primarily from:

- US\$234 million in income before taxes on income;
- a US\$128 million decrease from net changes in working capital; and

- a US\$223 million increase from other items.

In 2016, cash flows provided by our operating activities were derived primarily from:

- US\$393 million in income before taxes on income;
- a US\$148 million decrease from net changes in working capital; and
- a US\$473 million increase from other items.

In 2015, cash flows provided by our operating activities were derived primarily from:

- US\$306 million in income before taxes on income;
- a US\$209 million increase from net changes in working capital; and
- a US\$584 million increase from other items.

In 2014, cash flows provided by our operating activities were derived primarily from:

- US\$195 million in income before taxes on income;
- a US\$96 million increase from net changes in working capital; and
- a US\$514 million increase from other items.

Cash flows provided by (used in) financing activities

In 2016, 2015 and 2014, cash flows provided by (used in) financing activities amounted to were US\$(219) million, US\$(321) million, and US\$(120) million for 2016, 2015 and 2014, respectively.

In the six months ended June 30, 2017, our cash flows provided by (used in) financing activities amounted to US\$(167) million from net loan proceeds of US\$(21) million, share purchases of US\$5 million, interest on our outstanding debt in the amount of US\$(98) million and US\$(53) million in dividends.

In 2016, our principal uses of cash flows provided by (used in) financing activities consisted of:

- US\$(191) million in interest paid;
- US\$(54) million in dividends paid;
- US\$9 million from sales of shares; and
- US\$17 million from net loan proceeds.

In 2015, the cash flows provided by (used in) financing activities were as follows:

- US\$(212) million in interest paid;
- US\$(65) million in dividends paid;
- US\$(18) million from purchases of shares; and
- US\$(27) million from net loan proceeds.

In 2014, our principal sources of cash flows provided by (used in) financing activities consisted of:

- US\$(187) million in interest paid;
- US\$(56) million from purchases of shares; and

- US\$363 million from net loan proceeds.

Cash flows provided by (used in) investing activities

In 2016, 2015 and 2014, cash flows used in our investing activities were US\$(508) million, US\$(662) million and US\$(1,337) million, respectively.

For the six months ended June 30, 2017, our cash flows provided by (used in) investing activities consisted of:

- the acquisition of machinery and equipment in the amount of US\$(122) million;
- other assets in the amount of US\$(10) million; and
- the sale of machinery and equipment in the amount of US\$5 million.

In 2016, our cash flows provided by (used in) investing activities consisted of:

- the acquisition of machinery and equipment in the amount of US\$(488) million;
- the acquisition of subsidiaries, net of cash acquired in the amount of US\$(42) million; and
- the sale of machinery and equipment in the amount of US\$22 million.

In 2015, our cash flows provided by (used in) investing activities consisted of:

- the acquisition of machinery and equipment in the amount of US\$(711) million;
- sales of machinery and equipment in the amount of US\$57 million; and
- other assets in the amount of US\$(9) million.

In 2014, our cash flows provided by (used in) investing activities consisted of:

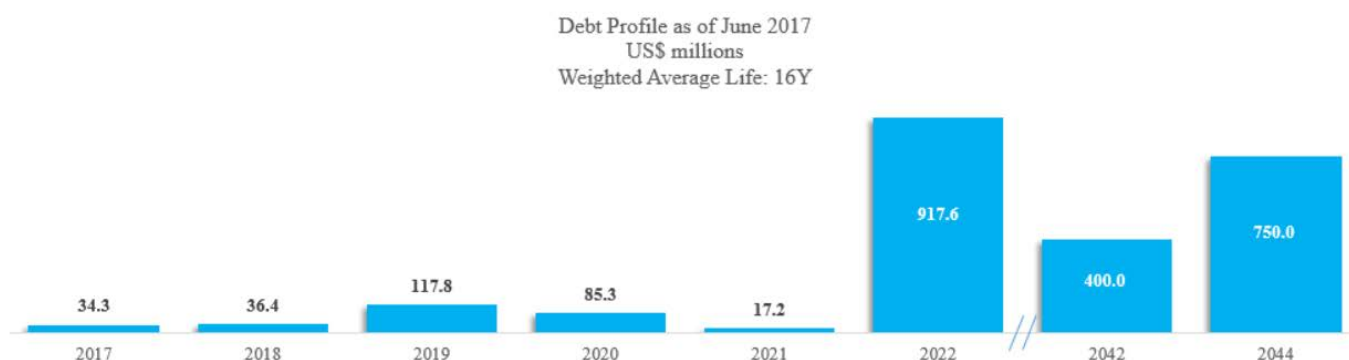
- the acquisition of machinery and equipment in the amount of US\$(518) million;
- sales of machinery and equipment in the amount of US\$18 million;
- other assets in the amount of US\$(6) million; and
- the acquisition of subsidiaries, net of cash, acquired in the amount of US\$(831) million.

Effect of exchange rate gain (loss) on our cash and cash equivalents

In 2016, 2015, and 2014, the effect of exchange rate gain (loss) on our cash and cash equivalents was US\$69 million, US\$(82) million and US\$(201) million, respectively. For the six months ended June 30, 2017, the effect of exchange rate gain (loss) on our cash and cash equivalents was US\$(3) million.

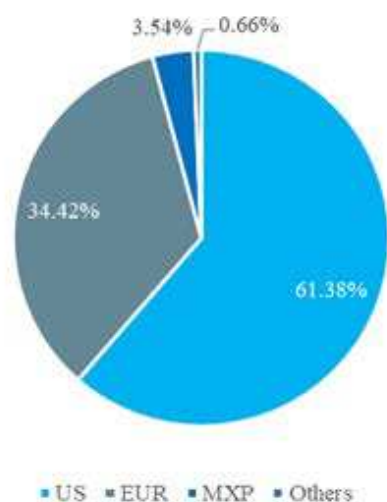
Indebtedness and financing strategy

As of June 30, 2017, we had outstanding consolidated debt of US\$2,322 million, consisting of short-term debt of US\$52 million (including the current portion of our long-term debt) and long-term debt of US\$2,270 million, with unrelated parties. As of June 30, 2017, our total financial debt was US\$2,323 million, after including US\$1.2 million in letters of credit with maturities of more than 180 days.

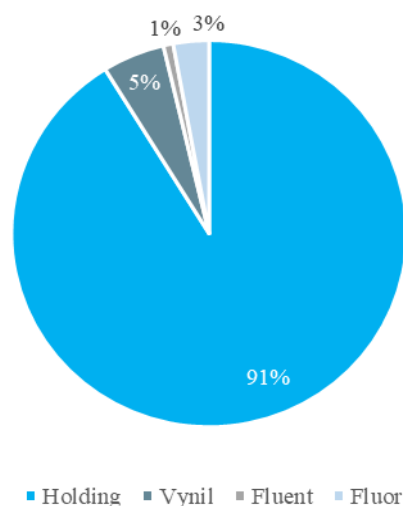


* For illustration purposes, debt issuance costs to amortize are not included in the graph above. As of June 2017, these costs amounted US\$36.4 million.

Debt (swapped) by Currency



Debt by Business Group



The acquisitions made in 2016, 2015 and 2014 were financed as follows:

- **Vinyl Compounds Holdings:** The acquisition price resulted in £24 million, equivalent to US\$30 million, and was financed with cash generated from operations.
- **Gravenhurst Plastics:** The acquisition price was US\$13 million and was financed with cash generated from operations.
- **License for the distribution and sale of pharmaceutical-grade HFC-227ea/P:** The acquisition price was US\$4.1 million and was financed with our own resources.

- **Dura-Line:** On September 19, 2014, we acquired Dura-Line Corporation, based in Knoxville, Tennessee (USA), from CHS Capital. The total amount of the acquisition was US\$630 million, of which 20% was paid with funds obtained from the placement of Senior Notes and 80% with cash generated from operations.
- **VESTOLIT:** The total amount of the VESTOLIT transaction was €219 million, all of which was paid with funds obtained from the placement of Senior Notes for US\$750 million on September 17, 2014.

In September 2014, we issued Senior Notes in an aggregate principal amount of US\$750 million, of which a significant portion was used to prepay the “Mexichem 11” bond exchange certificates issued for Ps. 4,500 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:

Leverage Ratios	At June 30,	2016	At December 31,	2014
	2017		2015	
Total liabilities/total assets (%)	56.8	57.1	59.1	61.5
Total liabilities/stockholders' equity	1.32	1.33	1.45	1.60
Interest-bearing liabilities(consolidated debt)/stockholders' equity	0.61	0.64	0.70	0.76

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 EBITDA not higher than 2.0x. We believe that this strategy reduces our vulnerability during periods of recession or lower economic growth. As of June 30, 2017, this ratio, taking into account our LTM Adjusted EBITDA, was 1.6x.

The following table shows the amount and scheduled maturities of our interest-bearing liabilities as of June 30, 2017:

Maturing in	Amount ⁽¹⁾ (Thousands of U.S. dollars)
2017.....	34,272
2018.....	36,406
2019.....	117,814
2020.....	85,301
2021	17,150
Thereafter.....	2,067,623
Total	2,358,566

(1) The above table includes debt issuance costs of US\$36.4 million as of June 2017.

Our net debt increased minimally from US\$1,585 million as of December 31, 2016, to US\$1,587 million as of June 30, 2017. 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,		
	2017	2016	2015	2014
		(Thousands of U.S. dollars)		
Interest-bearing liabilities.....	2,323,342	2,300,457	2,356,485	2,428,193
Current portion.....	52,479	57,693	43,653	61,736
Letters of credit > 180 days.....	1,180	1,394	21,410	-
Long-term debt.....	2,269,683	2,241,370	2,291,422	2,366,457
Cash and cash equivalents.....	735,443	713,607	653,274	619,525
Net debt	1,587,899	1,586,850	1,703,211	1,808,668

We expect to finance our capital expenditure programs primarily through cash flows generated by our operating activities and, if needed, through the incurrence of additional debt.

Short-term debt

As of the date of this offering memorandum, we have (1) short term financing lines and (2) letters of credit, among others, with several banks. As of the date of this offering memorandum, we have lines of credit for approximately

US\$1.0 billion, most of which correspond to letters of credit for the payment of raw material suppliers. We also have a US\$1.5 billion committed revolving line of credit, which has not been drawn and which remains fully available. Additionally, we are in the process of renewing a Cebur Program of Ps. 10.0 billion, under which we issued Ps. 3.0 billion in 2012 (maturing in 2022). Once this program is renewed we will have the option to issue new debt, for an amount of up to an additional Ps. 7.0 billion.

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;
- insuring and maintaining the properties, machinery and equipment in good operating conditions; and
- complying with all applicable laws, rules, regulations and stipulations.

The Senior Notes issued in 2009, 2012, and 2014 establish restrictions on liens, encumbrances, or mortgages on our properties, assets, or securities and those of our subsidiaries. These securities also establish restrictions for the sale and subsequent leasing of relevant assets for business operation (except temporarily). Likewise, the terms and conditions of the Senior Notes stipulate limitations on the consolidation, merger, or transfer of assets of our assets.

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. 10.0 billion, which is currently under a renewal process. We placed Ps. 3.0 billion in 2012, which will mature in 2022. 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, 2017, 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, 2017:

Contractual obligations	Total	Payments due by period		
		Less than 1 year	1-3 years	More than 3 years
		(Millions of U.S. dollars)		
Long-term debt obligations ⁽¹⁾	2,342.5	36.4	204.2	2,101.9
Capital Leasing	97.2	44.9	42.8	9.5
Operating lease obligations	61.4	7.8	24.2	29.4
Total	2,501.1	89.1	271.2	2,140.8

(1) Includes current portion of long term debt and long term debt without the corresponding fees.

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,		
	2017	2016	2015	2014
		(Thousands of U.S. dollars)		
Permanent investments	(38)	-	(9)	(6)
Acquisition of subsidiaries	-	(42)	-	(831)
Plant and equipment	(122)	(488)	(711)	(518)
Proceeds from sale of machinery and equipment	5	22	57	18
Total	(155)	(508)	(663)	(1,337)

We expect to make additional capital expenditures in the remainder of 2017.

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 2016, 2015 and 2014, we invested US\$27.3 million, US\$32 million and US\$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. We 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 taking into account that the functional currency of several of our operations and our reporting currency is the U.S. dollar.

Foreign exchange risk and interest rate risk

We are exposed to foreign exchange risk (the functional currency of several of our operations and our reporting currency is the U.S. dollar) primarily in connection with the fluctuation in the value of the Mexican peso against the U.S. dollar. Approximately 12.9% of our outstanding debt as of June 30, 2017 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.

The vast majority of our U.S. dollar-denominated debt and the majority of our Mexican peso-denominated debt bears interest at a fixed rate, and a small part of our debt in U.S. dollar and in Mexican pesos bears interest at a variable rate (LIBOR or TIIE). 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, 2017, an increase in interest rates of 1% on outstanding loans and financing and debentures would have resulted in a variation in interest expense of approximately US\$1 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, interest rate risks and currency exchange rates, all of these instruments are related with our business and are previously approved by our audit committee and the corporate practices committee as well as our board of directors.

On December 31, 2016 we held the following derivative instruments:

Derivative	Effective Date	Maturity Date	Notional Amount	Swapped Amount	Interest Rate Paid / Exchange Rate Agreed	Interest Rate / Exchange Rate at Closing	Fair Value at December 31, 2016
Exchange rate and interest rate swap	08-sep-15	05-mar-21	Ps. 750,000,000	US\$56,775,170	3.88% / 13.2100	5.2385% / 20.664	(20,216)
Exchange rate and interest rate swap	08-sep-15	05-mar-21	Ps. 750,000,000	US\$56,775,170	4.18% / 13.2100	5.2385% / 20.664	(20,503)
Exchange rate and interest rate swap	23-jan-14	05-mar-21	Ps. 1,500,000,000	US\$112,612,613	3.57% / 13.3200	5.2385% / 20.664	(38,412)
Principal-Only swap EUR/USD	10-jun-15	17-mar-22	US\$96,993,210	€100,279,164	1.6006% / 0.9672	20.664	(13,162)
Principal-Only swap EUR/USD	11-jun-15	17-mar-22	US\$97,402,597	€101,050,000	1.7200% / 0.9639	20.664	(12,025)
Principal-Only swap EUR/USD	17-sep-14	17-sep-24	US\$132,000,000	€104,761,905	1.4350% / 1.2600	20.664	13,329
Principal-Only swap EUR/USD	05-may-15	18-mar-25	US\$228,316,800	€204,000,000	1.7087% / 1.1192	20.664	3,008
Principal-Only swap EUR/USD	03-dec-15	17-mar-25	US\$121,011,000	€114,000,000	1.7500% / 1.0615	20.664	(6,160)
Principal-Only swap EUR/USD	03-dec-15	17-mar-25	US\$121,011,000	€114,000,000	1.5500% / 1.0615	20.664	(5,021)
Exchange rate forward	27-may-16	27-jan-17	€8,000,000	₺28,272,000	3.534	3.5239	(483)

On June 30, 2017 we held the following derivative instruments:

Derivative	Effective Date	Maturity Date	Notional Amount	Swapped Amount	Interest Rate Paid / Exchange Rate Agreed	Interest Rate / Exchange Rate at Closing	Fair Value at June 30, 2017
Exchange rate and interest rate swap	10-sep-15	05-mar-21	Ps. 750,000,000	US\$56,775,170	3.88% / 13.2100	5.2385% / 20.664	(13,523)
Exchange rate and interest rate swap	10-sep-15	05-mar-21	Ps. 750,000,000	US\$56,775,170	4.18% / 13.2100	5.2385% / 20.664	(13,662)
Exchange rate and interest rate swap	23-jan-14	05-mar-21	Ps. 1,500,000,000	US\$112,612,613	3.57% / 13.3200	5.2385% / 20.664	(25,289)
Exchange rate and interest rate swap	16-jan-17	09-mar-22	Ps. 1,500,000,000	US\$83,892,617	3.09% / 17.8800	20.664	(1,121)
Principal-Only swap EUR/USD	10-jun-15	17-mar-22	US\$96,993,210	€100,279,164	1.6006% / 0.9672	20.664	(19,769)
Principal-Only swap EUR/USD	11-jun-15	17-mar-22	US\$97,402,597	€101,050,000	1.7200% / 0.9639	20.664	(18,335)
Principal-Only swap EUR/USD	17-sep-14	17-sep-24	US\$132,000,000	€104,761,905	1.4350% / 1.2600	20.664	8,039
Principal-Only swap EUR/USD	05-may-15	18-mar-25	US\$228,316,800	€204,000,000	1.7087% / 1.1192	20.664	(7,561)

Derivative	Effective Date	Maturity Date	Notional Amount	Swapped Amount	Interest Rate Paid / Exchange Rate Agreed	Interest Rate / Exchange Rate at Closing	Fair Value at June 30, 2017
Principal-Only swap EUR/USD	03-dec-15	17-mar-25	US\$121,011,000	€114,000,000	1.7500% / 1.0615	20.664	(12,411)
Principal-Only swap EUR/USD	03-dec-15	17-mar-25	US\$121,011,000	€114,000,000	1.5500% / 1.0615	3.5239	(12,210)
Exchange rate forward	27-jan-17	27-jan-17	€8,000,000	£28,272,000	3.534	3.5239	(757)

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 business groups 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.

Salt-chlorine-caustic soda-ethylene-VCM process

Products

Chlorine is mainly used for the manufacture of long useful-life products, such as VCM (raw material for PVC production); for the production of titanium dioxide (raw material for white color paints); for cellulose bleaching in the pulp and paper industry; for the production of agrochemicals; in water treatment and purification; and in the chemical industry in general.

Caustic Soda has an endless number of applications, mainly: production of oils, soaps, and detergents; ion-exchange resin regeneration for water treatment; washing of glass bottles; cellulose bleaching in the pulp and paper industry; production of refined sugar; dyeing of cotton fabrics; production of agrochemicals; processing of bovine and porcine skin, tissues, and bones to manufacture gelatin, a gelling agent used in the food, photography, and medicine industries; and manufacture of cleaning products in general, among others.

Sodium hypochlorite is mainly used for the manufacture of liquid bleaches; as a sanitizing agent in general; in water treatment and purification; for the manufacture of industrial catalysts; and for de-inking and bleaching of paper, among other applications.

Hydrochloric acid (HCl) is used for the production of *high-fructose* corn syrup, used as a sweetener in the soft drink, candy, and beer brewing industries, and it is extensively used for drawing and pickling of metals. HCl is also used for the production of drugs in the pharmaceutical industry, and in the manufacture of pigments, coloring agents, and ferric chloride (used in the lithography industry), among other applications. HCl is also extensively used for the manufacture of plastics and rubbers and in the oil and ceramics industries.

Ethylene is the most important product segment of the petrochemical industry. Ethylene is transformed into a great number of intermediate and end products, such as plastics, resins, fibers, elastomers –all of them polymers, being polyethylene (PE) and polyvinyl chloride (PVC) the most used–, solvents, coatings, plasticizers, and antifreezes.

Industrial and food-grade phosphates are mainly used for the manufacture of detergents, fertilizers, animal feeds, ceramics, textiles, toothpastes, beverages, sausages and cold meats, and dairy products, as well as for bread making and in water treatment.

Vinyl chloride monomer (VCM) is used almost entirely (96-98%) to manufacture PVC and PVC resins. VCM is a very versatile product, with applications in the medical sector, in the construction industry for cable coating, pipes, and rigid and flexible profiles, and in the toy industry.

Chlorine and Caustic Soda process

The term salt-chlorine-caustic soda (chlor-alkali/chlorine-alkali) refers to the chemistry of Chlorine and Caustic Soda, which are by-products from the electrolytic disintegration of salt into its components. This process produces proportions of Chlorine and Caustic Soda in a ratio referred to as an electrochemical unit (ECU), which consists of one unit of Chlorine and 1.12 units of Caustic Soda. The main inputs used in this process are electric power and salt, with the main cost corresponding to the electric power consumption.

Although Chlorine is used in a great many chemical processes, its main use is in the production of vinyl and PVC resins. Caustic Soda is used in the production of pulp and paper, organic chemicals, soaps and detergents, textiles, oils, and aluminum.

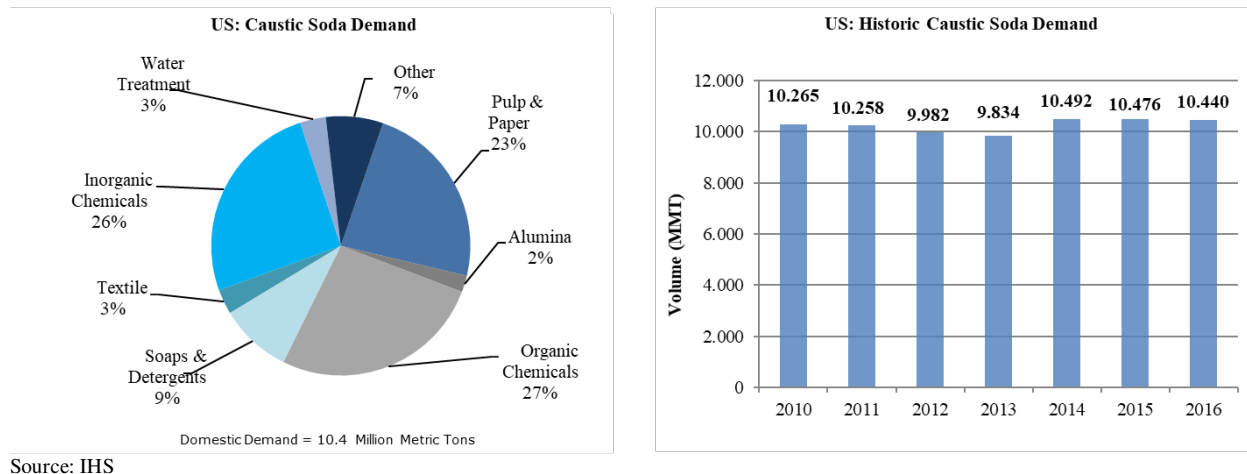
The chlor-alkali industry has a cyclic behavior due to the direct impact of economic growth on demand, with periods of low profitability and growth frequently followed by periods in which attractive margins justify the expansion of production capacity. In general, the demand for Chlorine depends on the construction industry and the demand for Caustic Soda depends on the manufacturing sector.

The primary markets for Chlorine and Caustic Soda are the United States and Mexico. Most chlor-alkali producers operate at regional level, with the notable exception of the Dow Chemical Company, a multinational and global company with a strong presence in North America and Europe.

According to a study of IHS Chemical, Chlor-Alkali Analysis 2016, it is expected that the consumption of Chlorine presents an annual increase world wide of between 3.0% and 3.3% in the future.

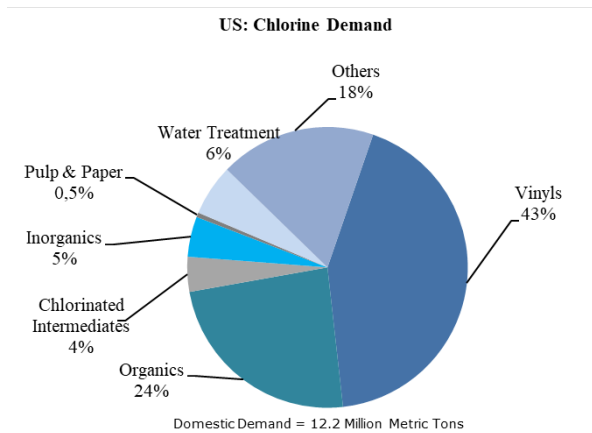
Traditionally, the Chlorine demand drives the production rate of chlor-alkali since Chlorine plants are frequently facilities that produce Chlorine by-products such as vinyl and PVC resins. The Chlorine demand is highly dependent on the demand for vinyl (particularly PVC resins). Since most of the chlor-alkali production is not integrated by the users of Caustic Soda, its demand can vary dramatically.

In Mexico and the United States, the main use of Chlorine is the production of vinyl, particularly PVC resins. In 2016, as shown in the charts below, the production of vinyl, including the production of PVC resins, represented 43% and 12% of the Chlorine consumption in the United States and Mexico, respectively. PVC is highly accepted because it can be molded for different applications in the construction industry, including rigid pipes, connectors, and fittings, and wire and cable coatings, among others.

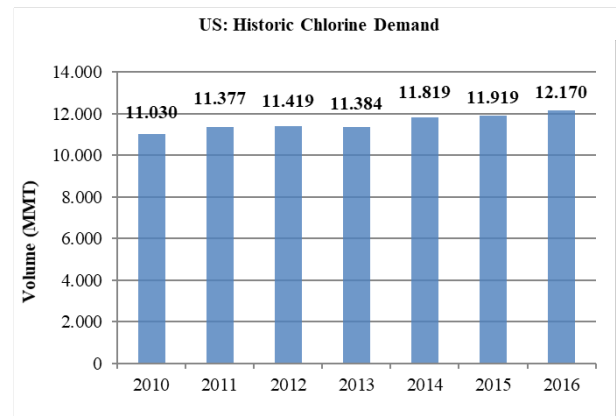


In the United States, Caustic Soda is used in a great number of industrial applications, for the manufacture of organic chemical products (27%), such as propylene oxide and epichlorohydrin, in inorganic chemical products (26%) such as titanium dioxide, and in the production of pulp and paper (23%). In 2016, the United States had a total production capacity of 15.3 mtpy of Caustic Soda and 14.6 million mtpy of Chlorine.

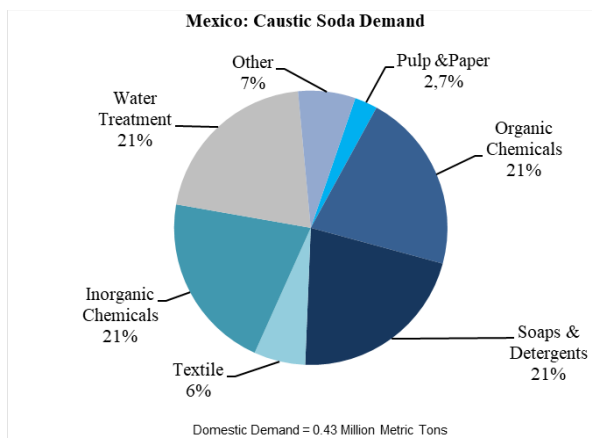
The demand for Caustic Soda in the United States decreased 0.3% in 2016 compared to 2015, while the Chlorine demand increased 2% year over year.



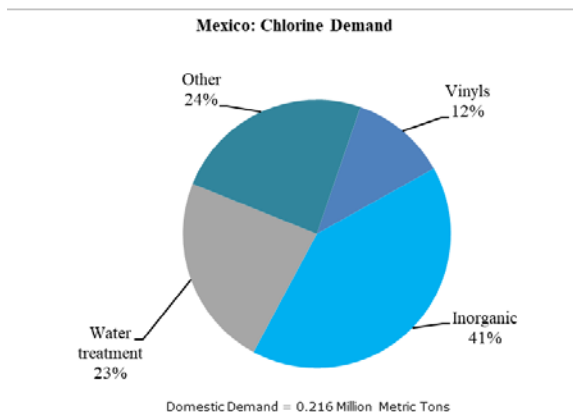
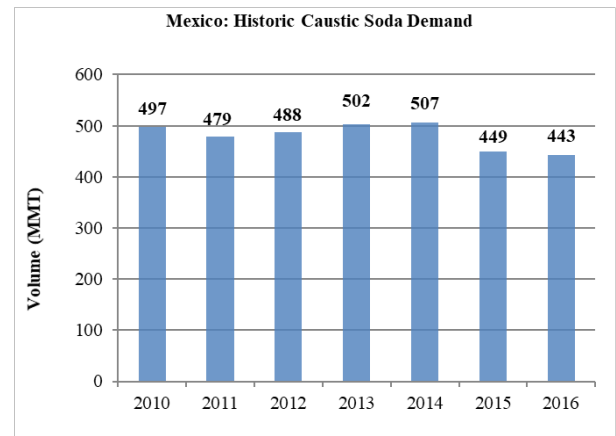
Source: IHS



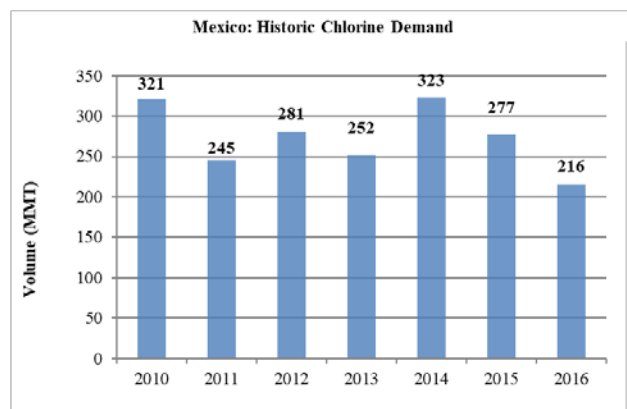
In Mexico, Caustic Soda has a very large number of industrial uses, including organic and inorganic (both 21%) chemical products and the production of soaps and detergents (21%). In 2016, Mexico had a total production capacity of 583,000 mtpy of Caustic Soda and 541,000 mtpy of Chlorine. According to IHS, in 2016 the Chlorine demand in Mexico declined 22% due to lower VCM production, while the demand for Caustic Soda declined 1% year over year.



Source: IHS



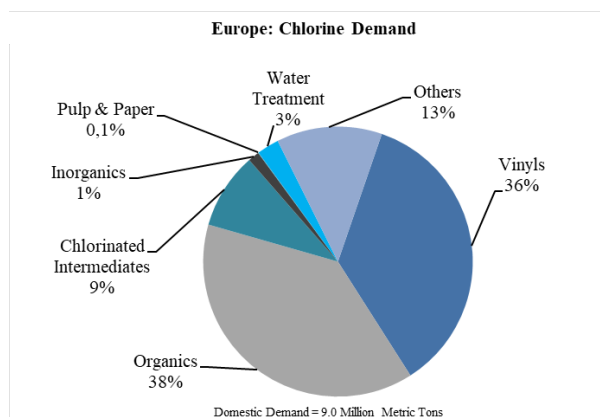
Source: IHS



Over the last 20 years, the use of technologies for chlor-alkali production has experienced a significant change. The use of the technology based on membrane cells began in the mid-80s, having replaced the mercury cell technology, due to environmental improvements and cost efficiencies. The European Union expects to replace the mercury cell technology by December 2017 (2013/732/EU Commission Implementing Decision of December 9, 2013).

for the production of chlor-alkali). At present, the membrane cell technology represents more than 64% of the total production in the European Union. We do not use the mercury technology in its Chlorine processes.

In 2016, the total capacity of Chlorine in Europe reached 10.9 million tons, even when the total production was of 8.6 million tons, a decrease of 1% in respect to the previous year. On the other hand, the production of Caustic Soda reached 8.8 million tons, in other words it presented a reduction of 0.6% in comparison with 2015.

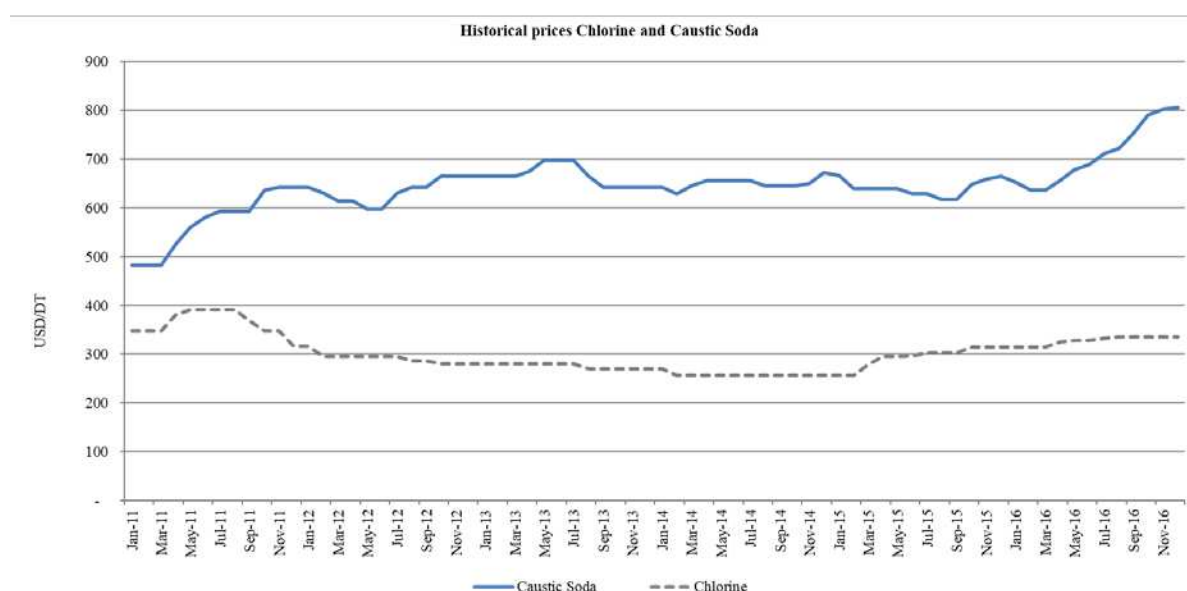


Source: IHS

Prices of Chlorine and Caustic Soda

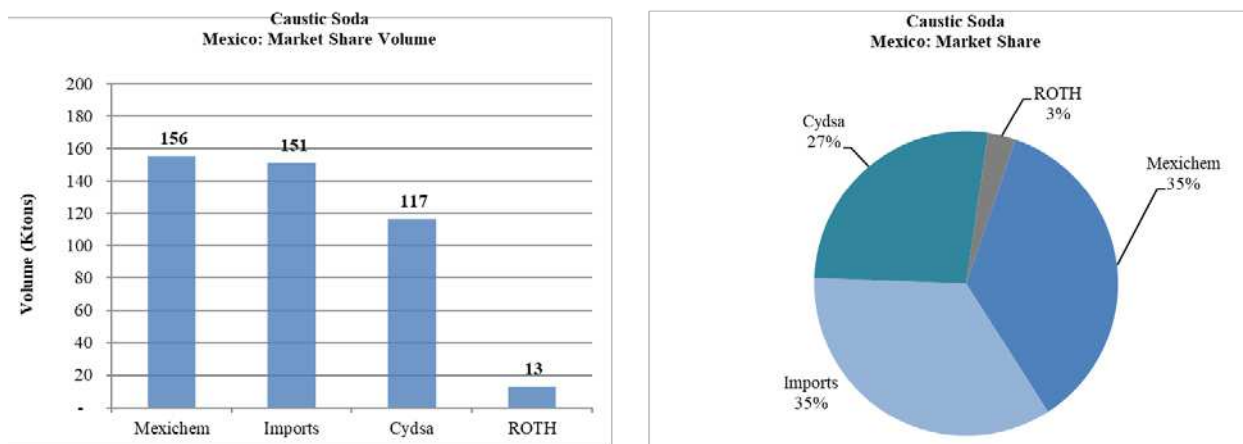
In North America, buyers of Chlorine tend to be concentrated, while the consumers of Caustic Soda are generally more fragmented. Some of the largest purchasers of Chlorine have multi-annual supply agreements that include maximum prices and discounts to mitigate price volatility in the spot market.

In the last two years, the PVC demand increased 4%, due to the recovery of the housing sector in the United States. As a result, the chlor-alkali producers increased their total production capacity to meet the PVC demand and to stabilize prices.



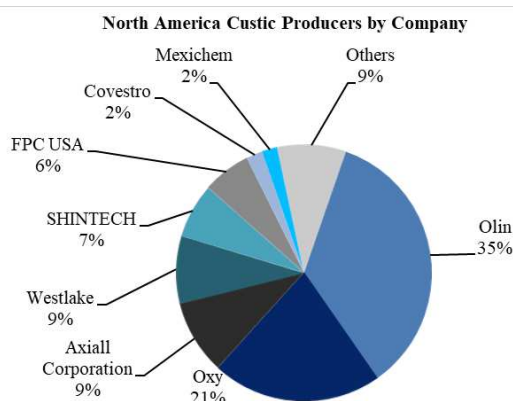
Source: IHS Report. Assessments for liquid Caustic Soda, average contract price in US\$/DMT; for Chlorine, average contract-spot market price in US\$/DMT.

The following charts show our share of the Caustic Soda market in Mexico in 2016.



Source: Our market research based on import-export reports by ANIQ.

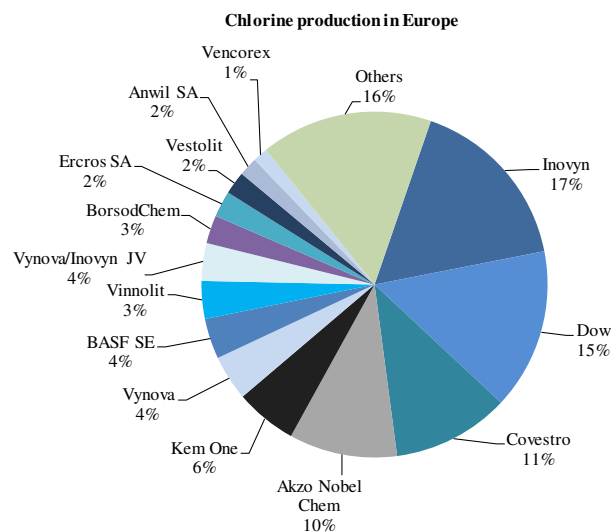
The Caustic Soda market in North America has a total production capacity of 16.5 million metric tons (mt).



Source: IHS

In Europe, Caustic Soda is produced and consumed locally, due to the high costs of transportation and storage. The market is very fragmented, with local producers competing in specific geographical markets. We compete with integrated PVC-resin producers such as AkzoNobel N.V. and Bayer AG.

In 2016 the total capacity of Chlorine in Europe reached 10.9 million tons, even when 8.6 million tons were produced, a decrease of 1% in respect to the previous year. The following chart shows the main producers of Chlorine, chart based in the IHS report.



Source: IHS

PVC

The main products of the vinyl process are PVC resins and PVC compounds, used for the manufacture of flexible and rigid profiles and floorings for the construction industry, as well as upholstery, flexible and rigid films, bottles, containers, and footwear.

The vinyl process produces the following products:

- PVC resins.** The end products manufactured with PVC resins are very diverse. The majority of PVC end products are destined to the construction sector, such as cable coatings, window frames, pipes for conveyance of drinking water and wastewater, toys, balls, containers, hoses, chairs, decoration articles, houses, and many more. Other PVC products have applications in the medical field, specifically blood and dialysis bags, and catheters.
- PVC compounds.** These compounds are used for the manufacture of cables, flexible profiles, window frames, sliding closet doors, window blinds, computer circuit-board holders, purified water bottles, biaxially oriented PVC containers and packaging, and containers for edible oils, vinegar, detergents, cleaners, juices, sauces and ground coffee, among other end products. PVC compounds are also used for automotive applications, footwear injection molding, and injection molding of pipe fittings and similar items.

PVC resins

PVC is a powder that is ground to form a plastic resin and is manufactured by polymerization of VCM, which is formed by the joint reaction of Ethylene and Chlorine. PVC resins have multiple applications, such as pipes and fittings for conveyance of water (particularly for use in housing and sewage systems), profiles, films and laminates, bottles, wire and cable coatings, and floorings, among other uses.

PVC is the third most used plastic worldwide, after polyethylene and polypropylene. According to IHS, the global demand for PVC reached approximately 41.4 million metric tons in 2016, most of which was supplied to the construction sector. Between 2011 and 2016, the global demand for PVC grew at an average compound annual rate of 4%. Tubbing represents more than 40% of all the PVC consumption worldwide. The estimated growth annual medium rate until the year 2026 for PVC demand is 3.4%.

PVC is a versatile plastic that has numerous applications for everyday use, such as: pipes for conveying drinking water, wastewater, and irrigation water; coatings for electrical conductor cables; profiles for windows, doors, façade sidings, and even entire houses; roof tiles; floorings; upholstery; parts for automobiles and home appliances; clothing and footwear; containers and packaging; medical devices; adhesive tapes; and many other products.

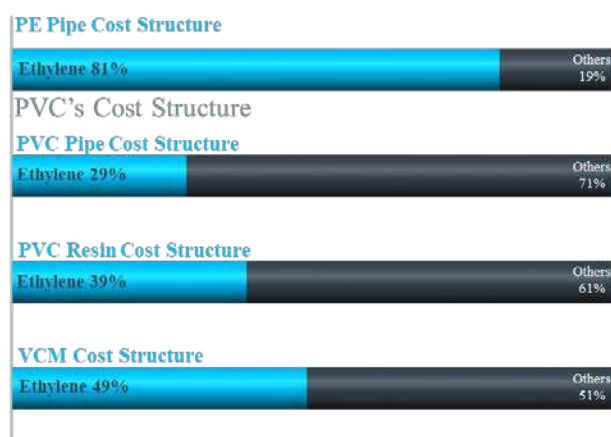
In the PVC production chain, vertical integration is a priority that can lead to the disappearance of non-integrated PVC producers. Additionally, vertical integration to finished products can affect the industry. It is believed that non-integrated PVC producers will face significant challenges when competing against integrated consumers, who normally have significantly lower production costs.

The PVC industry is affected to a great extent by changes in prices for fuels, particularly crude oil and natural gas (including shale gas), used in the production of ethane, which is subsequently transformed into Ethylene, the key component of the PVC production chain.

The charts below illustrate the impact of the cost of Ethylene on PVC and polyethylene products, as of December 31, 2016:

Ethylene Price Components

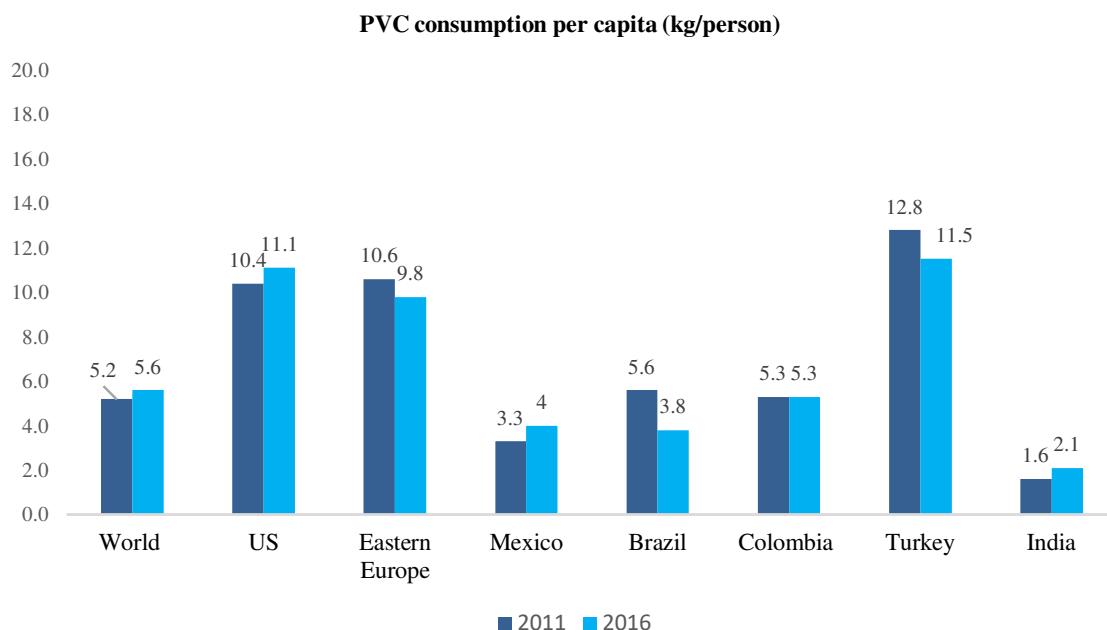
Polyethylene's Cost Structure



Source: IHS

According to IHS, the PVC demand over the last four years has faced a global consumption of 4%. Developing countries are expected to drive the growth of demand, as investments in infrastructure and housing are needed to keep up with population growth. The lack of infrastructure projects has negative impacts on competitiveness and productivity.

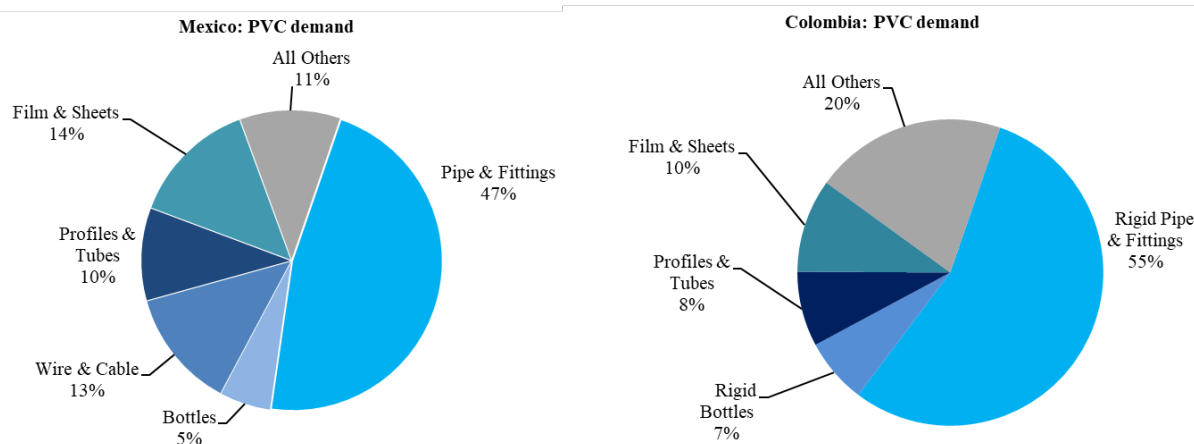
Currently, there is a significant decrease in the per capita consumption of PVC in Latin America compared to the United States and the Middle East. The apparent under consumption of PVC in these markets demonstrates the growth potential for PVC consumption.

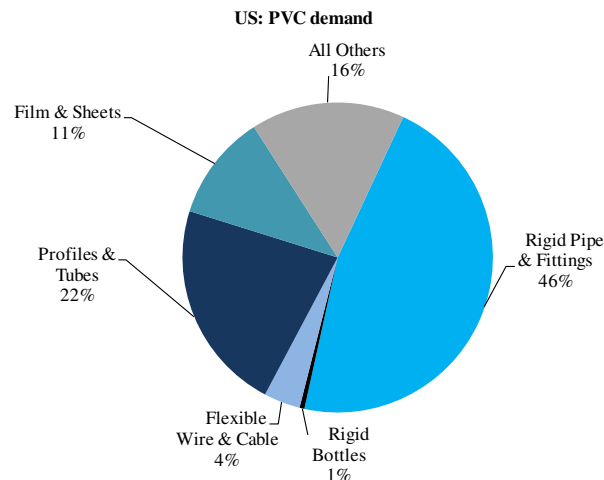
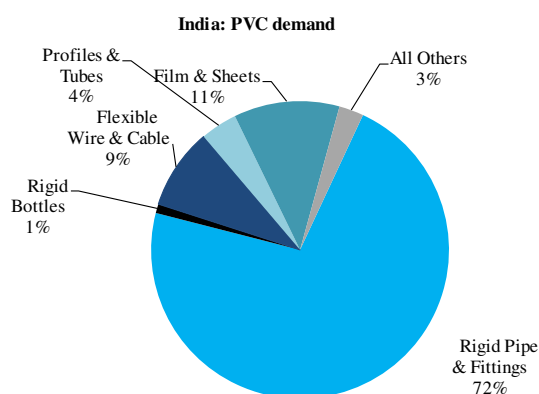


Source: IHS

Unlike the chlor-alkali and PVC industries in the United States and Western Europe, we are focused on markets that show constant growth in areas such as government investment and infrastructure and construction projects related to high housing deficits, particularly in countries such as Mexico, Brazil, Turkey, Peru, Colombia, and Ecuador, according to data published by the national statistics and census institutes of each country.

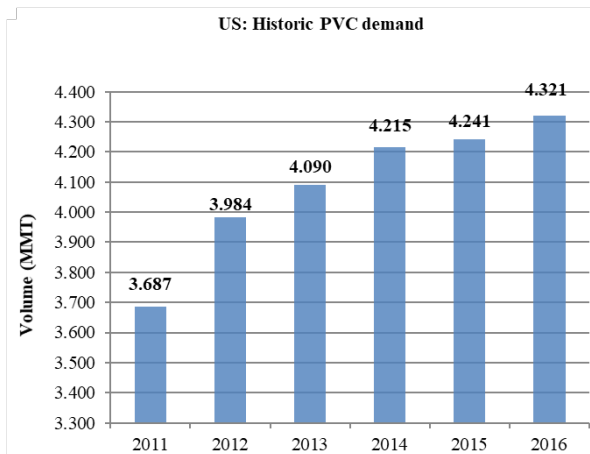
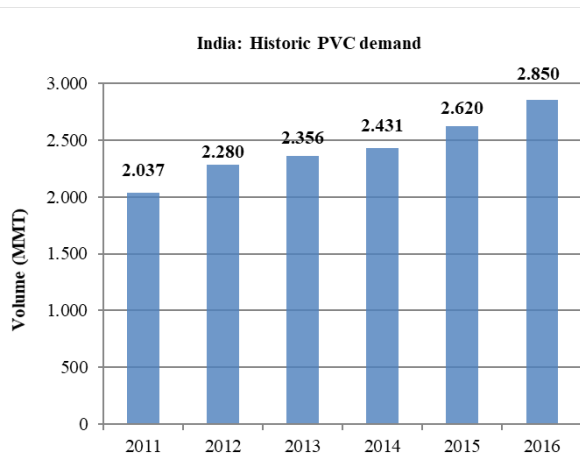
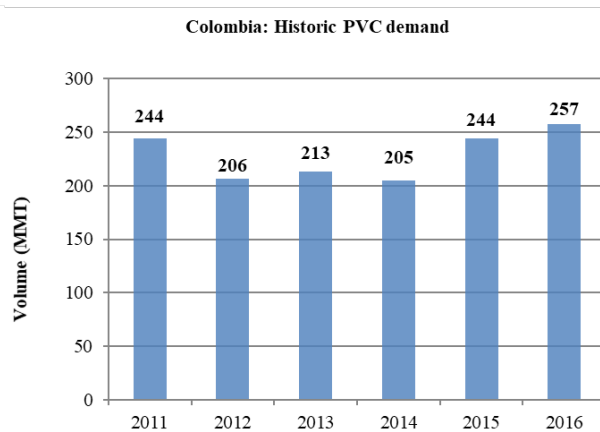
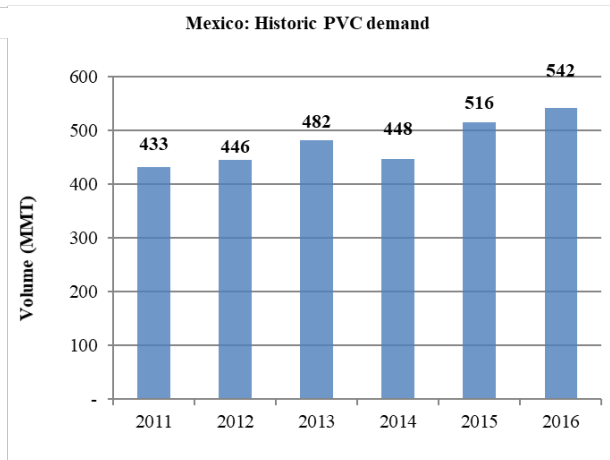
Within the PVC applications in Mexico, Colombia, India and the United States, the greatest portion of the production is destined to piping and fittings. In 2016, the piping and fittings production in Mexico, Colombia, India and the United States represented 47%, 55%, 72% and 46%, while for rigid and flexible profiles it represented 10%, 8%, 4% and 22% of the PVC applications, respectively.





Source: IHS

Within the countries being analyzed, India as well as the United States are the markets with the greatest demand of PVC while the consumption per capita of said product is of 11.1 and 2.1, respectively. In Mexico, Colombia, India and the United States the demand for PVC has grown at a mixed average annual rate during the last three years of 4%, 6% and 2% (2014/2016) respectively, while during 2016 consumption grew for Mexico and Colombia in 5% and in the case of India and the United States the increase was of 9% and 2%, respectively.



Source: IHS

We are the largest producer of PVC in Latin America, the fifth largest PVC producer worldwide, and the second largest producer of specialty resins worldwide. The PVC market is subject to significant fluctuations in both demand and price, which respond to growth or contraction in the global economy. Overall, on a global scale supply exceeds demand, with new production capacity being created in Asia, and great supply-demand balance in North America.

Global PVC-resin producers by 2016 average annual capacity ranking

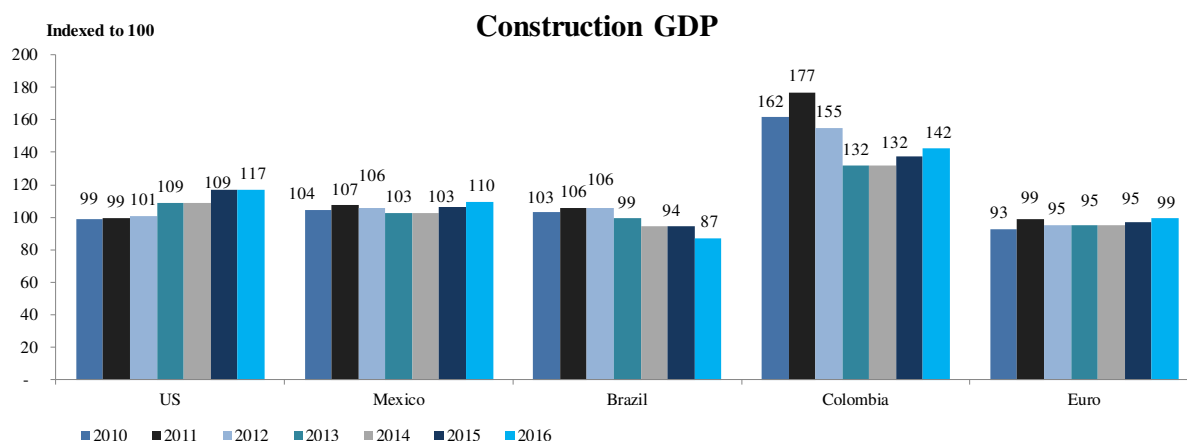
Rank	Company	Production Capacity (in thousands of metric tons)	Market Share %
1	SHINTECH	3,753	6.8%
2	FPC	3,307	6.0%
3	Inovyn	2,195	4.0%
4	Westlake	2,070	3.8%
5	Mexichem	1,812	3.3%
6	Oxy	1,683	3.1%
7	Xinjiang Zhongtai	1,510	2.7%
8	Xinjiang Tianye Group	1,500	2.7%
9	LG Chem	1,300	2.4%
10	Beiyuan Chemical	1,100	2.0%
11	Kem One	881	1.6%
12	Hanwha Chemical	875	1.6%
13	Vynova	820	1.5%
14	Axiall Corporation	803	1.5%
15	Tianjin Dagu	800	1.5%
16	Reliance Industries	750	1.4%
17	Braskem	719	1.3%
18	Junzheng Technology	700	1.3%
19	Hebei Jinniu Chem.	630	1.1%
20	Chiping Xinfu	600	1.1%
21	Thai Plastic	567	1.0%
22	Taiyo Vinyl	563	1.0%
23	Asahimas Chemical	550	1.0%
24	Yibin Tianyuan	550	1.0%
25	Solvay Indupa	531	1.0%
26	Haohua Yuhang	500	0.9%
27	Inner Mongolia Yili	500	0.9%
28	Kaneka Corp	460	0.8%
29	Sanyou Chemical	460	0.8%
30	Anhui Huasu	460	0.8%
31	Hengtong Lianchuang	450	0.8%
32	Taiwan Liancheng	450	0.8%
33	Ibn Hayyan	406	0.7%
34	Qingdao Haijing	400	0.7%
35	Inner Mongolia Dongxing Chem	400	0.7%

36	Qinghai Yihua Chem.	400	0.7%
37	Baotou Haipingmian	400	0.7%
38	Inner Mongolia Lantai	400	0.7%
39	Inner Mongolia Yihua	400	0.7%
40	Dezhou Shihua	400	0.7%
41	BorsodChem	400	0.7%
42	Erdos Power & Metal.	400	0.7%
43	CGPC	390	0.7%
44	Jinwei Chemical	370	0.7%
45	Chemplast	365	0.7%
	Others	16,190	29.3%
Total		55,170	100.0%

Source: HIS and Company Data

The plastic pipe industry supplies plastic pipes, fittings and related products for a variety of applications in the industry has several applications in plastic pipes and related products for commercial construction, infrastructure and telecommunications. The main inputs are PVC, medium and high-density polyethylene and polypropylene, used in the creation of several types and sizes of piping. The pipe demand is highly related with the GDP of construction and infrastructure and the penetration of digital telecommunications, industries in which a moderate and high growth is expected, respectively in the world in the next few years. In the developed economies and in Western Europe the activity of construction stabilized since 2009, the year with the greatest investment in the area, consequently the demand for construction materials is expected to maintain itself at stable levels. The demand in Western Europe represents around 10% of the global consumption and is mostly concentrated in profiles (30% of the total demand), followed by pipes and fittings. Additionally, plastic pipes can replace copper, concrete, reinforced concrete, and iron pipes.

Furthermore, PVC belongs to a cyclic industry linked to the behavior of the GDP. Because PVC demand is influenced by economic growth, the GDP is a strong indicator of the utilization factor of manufacturing plants. A solid GDP, compared to that of other countries, indicates a high utilization factor and, therefore, high PVC prices, and vice versa in the case of a low GDP. In mature and industrialized markets, the relationship between PVC demand and economic growth is practically direct, while in emerging countries, this relationship is multiplied by two in most cases, due to a higher growth potential than in industrialized countries.



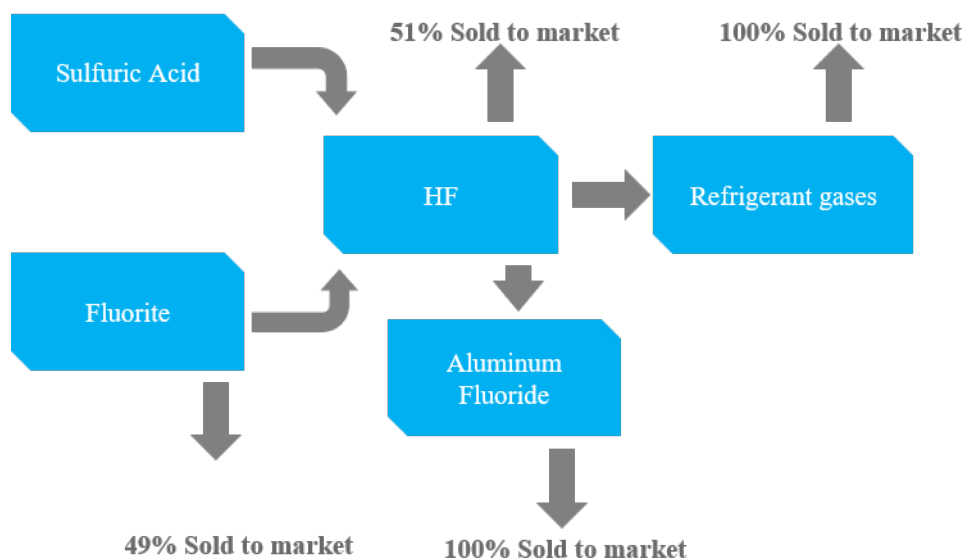
Fluorochemicals

The value chain of this business group is based on calcium fluoride, better known commercially as fluorite (and also as fluorspar when sold as a bulk material or in its processed form), a nonmetallic mineral that acts as a flux, among other applications.

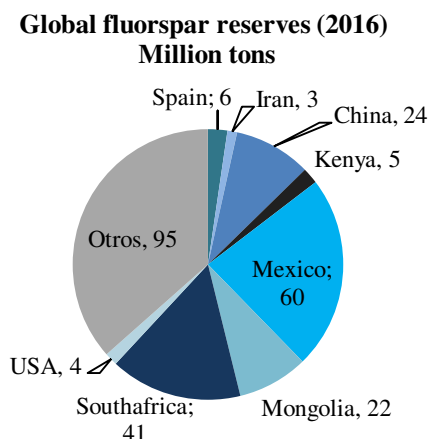
Fluorite, in its natural state, is used in the steel, cement, glass, and ceramic industries, generating important energy savings, among other benefits. This type of fluorite is called metallurgical-grade fluorspar.

Concentrated fluorite, without impurities, is known as acid-grade fluorspar and is used to produce hydrofluoric acid, which is obtained through chemical processes using sulfuric acid coming from sulfur. We compete with China, the main producer of hydrofluoric acid with approximately 45% of worldwide sales.

Hydrofluoric acid is mainly used in the manufacture of refrigerant gases for air conditioning systems, refrigerators, and freezers. It is also used as raw material in the production of gasoline and aluminum fluoride; for stainless steel pickling; in nuclear fuels; in the manufacture of integrated circuits; in the specialty plastics manufacturing industry, such as fluoropolymers, the most famous of which is Teflon®; and in the production of fluorinated salts, such as lithium fluoride, used in batteries. We are one of the main producers of hydrofluoric acid at world level.



The following chart shows the distribution of the world's fluorite reserves in 2016, which, according to the latest USGS publication, were of 240 million metric tons:

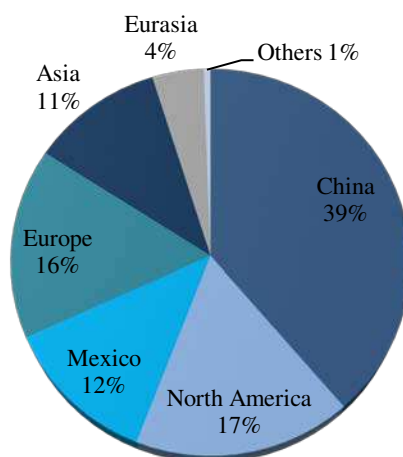


Source: USGS reports and Company data (2016)

We estimate that the global demand of Hydrofluoric Acid (HF) in 2016 was of 1.06 million tons. Of the before stated, the demand in Mexico, USA and Canada is of 376,000 tons.

The following chart shows the market share of HF in North America and globally, for a total production capacity of approximately 1.07 million metric tons.

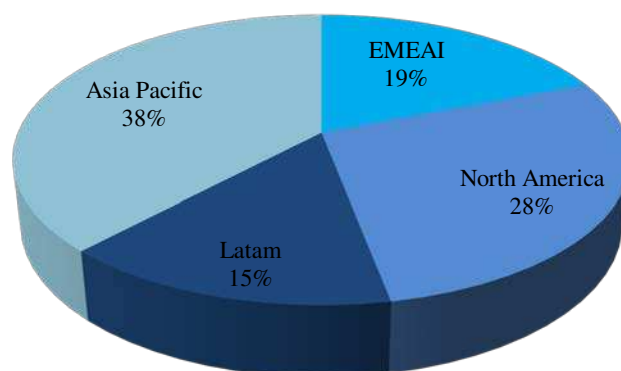
Global market share of HF (2015)



Source: Roskill Bi-annual reports (2016)

The following chart shows the global market share of HFC-134a refrigerant gas, for a total production capacity of 207,750 metric tons.

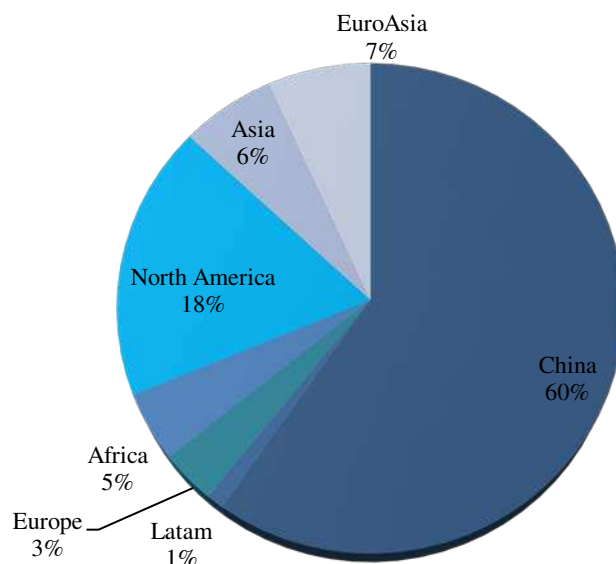
Global market share of R-134a refrigerant gas (2016)



Source: BSRIA report (2016)

In 2015, the worldwide production of fluorite was of 6.1 million metric tons, according to Roskill's estimations.

Global market share of fluorspar (2015)



Source: Roskill 2016 and internal analysis

In 2014, the leading country in fluorite production was China, with 39% of the annual world production. The rest of the world production is predominantly concentrated in Mexico, Mongolia, and South Africa, which together contributed an additional 33% to the world production in 2014.

Most of the acid-grade fluorite produced is used in the production of HF, required to produce fluorochemicals, followed by its use in aluminum production and steel manufacture. Between 2011 and 2016, fluorite consumption has decreased at world level.

We are the world's largest fluorite producer and have approximately 91% of the active production capacity in Mexico, which is equivalent to approximately 20% of the global annual demand for fluorite.

HF is the most important chemical derived from fluorite. China has the greatest HF production capacity worldwide, followed by North America and Western Europe.

Global production of hydrofluoric acid (in thousands of metric tons) in 2013 and 2015

	2015	2014	2013
China	414	420	438
North America	315	315	369
Europe	170	175	205
Asia.....	118	115	120
Rest of the world	52	49	51
Total	1,069	1074	1,183

Source: Roskill 2016

We are one of the world's largest producers of HF, with our production facilities located in Mexico. Dongyue is the second largest, with its production facilities located in China. Most of our production is exported to the United States, where it is used for the production of fluorocarbons and in other applications.

Although the smaller HF production plants in China have closed since 2011, there is still a significant overproduction of HF in that country. The production of the R22 hydrofluorocarbon increased rapidly in China between 2007 and 2012, leading to an increase in its production of fluoropolymers, especially polytetrafluoroethylene, which uses R22 hydrofluorocarbon as raw material. The production of other fluorocarbons in China has also increased rapidly between 2008 and 2016.

BUSINESS

Mexichem

We are a leading supplier of products and solutions in multiple sectors, from petrochemical to construction, infrastructure, agricultural, health, transportation, telecommunications and energy, among others, through a group of companies located in the American and European continents, as well as in some Asian and African countries. We are one of the leading producers of plastic pipes and fittings worldwide and one of the leading chemical and petrochemical companies of Latin America.

In the year ended December 31, 2016, we generated US\$5,350 million in sales and employed more than 18,000 people in more than 37 countries where we operate 120 production plants, concessions for the exploitation of two Fluorite mines in Mexico, eight formation academies and 15 research and development laboratories.

We have a business model based on vertical integration and strategic acquisitions through which we have direct access to raw materials employing proprietary technology, enabling us to compete in a global environment. As a result, we supply a wide range of value-added raw materials and finished products that contribute to the success of our customers and to improving quality of life.

Our operations comprise two value chains, which are divided into three business groups. The Ethylene chain includes the Vinyl and Fluent Business Groups and the Fluor chain includes the Fluor Business Group. We also recently created the Mexichem Energy Business Unit. Our strategic position focuses mainly on the chemical sector, as well as in the production and sale of value added products to final clients through the above mentioned two value chains as well as our Energy Business Unit.

In the Ethylene chain, according to data published by IHS, we are the leading producer of PVC resins and one of the largest manufacturers of plastic pipes and fittings in the world, as well as one of the largest producers of Chlorine and Caustic Soda in Latin America. Since 2014 and as of the year ended December 31, 2016, we are the sole European producer of high-impact suspension PVC (HIS-PVC) resins and the global leader in high-density polyethylene (HDPE) products as solutions for conduits and pipes for telecommunication systems and gas pressure piping systems.

Our Fluor Business Group has the largest worldwide production capacity for hydrofluoric acid and the world's largest fluorite mine according to Roskill, making us the sole fully-integrated producer of refrigerants in the Americas.

Our principal products include Chlorine, Caustic Soda, Ethylene, vinyl chloride monomer (VCM), polyvinyl chloride (PVC) resins and Compounds, Fluorite, fluor compounds, hydrofluoric acid, refrigerants, and propellants, as well as PVC, polyethylene (PE), polypropylene (PP) and HDPE pipes and fittings, and geosynthetics, which are widely used in the construction, housing, infrastructure, agriculture, potable water, sewage, irrigation, automotive, medical and air conditioning industries.

In 2016, we had an approximate 30% market share in the sale of PVC resin and pipes in Latin America, based on IHS reports with respect to foreign commerce information supplied by ANIQ and on market research studies performed by us. Additionally, in accordance with information from different publications, such as IHS WVA, IHS Chlor/Alkali Market Report SRI and market research studies performed by us, we have a leading position in PVC Resin sales in several European countries.

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, the Netherlands and Poland. In 2016, 2015 and 2014, our consolidated net sales, excluding intracompany sales, were US\$5.3 billion, US\$5.6 billion and US\$5.5 billion, respectively, with annual decreases of 5% in 2016 and an increase of 2% in 2015. Our EBITDA for 2016, 2015 and 2014 was US\$884 million, US\$910 million and US\$818 million, respectively, and our Adjusted EBITDA for 2016 was US\$926 million.

In recent years, we have secured a strong competitive position and market share throughout the Latin American, North American, European, African and Asian markets, both as a result of organic growth as well as acquisitions focused on expanding and vertically integrating our production processes. At the end of 2016, we were chosen as a

member of the FTSE4Good Sustainability Index in its first edition, after having demonstrated strong environmental, social and corporate governance practices.

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: (1) produce specialized products with higher margins, thereby reducing the volatility of the raw materials we produce, (2) manage the production of our raw materials directly and (3) reduce our operating costs and improve our margins. We have proven experience in integrating and operating acquired companies. In 2014, we signed agreements to acquire Vestolit, a specialty resin producer based in Germany, with an annual resin production 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. Also in 2014, a consortium formed by us, Enesa Energía, S.A. de C.V., and Invenergy Clean Power, LLC was selected by *MGC Cactus, S.A.P.I. de C.V.*, a subsidiary company of *Pemex Transformación Industrial*, to develop a cogeneration power plant. The project seeks to take advantage of the potential of the Cactus gas processing complex to generate electric and steam thermal power with a high level of efficiency and reliability, at a cogeneration power plant to be constructed together with its associated power transmission system. At the end of 2014 Mexichem UK, Ltd. acquired from *E.I. du Pont de Nemours and Company* exclusive rights at world level for the distribution and sale of pharmaceutical-grade hydrofluorocarbon HFC-227ea/P in the regulated medical and pharmaceutical market for medical propellants. In 2016, we acquired 100% of the shares of Vinyl Compounds Holdings (VCHL), a leading U.K. based technical PVC Compounds manufacturer serving a broad range of industries, including building and construction, pipe and profile manufacturers, footwear and consumer goods and we acquired 100% shares of Gravenhurst Plastic, Inc., a private Canadian plastic pipe manufacturer located in Ontario.

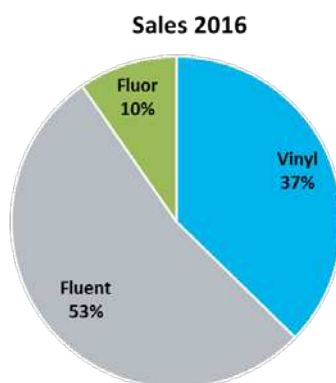
Our operations by value chain are the following:

- **Ethylene chain (Ethylene).** Ethylene is the main raw material to produce PVC resins and, consequently, with the start of operations of Ingleside, we will continue the process of vertical integration within the Vinyl and Fluent Business Groups, supporting a fully integrated production chain, from salt extraction to the production of PVC pipes, connections, water tanks, and more. This chain is integrated through the following business groups:
- **Vinyl Business Group.** This business group consists of six manufacturing processes: (1) the chlorine-Caustic Soda process, which produces Chlorine, Caustic Soda, sodium hypochlorite, hydrochloric acid, and phosphates; (2) the production of Ethylene; (3) VCM (until April 20, 2016); (4) the vinyl process, which produces PVC resins; (5) the plasticizer process, which produces Phthalic Anhydride and plasticizers used in the processing of PVC resins; and (6) the Compound process, which produces PVC and non-PVC Compounds used in different processes to manufacture finished products, such as pipes and fittings, connectors, cables, products for medical applications, synthetic leather, window frames, and specialty resins used for floorings, wallpaper, and coatings, among others. The Vinyl Business Group had net sales of US\$2,032 million in 2016, US\$2,140 million in 2015 and of US\$1,908 million in 2014, representing approximately 37%, 37% and 33% of our total sales (before revenues of the holding company and eliminations) in 2016, 2015 and 2014, respectively. We hold the concession rights to a salt dome in Mexico with possible reserves for more than 30 years and operate modern facilities for the production of Chlorine, Caustic Soda, and PVC resins and Compounds. We are the sole European producer of HIS-PVC resins, the second largest producer of specialty resins and the fourth largest producer of PVC resins worldwide.
- **Fluent Business Group.** The Fluent Business Group produces PVC, polyethylene and polypropylene pipes, connectors, and fittings, as well as geosynthetics and geotextiles. These products are used in irrigation, drinking water, and sewage systems, surface heating and cooling systems and water treatment systems, including underground systems, waste, gas, and telecommunication applications. The Fluent Business Group had net sales of US\$2,892 million in 2016, US\$3,027 million in 2015 and US\$3,194 million in 2014 (before revenues of the holding company and eliminations), representing approximately 53%, 52% and 56% of our total sales (before revenues of the holding company and eliminations) in 2016, 2015 and 2014, respectively.
- **Fluor Chain /Fluor Business Group.** This business group's operations consist of three processes: (1) the fluorspar process, consisting of the extraction of fluorspar, which is used in the cement, steel, ceramics, and glass industries and to produce hydrofluoric acid and aluminum fluoride, among other products; (2) the hydrofluoric acid and aluminum fluoride process; and, (3) the refrigerant gas process. The Fluor Business Group includes the mining concession in the world's largest fluorite mine, with an installed production

capacity of approximately 1.9 million mtpy, representing approximately 20% of the world's annual demand for fluorspar, and with proven reserves for 40 years, according to estimations made by experts certified by the Mining and Metallurgical Society of America. The Fluor Business Group's net sales reached US\$583 million, US\$608 million and US\$637 million in 2016, 2015 and 2014 respectively, representing approximately 11% of our total sales in each of 2016, 2015 and 2014 (before revenues of the holding company and eliminations).

The following chart shows a breakdown of the total sales revenue by business group as of December 31, 2016, excluding revenues of the holding company and eliminations:

The sales of each business group during the last three fiscal years were as follows:

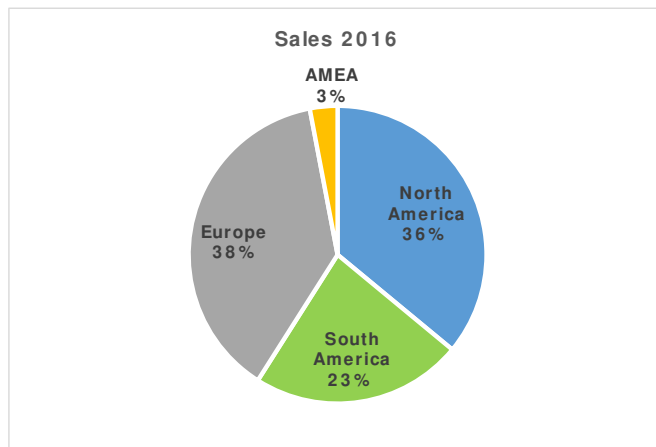


Business Group / Unit	For the year ended December 31,			For the year ended December 31,		
	Sales Volume ⁽¹⁾			Revenues ⁽²⁾		
	2016	2015	2014	2016	2015	2014
Vinyl.....	2.474	2.541	1.865	2,032	2,140	1,908
Fluent.....	1.074	1.140	1.013	2,892	3,027	3,194
Fluor	0.903	0.919	1.021	583	608	637
Energy	-	-	-	2	-	-
Intercompany and holding	(0.190)	(0.180)	(0.203)	(159)	(162)	(225)
Total sales	4.261	4.420	3.696	5,350	5,613	5,514

(1) Million tons

(2) In millions of U.S. dollars

The following chart shows a breakdown of the total sales revenue by region as of December 31, 2016:



The following table sets forth our principal products sold in 2016, together with our market position for each of these products by country.

Country/Region	Product	Position
Argentina.....	Pipe	2
Baltics ⁽¹⁾	Pipe	2
Belgium.....	Pipe	1
Brazil.....	Pipe	2
Colombia.....	Pipe	1
Costa Rica.....	Pipe	1
Czech Republic.....	Pipe	1
Denmark.....	Pipe	1
Ecuador.....	Pipe	1
El Salvador.....	Pipe	1
France.....	Pipe	2
Germany.....	Pipe	3
Guatemala.....	Pipe	1
Honduras.....	Pipe	1
Hungary.....	Pipe	1
Italy.....	Pipe	3
Mexico.....	Pipe	1
Netherlands.....	Pipe	1
Nicaragua.....	Pipe	1
Norway.....	Pipe	2
Panama.....	Pipe	2
Peru.....	Pipe	1
Poland.....	Pipe	1
Sweden.....	Pipe	3
Turkey.....	Pipe	5
United Kingdom.....	Pipe	2
Venezuela.....	Pipe	2
Fluor Business Group		
United States.....	Fluorspar (acid grade)	1
United States.....	Fluorspar (metallurgic)	1
United States.....	Fluorocarbons (134a)	1
United States.....	Hydrofluoric Acid	4
Mexico.....	Fluorspar	1
United Kingdom.....	Fluorocarbons	1
United Kingdom.....	Fluorocarbons (134a)	1
Canada.....	Fluorite (metspar)	1
Canada.....	Fluorite (acid spar)	1
Japan.....	Fluorocarbons (134a)	1
Japan.....	Fluorocarbons	2
Japan.....	Fluorite (metspar)	1
Vinyl Business Group		
Germany.....	PVC Resin	2
United States.....	Compounds	7
Mexico.....	Chlorine	1
Mexico.....	Compounds	1
Mexico.....	PVC Resin	1
Mexico.....	Caustic Soda	1
Colombia.....	Compounds	1
Colombia.....	PVC Resin	1

(1) Includes Estonia, Latvia and Lithuania.

Source: IHS, IHS Chlor-Alkali market report, SRI and Company Data.

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 a leader in the markets where we participate, focused on a strategy oriented towards low-cost production through constant investment in our own technology and in state-of-the-art technologies; integration of our basic raw

materials in our two main production chains; achieving synergies in logistics, purchases, systems, treasury, human resources, etc.; and developing and implementing projects in a constant, cost-effective manner.

We have recently acquired new companies, established new businesses or formed joint ventures with various companies to 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 September 19, 2014, we acquired Dura-Line from CHS. Based in Knoxville, Tennessee, Dura-Line is a global leader in HDPE conduit and duct solutions for voice and data telecommunications, as well as for the energy and infrastructure industries. Dura-Line has manufacturing facilities in the U.S., Mexico, India, Oman, Europe and South Africa. The acquisition of Dura-Line allowed us to advance our strategy to become a global, vertically-integrated company, focused on high-value specialty products and solutions. Dura-Line offers its products through two well-positioned brands: FuturePath and PolyPipe. The acquisition was completed for US\$630 million, including assumed liabilities.
- **Acquisition of Vestolit:** On December 1, 2014, we acquired 100% of the shares of Vesto PVC Holding G, the sixth largest PVC producer in Europe. The VESTOLIT manufacturing facility is located in Marl, Germany. Vestolit is the sole European producer of HIPS-PVC resins, which is used to manufacture weather resistant windows, and one of the largest European producers of PVC paste, which is used for automobile chassis coatings, lady's handbags, plastic containers, flooring, and wallpaper. Vestolit also produces Chlorine-Alkali, emulsion and suspension PVC, microsuspension PVC and window compounds. The acquisition was completed for €219 million, including assumed liabilities.
- **License for the distribution and sale of pharmaceutical-grade HFC-227ea/P:** On December 31, 2014, Mexichem UK, Ltd. (belonging to the Fluor Business Group), acquired a license from E.I. DuPont de Nemours and Company for the distribution and sale of pharmaceutical-grade hydrofluorocarbon HFC-227ea/P, a propellant used in medical applications. This business transaction supports our strategy to focus on global growth by participating in the specialty product markets. The acquisition price was US\$4.1 million and was financed with cash generated from operations.
- **New manufacturing plant in Hyderabad, India:** On May 12, 2015, we inaugurated a new manufacturing plant in Hyderabad, India. This new plant produces conduits and high-pressure pipes for the water and gas transportation and voice and data telecommunications markets. This plant is our fourth manufacturing facility in India, with two other plants located in Goa and another one in Neemrana, near Delhi. The strategic location of the Hyderabad plant in southern India allows us to export products to Southeast Asia, serve customers in the southern region of India and capture new business opportunities in the region. The opening of this plant forms part of our ongoing strategy to become a global company, vertically integrated and focused on specialty products and solutions.
- **Acquisition of Gravenhurst Plastic:** On October 18, 2016, we announced the acquisition of Gravenhurst Plastics Ltd. (GPL), in Temiskaming, Ontario, Canada with the purpose of reinforcing the global growth model in added value specialty products. GPL provides HDPE pipes and fittings and fiber optic piping, as well as construction products within the Canadian market. The transaction was consolidated in the Fluent Business Group within the Ethylene Chain and had a value of US\$13 million paid in cash.
- **Acquisition of Vinyl Compounds:** On November 25, 2016, we announced the acquisition in the United Kingdom of 100% of the shares of Vinyl Compounds Holdings Ltd. (VCHL), leading supplier of PVC Compounds which serves a broad spectrum of industries including: building and construction, piping and profiles manufacturing, footwear and consumer products. Our manufacturer of PVC compounds is located in Derbyshire, and annually generates revenue of approximately US\$40 million. We consolidated VCHL's operations under its Compounds Business Unit, leading supplier of PVC Compounds serving the global market and is a part of the Vinyl Business Group within the Ethylene Chain. This acquisition enabled further vertical integration of our Compounds Business unit through stabilizer technologies and recycled PVC capabilities. This transaction had a value of £24 million, paid in cash, equivalent to approximately US\$30 million.
- **Joint Venture with Oxychem.** As of December 31, 2016, the joint venture formalized on October 31, 2013 between Mexichem and Occidental Chemical Corporation (OxyChem) denominated Ingleside Ethylene LLC

with an equal participation to build an Ethylene cracker with an annual capacity of 1,200 million pounds (550 thousand tons), represented a total investment of US\$1,376. So far in 2017, this investment has increased by US\$77 million, reaching a total investment of US\$1,453 million as of June 30, 2017. This investment is located within the OxyChem facilities in Ingleside, Texas, and it will employ the ducts and storage system located in Markham, Texas. The joint venture is consolidated in our financial statements and is reported as part of the Vinyl Business Group within the Ethylene Chain. On February 27, 2017, Ingleside Ethylene LLC announced that the Ethylene cracker within the OxyChem complex located in Ingleside, Texas, initiated operations on time and within budget. Consequently, the production is at this time in a stabilization period.

Leading position in Latin American and European PVC and plastic pipe markets, with strong growth prospects and indisputable global leadership within the Fluor Business Group.

We are one of the largest producer of plastic pipes in Europe and Latin America and the fifth largest producer of PVC resin in the world. We believe that the primary markets for these products, the infrastructure and construction industries, may experience sustained growth over the coming years. In 2016, net sales to third parties by origin and by geographical area were primarily concentrated in Europe, Mexico, the United States, Colombia, and Brazil, representing 38%, 20%, 16%, 9%, and 6%, respectively. Although Mexico represents 20% of total sales, of these sales, 43% are exports, representing 8.5% of our total sales (with exports to the United States making up only 3.6% of our total sales), and the remaining 57% are sales made within Mexico. 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, China, the United Kingdom and, starting September 2014, in the Middle East (Oman) and Africa (South Africa). The emerging markets in which we sell the main products from the Vinyl Business Group enjoy attractive infrastructure and construction growth prospects and are characterized by significant housing deficits, insufficient infrastructure, lack of access to water, sanitation and electric power, etc. We expect that there will be continued demand for PVC and Caustic Soda in coming years which, according to IHS, based on an expected growth of the global construction sector, estimated at a weighted-average rate of 3.2% for the 2016-2021 period.

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 main 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 26 acquisitions (for an aggregate of 82 acquired companies) since 2003. See “—Recent acquisitions.” The acquisitions we completed in 2014 contributed US\$214 million and US\$13 million to net sales and EBITDA, respectively, which represented 3.9% and 1.6% of our total net sales and EBITDA, respectively, for 2014. We did not make any new acquisitions in 2015. The acquisitions concluded in 2016, which were intended and achieved to emphasize our vertical integration, contributed US\$7 million and US\$0.3 million to 2016 net sales and EBITDA, respectively, that represents approximately less than 1% of total net sales and EBITDA in the period.

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, 2016, we have invested over US\$4.5 billion in acquisitions.

Experienced management team with significant industry experience.

A significant part of our senior management team has meaningful experience in leadership positions in top-level global companies, with careers averaging over ten year in similar industries and more than 20 year of professional experience. 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 our main domestic and foreign customers and suppliers, ensuring a sustainable development. In turn we have been able to establish, according to our growth potential and size, the market segments in which we wish to operate. Through this agreement scheme, we have positioned ourselves with strategic customers that operate in markets with high growth potential, providing us a competitive and different advantage difficult to be matched by our competitors.

We operate under a long-term supply agreement with OxyChem and in 2013 we entered into a joint venture with Pemex Etileno (previously Pemex Petroquímica) in PMV for the procurement of VCM, which we use to make PVC. Since April 20, 2016, we have stopped the production of VCM due to an explosion that occurred in PMV's VCM plant inside the Pajaritos Petrochemical Complex. Though we believe that the arrangement with OxyChem provides 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 estimations made by the Mining and Metallurgical Society of America and, with the acquisition of FDM, we have increased our potential reserves of the highest purity fluorspar, (2) have one of the largest HF production capacity in the world according to the latest survey conducted by Roskill in 2014 and updated in 2016, (3) have established strong relationships with key market participants, (4) have become the world leader in the fluorchemical segment, especially in the production of refrigerant gas, and (5) maintain proximity to the U.S. fluorocarbons market.

The Fluor Business Group operates through long-term contracts denominated in U.S. dollars with international customers for the supply of acid-grade fluorspar. 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 Vinyl Business Group 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 Fluent Business Group.

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, Veracruz, Mexico, which in addition to further reducing costs, provides us reliable access to export markets. Our Mexican 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 fluorspar market in the world. In addition, a significant portion of our Fluent business production facilities are located within a reasonable distance of our PVC resin plants allowing us to capture incremental vertical integration economies of scale. Since 2014 and until 2016, we invested close to US\$500 million to build and improve our plants, property and equipment. The EBITDA margin reported and adjusted at the termination of the 2016 fiscal year was 16.5% and 17.3%, exhibiting an increase of 30 bps and 109 bps, respectively, compared with 2015.

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 15 research centers in Mexico, the United States, the Netherlands, Italy, India, the Czech Republic, 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 fluorspar has allowed us to optimize the HF cost of production. We also have proprietary technology for the production of PVC resins, PVC pipes, PVC Compounds, and plasticizers. These technologies allow us to produce unique pipes, meeting the requirements of most infrastructure projects and a high-purity HF that provides competitive advantages. Additionally, after we acquired Wavin (now Fluent Europe), we gained access to new technologies and products developed by them, with which we already had technology transfer agreements. In total, we have over 500 proprietary 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:

Our global growth model

During the first half of 2016, we completed the strategic analysis of our new organic growth model. This led to a list of geographical priorities by product, which enabled us to establish an action plan for the coming years. We started a pilot program in Brazil, Colombia, United States, India and Turkey, among others, to maximize the use of the capabilities that we already have in those countries. Different categories of products from the three business groups have been identified for the purpose of cross selling in the existing platforms in these countries, thereby maximizing the assets and the expertise required to develop the business. Additionally, we have adopted a stricter discipline with respect to the decisions to invest in all the organic as well as inorganic projects, by utilizing a capital allocation model, in which risks mitigations, alignment to our strategy, global and local growth potential, profitability and operative capacity are included as a first filter.

A continued focus on highly efficient operations, reduction of volatility through vertical integration, and improvement of profitability by optimizing resources.

Our vertical integration strategy seeks to reduce exposure to any price volatility of the main raw materials we produce. The Fluor Business Group is 100% vertically integrated, from fluorspar exploitation to refrigerant gas production. In addition, since February 2017, the Vinyl Business Group has been engaged in the process of integrating into the Ethylene chain and, in this manner, is intended to achieve the greatest possible integration, from salt extraction to PVC production, which, once completed, will allow us to improve profitability through better cost management. Furthermore, our fundamental approach is aimed at improving the return on the capital invested in the organization, with its current assets and operations.

A continued focus on specialties and high value-added products.

We will continue to focus on developing and complementing our portfolio with value-added products. We have developed a “last-line” process for the purification of the fluorspar extracted from the mine, at a significantly lower cost, with the purpose of manufacturing HF, which is generally sold at ten times the price of fluorspar. Additionally, the acquisition of Wavin and of the specialty PVC-resin assets of PolyOne in the United States, as well as the recent acquisitions of Dura-Line, Vestolit, Vinyl Compounds and Gravenhurst, form part of our strategy to continue integrating products with higher value added through strategic acquisitions.

We will continue to use our competitive advantage to develop new and advanced production processes in our 15 research and development centers. Likewise, these centers develop new products based on the needs of the customers, making them available through an extensive distribution network in their different markets. We will also continue developing and implementing proprietary technologies and processes that will generate significant benefits for us and for the industry in general. For example, we hold a proprietary technology for the production of PVC resins, PVC pipes, compounds, plasticizers, and HF purification. These technologies allow us to produce unique pipes meeting the requirements of most infrastructure projects and a high-purity HF that provides competitive advantages. We have also developed solutions based on fluorspar compounds for the cement industry, which allow the optimization of the clinker production process, which not only results in economic benefits but also contributes to environmental protection by reducing CO₂ emissions.

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.

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 2.0x. We have also secured liquidity through a revolving credit line of up to US\$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 26 acquisitions of 82 companies since 2003 from different parts of the world, positioning us as leaders in different countries and regions through the integration of diverse companies, 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, and a strict adherence to our code of ethics, as part of this unified culture so that our employees are not only aware of our mission, vision, values and code of ethics, but so they may also apply them in their daily routines. Additionally, during 2015 we implemented our new corporate identity and our global brand-alignment policies.

Commit to safety, 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 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 we 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 “Application Level” (in 2016 the GRI modified its reporting guidelines) rating through 2016. In 2016 we were also chosen as a member of the FTSE4Good Sustainability Index, for having demonstrated strong environmental, social, and corporate governance practices.

We work to provide a safe place for our employees, visitors and contractors. We believe that all work-related accidents and illnesses are preventable, and have worked to unify the safety systems for our operations and to align them with the ISRS standard, which is a system for managing risk and controlling losses. The ISRS defines safety responsibilities and activities for leadership and management, planned inspections and maintenance, critical tasks, investigation of accidents and incidents, emergencies, knowledge and skills, personal protection equipment, industrial health and safety, changes in management or engineering, off-site communication and safety. The ISRS is comparable to the OHSAS 18001.

Proposed Acquisition of Netafim

On August 6, 2017, we entered into a share purchase agreement with Bluedrip S.a.r.l, Netafim Hatzerim Holdings, Cooperative Association Limited, Megalron—Cooperative Association for Irrigation and Dripping, Ltd., Tamir Fishman Trusts 2004 Ltd., Tamir Fishman Employee Benefits Ltd., Tamir Fishman Asset Management Ltd., all of them as sellers (jointly, the “Sellers”) to acquire (1) 80% of the voting shares of capital stock of Netafim, Ltd. (“Netafim”), a global leader in smart irrigation solutions, (2) all non-voting shares, representing approximately 0.4% of the capital stock of Netafim, and (3) certain loans made to Netafim by some of its stockholders, including Bluedrip S.a.r.l, Netafim Hatzerim Holdings and Cooperative Association Limited (the “Acquisition”) for an aggregate purchase price of approximately US\$1,500 million (which will be determined at the closing of the transaction). The share purchase agreement was entered into by our subsidiary, Mexichem Soluciones Integrales Holding, S.A. de C.V. (“MSIH”) and Mexichem, S.A.B. de C.V. acted as guarantor. The proposed acquisition of Netafim, if consummated, is part of our growth strategy, giving us access to smart technology, which may be used in cooling and heating, water management, datacom, and other sectors. The Acquisition’s closing, as provided in the Share Purchase Agreement, is subject to several conditions precedent, among which the following are included (1) the obtainment of all the

authorizations, approvals and/or governmental consents required in several jurisdictions, including, the United States, Turkey, Germany, Ukraine, Russia, Ecuador, Brazil and Honduras and (2) the obtainment of the authorization from our stockholders meeting (which was obtained on August 30, 2017, with a total representation of 81.43% of the total outstanding shares, 98.28% of which voted in favor of the acquisition for a total of 80.02% of the total outstanding shares).

We believe that the acquisition of Netafim would be a transformational acquisition, which drives our strategy into specialty products and solutions, establishing us as a leading innovator in the high growth micro-irrigation market. By acquiring Netafim, we will become a leading developer of solutions to address food and water shortages, and respond to the need of increasing crop yields, and meet higher sustainability standards for fertilization. Netafim has a long history of being at the forefront in the creation of smart solutions in the irrigation market. This acquisition will give us access to this smart technology, which eventually may be used in heating and cooling, water management, datacom, and other sectors, offering a platform from which we may create smart industrial solutions around our existing production lines that attend the infrastructure, housing and datacom markets. We believe this acquisition will also strengthen our global footprint and presence in key growth markets, and will allow us to grow in the replacement market and to diversify and expand the end markets in which we sell our products.

Vinyl Business Group

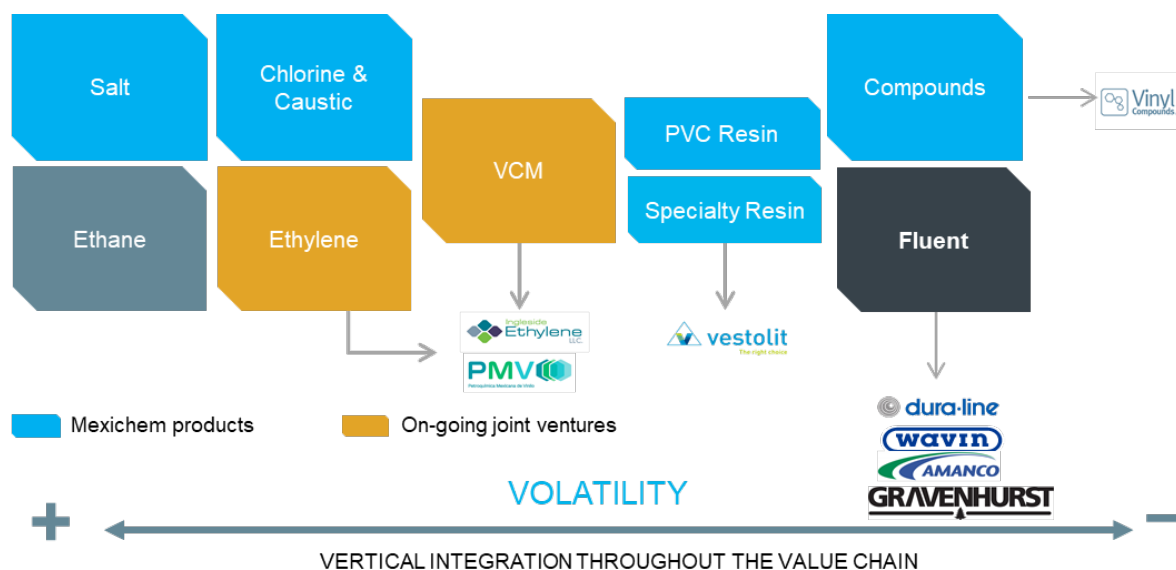
We extract salt, the base material for the operations of the Vinyl Business Group, by injecting water into the salt dome, converting the salt mass to brine, which is later decomposed into Chlorine and Caustic Soda by electrolysis. We use the Chlorine produced to combine it with Ethylene and obtain vinyl chloride monomer (VCM), which is then polymerized to produce polyvinyl chloride (PVC). At present, we obtain the VCM necessary to produce PVC mainly by acquiring it from OxyChem, as will continue to do in the future. Ingleside started operations in February of 2017, consequently the cost per ton of produced PVC has decreased significantly.

PVC is a versatile plastic that can be used in uncountable applications for everyday use, such as: pipes for conveying drinking and irrigation water; coatings for electric conductor cables; profiles for windows, doors, façade sidings, or even entire houses; roof tiles; floorings; upholstery; parts for automobiles and home appliances; clothing and footwear; containers and packaging; medical devices; adhesive tapes; and many other products.

The Vinyl Business Group also produces PVC compounds, especially formulated according to customers' particular requirements that transform this polymer into end-use products. PVC compounds incorporate the different additives needed to process vinyl resins and to obtain the functional properties required for each application. PVC resins can be combined with other additives to manufacture value-added products such as compounds, pipes, and coatings.

In addition to what is shown in the following chart, the Vinyl Business Group produces and sells sub-products derived from the production of Chlorine and Caustic Soda:

The Vinyl Business Group comprises 21 production sites with 35 plants (not including the co-investment projects), operating in Mexico, Colombia, United States, United Kingdom, and Germany. These facilities are engaged in the production of PVC and specialty resins, compounds, VCM, and diverse by-products such as Chlorine and Caustic Soda. Sixteen out of 35 sites comply with ISO 9001 quality management systems standards, eleven of them are certified under ISO 14001 environmental management systems standards, and three of them are certified under OHSAS 18001 standards on occupational health and safety management systems. These production plants also form part of an initiative of the global chemical industry known as "Responsible Care", whereby chemical manufacturers are committed to comply with strict safety, health, and environmental protection standards throughout their manufacturing lifecycle.



Our Vinyl Business Group 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, and as of the first quarter of 2016, 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;
- Mexichem Specialty Resins (before AlphaGary Corporation and AlphaGary Ltd.), compound manufacturers;
- Vestolit GmbH, producer of Chlorine, Caustic Soda, HIS-PVC resins, emulsion-PVC, microsuspension-PVC, window compounds and PVC paste;
- Ingleside Ethylene, LLC, which will started producing Ethylene in the first quarter of 2017; and
- Vinyl Compounds Holdings Ltd. (VCHL), leading supplier of PVC compounds.

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

Sales

The following table shows the production and sales volumes of our Vinyl Business Group during 2016, 2015, 2014 and the six months ended June 30, 2017 and 2016.

Vinyl Business Group ⁽¹⁾	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
Volume (in thousands of tons)	1,284	1,261	2,474	2,541	1,865
Net sales ⁽²⁾	1,171	998	2,032	2,140	1,908

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

(2) In millions of dollars.

Vinyl Business Group	For the year ended December 31,					
	Sales volume ⁽¹⁾			Sales revenue ⁽²⁾		
	2016	2015	2014	2016	2015	2014
Chlorine.....	68	75	83	13	13	15
Caustic Soda	159	216	154	59	81	68
Sodium hypochlorite	162	153	128	16	17	16
Hydrochloric acid.....	32	36	39	5	7	8
Salt.....	40	67	68	2	2	2
Phosphates	43	43	55	51	51	64
Other products ⁽³⁾	63	92	86	32	61	58
Total for by-products.....	567	682	613	178	232	231
Resins ⁽⁴⁾	1,744	1,697	1,087	1,482	1,511	1,237
Compounds.....	212	213	221	424	457	510
Eliminations.....	(49)	(51)	(56)	(52)	(60)	(70)
Total of Vinyl Business Group	2,474	2,541	1,865	2,032	2,140	1,908

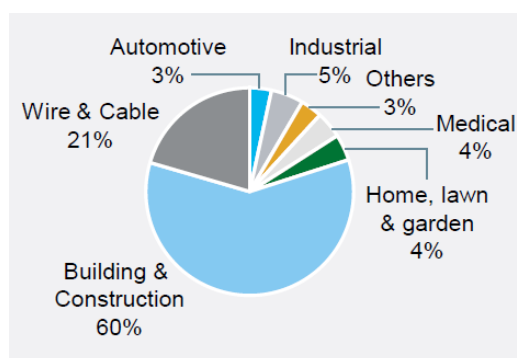
(1) In thousands of tons

(2) In millions of U.S. dollars

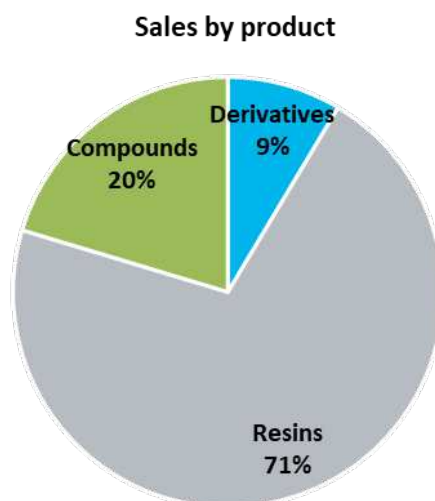
(3) Includes sales made by Mexichem Derivados Colombia, Ethylene and other products

(4) Includes Vinyl , Mexichem Specialty Resins and Vestolit.

Our Vinyl Business Group's products were sold in a variety of markets. The following chart shows our 2016 sales by market:



Additionally, the following chart shows 2016 sales by product:



Note: This information excludes inter-chain transactions within the same business group

Salt-chlorine-caustic soda-ethylene-VCM process

Products

We have plants for the salt-chlorine-caustic soda-ethylene-VCM process in Mexico, Colombia, and Germany, which produce Chlorine, Ethylene, Caustic Soda, sodium hypochlorite, and hydrochloric acid:

- ***Chlorine.*** It is mainly used for the manufacture of long useful-life products, such as VCM (raw material for PVC production); for the production of titanium dioxide (raw material for white color paints); for cellulose bleaching in the pulp and paper industry; for the production of agrochemicals; in water treatment and purification; and in the chemical industry in general.
- ***Caustic Soda.*** This chemical has an endless number of applications, mainly: production of oils, soaps, and detergents; ion-exchange resin regeneration for water treatment; washing of glass bottles; cellulose bleaching in the pulp and paper industry; production of refined sugar; dyeing of cotton fabrics; production of agrochemicals; processing of bovine and porcine skin, tissues, and bones to manufacture gelatin, a gelling agent used in the food, photography, and medicine industries; and manufacture of cleaning products in general, among others.
- ***Sodium hypochlorite.*** It is mainly used for the manufacture of liquid bleaches; as a sanitizing agent in general; in water treatment and purification; for the manufacture of industrial catalysts; and for de-inking and bleaching of paper, among other applications.
- ***Hydrochloric acid (HCl).*** It is used for the production of high-fructose corn syrup, used as a sweetener in the soft drink, candy, and beer brewing industries, and it is extensively used for drawing and pickling of metals. HCl is also used for the production of drugs in the pharmaceutical industry, and in the manufacture of pigments, coloring agents, and ferric chloride (used in the lithography industry), among other applications. HCl is also extensively used for the manufacture of plastics and rubbers and in the oil and ceramics industries.
- ***Ethylene.*** This is the most important product segment of the petrochemical industry. Ethylene is transformed into a great number of intermediate and end products, such as plastics, resins, fibers, elastomers –all of them polymers, being polyethylene (PE) and polyvinyl chloride (PVC) the most used–, solvents, coatings, plasticizers, and antifreezes.

- **Industrial and food-grade phosphates.** These phosphates are mainly used for the manufacture of detergents, fertilizers, animal feeds, ceramics, textiles, toothpastes, beverages, sausages and cold meats, and dairy products, as well as for bread making and in water treatment.
- **VCM.** Vinyl chloride monomer (VCM) is used almost entirely (96-98%) to manufacture PVC and PVC resins. VCM is a very versatile product, with applications in the medical sector, in the construction industry for cable coating, pipes, and rigid and flexible profiles, and in the toy industry.

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,					
	2016		2015		2014	
	Sales Volume ⁽¹⁾	Net Sales ⁽³⁾	Sales Volume ⁽¹⁾	Net Sales ⁽³⁾	Sales Volume ⁽¹⁾	Net Sales ⁽³⁾
Chlorine	68	13	75	13	83	15
Caustic Soda	159	59	216	81	154	68
Derivatives ⁽²⁾	340	106	391	139	375	149

(1) In thousands of tons.

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

(3) In millions of U.S. dollars.

Plants and mines

The following table shows the chlor-alkali manufacturing process' annual production in 2016, 2015 and 2014 by principal product and plant:

Plant/Product	Year ended December 31,		
	2016	2015	2014
Mexico			
Chlorine	68	75	83
Caustic Soda	159	216	154
Derivatives ⁽¹⁾	256	313	291
Mexichem Colombia			
Derivatives ⁽¹⁾	41	36	29
Quimir			
Phosphates	43	43	55

(1) Hypochlorite, hydrochloric acid and other.

For more information, see “—Property, plant and equipment.”

Raw materials

The main raw materials and inputs of the salt-chlorine-caustic soda-ethylene-VCM process are salt, electric power, and natural gas, which comprised approximately 19%, 64%, and 10%, respectively, of the sales costs of the Derivatives business unit in 2016.

These raw materials and inputs are supplied through long-term supply agreements, reviewed periodically, with, in the case of Mexico, the National Water Commission (*Comisión Nacional del Agua*), for water supply; the Federal Electric Power Commission (*Comisión Federal de Electricidad*), for electric power supply; and Pemex Transformación Industrial subsidiary for natural gas supply. In the case of Colombia, we have supply agreements with the water company of the city of Cartagena de Indias (*Aguas de Cartagena*), for water supply; the oil companies Ecopetrol and Chevron, for natural gas supply; and the electric power utility serving the Caribbean coast of Colombia (*Electrocaribe, S.A.*), for electric power supply.

Sales and distribution

We have long-term agreements with some customers and, to this end, has set up sales schemes that promote loyalty through volume discounts for purchases over specific periods of time. These long-term agreements represent approximately 85% of the Chlorine sales and 65% of the Caustic Soda sales, and include the use of a pricing formula based on reference prices in North America, as provided by IHS and ICIS.

The remaining volumes of Chlorine and Caustic Soda are sold in the spot market, at prices calculated by reference to the selling price prevailing at the time of the purchase. In Europe, 100% of the Chlorine produced is used for the production of VCM and the Caustic Soda is sold to third parties.

Main clients

Our Vinyl customers use our products to manufacture pipes and fittings, flexible and rigid profiles, upholstery, flexible and rigid films, bottles and containers, synthetic floorings, blinds, laminated polystyrene, toys, footwear, and medical articles, among others. The ten most important customers of this business unit represent 6.8% of our total sales, and its major customer represents 1.3% of our total sales. Therefore, there is no dependency on any one or several customers since the loss of said customers would not adversely affect our operating results or financial position.

Distribution agreements

The products obtained from the salt-chlorine-caustic soda-ethylene-VCM process are sold directly to the industries that use them as inputs to manufacture other products. Since the sales force at our own branches and distributors make all sales, there is no special sales method.

Cyclicality

We are the largest producer of PVC in Latin America, the fifth largest PVC producer worldwide, and the second largest producer of specialty resins worldwide. The PVC market is subject to significant fluctuations in both demand and price, which respond to growth or contraction in the global economy. Overall, on a global scale supply exceeds demand, with new production capacity being created in Asia, and great supply-demand balance in North America.

Competition

In our vinyl process, we work to vertically integrate our business to be competitive in the markets where we operate and to invest in projects aimed at ensuring the competitiveness of our products domestically and abroad.

The products we manufacture and market compete in global markets and, therefore, are subject to supply and demand trends in these markets. These trends affect producers' profit margins according to their production efficiency. Our vertical integration strategy has allowed us to supply a large percentage of the intermediate products needed for final processing, thereby reducing the impact of price fluctuations on our base products.

Our supply agreements and co-investment joint ventures with OxyChem and Pemex, and the acquisition of Policyd, an important resin producer in Mexico, have helped us achieve a strong position in the PVC market. Furthermore, with the acquisition of Vestolit in Europe, we have increased our portfolio of specialty custom-made products made with HIS-PVC resins. We are the sole producer with this technology in Europe and, with our current production capacity, are the world's second largest producer of specialty resins.

Our main competitors in the PVC markets of Latin America and Europe are Shintech, Inc., Formosa Plastics Corporation, OxyChem, Solvay SA, Braskem S.A., Petroquímica de Venezuela, Westlake, Inovyn, Kem One and Vinnova.

Vinyl manufacturing process

Products

The main products of the vinyl process are PVC resins and PVC compounds, used for the manufacture of flexible and rigid profiles and floorings for the construction industry, as well as upholstery, flexible and rigid films, bottles, containers, and footwear.

The vinyl process produces the following products:

- **PVC resins.** The end products manufactured with PVC resins are very diverse. The majority of PVC end products are destined to the construction sector, such as cable coatings, window frames, pipes for conveyance of drinking water and wastewater, toys, balls, containers, hoses, chairs, decoration articles, houses, and many more. Other PVC products have applications in the medical field, specifically blood and dialysis bags, and catheters.
- **PVC compounds.** These compounds are used for the manufacture of cables, flexible profiles, window frames, sliding closet doors, window blinds, computer circuit-board holders, purified water bottles, biaxially oriented PVC containers and packaging, and containers for edible oils, vinegar, detergents, cleaners, juices, sauces and ground coffee, among other end products. PVC compounds are also used for automotive applications, footwear injection molding, and injection molding of pipe fittings and similar items.

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

Product	Year ended December 31,					
	2016		2015		2014	
	Sales Volume ⁽¹⁾	Net Sales ⁽²⁾	Sales Volume ⁽¹⁾	Net Sales ⁽²⁾	Sales Volume ⁽¹⁾	Net Sales ⁽²⁾
Resins.....	1,744	1,482	1,697	1,511	1,087	1,237
Compounds.....	212	424	213	457	221	510

(1) In thousands of tons.

(2) In millions of U.S. dollars.

Plants

The following table shows our vinyl manufacturing process' production capacity and production output as of December 31, 2016, and annual production in 2016, 2015 and 2014, by principal product:

Product	Installed Capacity (thousands of tons)	Year ended December 31,		
		2016	2015	2014
		(sales volume in thousands of tons)		
Resins.....	1,812	1,744	1,697	1,087
Compounds.....	276	212	213	221

For more information, see “—Property, plant and equipment.”

Raw materials

The main raw material used in the Vinyl process is VCM, which in 2016 and 2015 represented approximately 72.7% and 69%, respectively, of the sales cost of this process. PMV's current installed production capacity is not sufficient to meet all our VCM needs and, therefore, continues purchasing VCM from third parties such as Axiall Corporation and OxyChem.

According to the installed production capacity of the Vinyl process at the end of 2016, we require more than 1.8 million metric tons of VCM for its plants (1.4 million tons in Latam Mexico and 0.4 in Europe). With the Ingleside's Ethylene cracker being concluded and in operation, it will produce VCM at a lower cost allowing it to maintain or improve its profit margins.

In the production plant in Europe (Germany), the most important raw material that is purchased from third parties is Ethylene, which is purchased by means of two supply agreements with effectiveness until 2019 and the prices are established on a monthly basis, while the salt is obtained from SGW, our subsidiary, and the electricity from Evonik Industries.

Sales and distribution

We maintain long-term agreements with our main clients, for this purpose it has established sales schemes that promote loyalty through discounts for volume acquired in specific periods. The long term agreements have a continuous renewal and contemplate the use of price formulas based on international references. Some of these references influence the price of the VCM, which allows us to maintain constant differentials between the price of VCM and the price of PVC for the duration of the cycles. On the other hand, these agreements give its clients adequate market conditions as well as competitive prices. Around 40-50% of the PVC Resins sales are made under this scheme. The remainder is sold in the Spot Market at the reference price at the time it is sold.

Fluent Business Group

This business group integrates our processes and products with most contact with the general public. Its most important products are PVC, polyethylene, and polypropylene pipes and fittings, as well as geosynthetics, manufactured and distributed throughout Latin America, Asia (India, China, and Australia), Africa (South Africa), the Middle East (Oman), Europe, and the United States, contributing to the life quality and development of millions of people.

The Fluent Business Group's operations are divided into three regional business units: Fluent LatAm, Fluent Europe, and Fluent US/AMEA. In each of the three regions, the brands and the marketing of the products and solutions are different, as described below.

We are the leader in Latin America and one of the leaders in Europe in the production and distribution of tubing, connections and plastic accessories for the conduction of fluids, mainly water and gas, as well as for the protection of electric conductors and fiber optics. The Fluent Business Group in LatAm and Europe is focused on the construction (housing and commercial) and infrastructure markets. Additionally, it has technical solutions with geosynthetics such as unwoven geotextiles, woven geotextiles, geomembranes and geomesh intended for the execution of civil, environmental and infrastructure constructions, as well as other products for the construction and other industries such as mining. Additionally, with the recent acquisition of Fluent US/AMEA (before Dura-Line), we have positioned ourselves as the global leader in the production of ducts and micro conductors of high density polyethylene (HDPE), which are applied mainly in tubing solutions for telecommunications (voice and data).

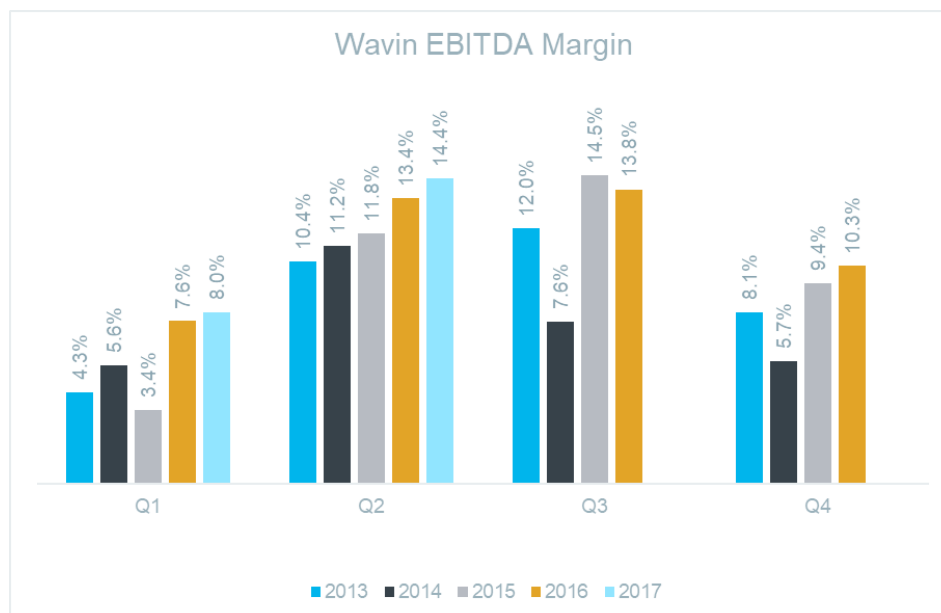
We provide solutions for agricultural, civil, and multidisciplinary project engineering relating to water handling, use, and control in the agriculture, livestock farming, and aquaculture areas. This allows us to provide the most extensive variety of solutions according to the needs of our customers.

Fluent LatAm: Through the main brands "Amanco", "Pavco", and "Plastigama", we are positioned as the largest producer of pipes, connectors, and fittings in Latin America. It has production plants located in 12 Latin American countries, including Mexico, presence in 24 countries and more than 50 thousand points of sale throughout the Latin American region. One of the main drivers for the pipe market, for both housing and infrastructure, is the construction industry.

Fluent Europe: We hold 100% of the shares of Wavin N.V. (Fluent Europe), one of the leading suppliers of plastic pipe systems and solutions in Europe. Fluent Europe's operations are based in Zolle, Holland, but extend to 28 European countries. Fluent Europe provides innovating systems and solutions to its customers under its main brand "Wavin", through a global network of distributors, plumbing supplies retailers, civil work contractors, housing developers, large installation contractors, public utilities, and municipalities. Customers are served at the points of sale and distribution located in 28 countries. Fluent Europe's products are supplied through its 29 manufacturing and assembly plants. Outside Europe, our systems and knowledge are delivered through a network of agents, licensees, and distributors

Fluent Europe incorporated new technologies and products into the portfolio of the Fluent Business Group, especially in the following fields of application: water conveyance and handling, using siphonic roof rainwater drains, rainwater filtration and attenuation units, and filters; surface heating and cooling, using ceiling heating and cooling systems and underfloor heating and cooling systems; and water treatment systems.

Synergies have been optimized in Fluent Europe's results, as a partial result of the restructuring in progress since 2013. As part of this restructuring process, Fluent Europe has closed more than 12 plants, without affecting its sales volume and improving its profitability and use of assets. In 2014, Fluent Europe announced the closing of a plant in the United Kingdom, in addition to the closures made in 2013. In 2015, Fluent Europe closed its operations in Romania and one of its manufacturing sites in Belgium. In 2016 two plants were closed, one in the United Kingdom and the other in Denmark. Wavin's EBITDA has grown on a quarter-by-quarter basis since 2013:



Fluent US/AMEA: On September 19, 2014, we completed the acquisition of Dura-Line (Fluent US/AMEA), based in Knoxville, Tennessee (USA). Fluent US/AMEA has 20 manufacturing plants in the United States, Mexico, India, Oman, Europe, and South Africa, and is the global leader in HDPE products for conduit, duct, and pressure pipe solutions. Fluent US/AMEA's customers are large North American corporations, as well as multinational companies that trust the high quality of the products and services provided by us. With this acquisition, we proceed with our strategy to consolidate ourselves as a global, vertically-integrated company, focused on specialty products and solutions. In 2015, Fluent US/AMEA opened two new manufacturing plants, one in Hyderabad, India and the other one in Clinton, Tennessee (USA). And on the other hand the plant in Middlesboro, Kentucky closed.

Sales

The following table shows the sales volume of the Fluent Business Group during the period from 2014 to 2016:

Fluent ⁽¹⁾	For the year ended December 31,		
	2016	2015	2014
Total sales (in millions of U.S. dollars).....	2,892	3,027	3,194

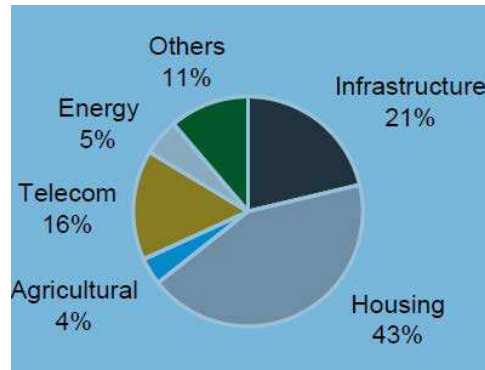
(1) These amounts have been adjusted only to eliminate transactions between the units of the business group (but not transactions between business groups)

The sales of this business group in the 2014-2016 period were as follows:

Fluent Business Group	Year ended December 31,		
	2016	2015	2014 ⁽¹⁾
	(in millions of Dollars)		
Total Fluent LatAm.....	1,075	1,172	1,473
Total Fluent Europe.....	1,268	1,310	1,581
Total Fluent US/AMEA.....	560	555	148
Inter-business units.....	(11)	(10)	(7)
Total Fluent	2,892	3,027	3,194

(1) Fluent US/AMEA (Dura-Line) started its consolidation in September 2014.

Our Fluent Business Group's products were sold in a variety of markets. The following chart shows our 2016 sales by market:



Products

Our Fluent Business Group specializes in the manufacture and marketing of ducts and conduits for protection of fiber optic, copper, and electrical cables for voice and data telecommunications, electric power, and cable television (CATV), as well as piping systems for water, sewage, drainage, and irrigation water conveyance and pressure pipes. The Fluent Business Group focuses on the following three large segments:

- Housing:** We produce PVC, polyethylene, and polypropylene piping systems of reduced environmental impact, available in sizes from 12 mm (½ inch) to 110 mm (4 inches), with solvent cement weld joints and a complete range of connectors, manufactured in conformance with ISO or ASTM standards and according to applicable local regulations. The applications of these piping systems include single-family houses, residential complexes, high-rise buildings, commercial buildings, hotels, swimming pools, garden watering, irrigation and drainage systems, and some industrial uses.
- We also produce hot water systems, providing a wide range of solutions for different types of works, in pipe diameters from 20 mm (½ inch) to 110 mm (4 inches), including PVC pipes for sanitary and ventilation systems and the recently introduced polypropylene solutions. Additionally, we supply a complete range of connectors and fittings in different diameters, standards, and colors, thus ensuring an excellent performance of our pipes, connectors, and fittings. These systems are available in two versions, the rigid pipes with solid walls and flexible pipes with corrugated walls. The extensive range of connectors allows their application in domestic, commercial, and industrial installations.
- Rainwater control is a necessity, not only to provide comfort when entering or leaving a house or building, but also to maintain the integrity of gardens and walls, preventing their deterioration or the staining of their coatings. PVC and other plastic pipes are manufactured in five different designs, for use in single-family houses to large industrial buildings. Their main characteristics are: resistant to ultraviolet (UV) radiation and corrosion, rubber mechanical joints that prevent deformations due to temperature differences, and maintenance-free. The "pipe system" concept seeks to provide integral solutions, for which it is essential to complete the plumbing systems with certain components that guarantee the same quality and useful life throughout the installation. To this end, we supply a wide range of siphons, siphon floor drains, and other accessories for plumbing installations inside houses and buildings.
- Construction:** We produce ductile biaxially oriented PVC for drinking-water conveyance piping applications, unique in Latin America due to the biaxial orientation of the PVC molecules, which generates a laminated or layered structure that significantly increases the mechanical resistance and strength of the pipes. Amanco's biaxial orientation technology provides smaller wall thicknesses, resulting in greater flexibility, less weight and easier handling, thus ensuring savings in installation costs and energy consumption in the operation of the systems. The "Novafort" technology is used to produce structured double-wall pipes for sewage and storm water pipes, with a smooth inner wall and a corrugated outer wall and an elastomeric seal joint, ensuring the watertightness of the joint and a quick installation, which prevents water leaks from the pipes, thus protecting the environment by ensuring that the conveyed waters do not infiltrate into the ground and eventually contaminate groundwater. The "Novafort" line pipe systems are

manufactured from inert material, guaranteeing an excellent resistance to the action of chemical substances and to the corrosive attack of impurities present in the water conveyed and in the soils on which the pipe systems are installed. PVC pipes are used as conduits for protection and routing of electrical and telephone wiring. HDPE pipes are used as conduits for fiber optic. Highly safe polyethylene (PE) pipe systems, with pipe diameters from ½ inch to 6 inches for pressures of 75 and 60 pounds per square inch (psi), are used as conduits for domestic-use natural gas.

- Through Fluent US/AMEA (formerly Dura-Line), we manufacture and markets specialty pipes and fittings for several infrastructure markets. Given the compaction of the product, these pipes have certain competitive advantages over wrought iron pipes and are used for both potable water and wastewater, providing a longer service life and lower leak rates. We manufacture pipes in sizes larger than 65 inches in diameter for underground applications, using a technology that allows the easy location of the pipeline from the ground surface. On the other hand, we manufacture and sell CableCon™ solutions for use in other infrastructure markets, such as electric lighting, engines for commercial agricultural machinery, and power distribution.
- **Telecommunications:** We manufacture highly-engineered ducts, conduits, micro conduits, and cable ducting solutions for voice and data telecommunication markets, and supplies multiple cable ducting solutions under the Dura-Line brand. The Silicore™ conduits have a rigid HDPE lining and a solid polymer jacket. These conduits have an outer jacket and a smooth slippery inner surface that eliminates the need for lubricants, reduces friction, and protects cables before, during, and after installation. The TornadoPlus™ conduit is especially designed to facilitate a better installation because it creates an air cushion tornado effect that allows installing the cables over larger distances. We are the leader in the development and manufacture of small diameter conduits. Silicore™, also known as solid slick lubricant lined conduit, is a micro conduit system for use primarily in broadband and telecommunications and cable TV applications. These patented solutions provide network flexibility through fiber optic installation, which allow expanding data networks without the need to increase the number of trenches dug.
- We have developed a new line of micro conduit solutions, designed to be used inside and outside of buildings to improve the network requirements of companies. Our technology provides wide-ranging solutions to meet future growth requirements with affordable installation costs. With its CableCon™ product, we are the leading supplier of conduit solutions in North America, based on volumes and sales. CableCon™ is a conduit system with fiber optic cable pre-installed in the conduit that reduces installation costs. The increase in the number of CableCon™ users has been achieved through a personalized production, custom-made according to their needs.
- We also sell an extensive range of fittings and accessories for the voice and data telecommunications sector and for cable TV and equipment installation, such as connectors and woven fiber-optic fabric tapes, designed to improve and make the installation of pipe and conduit solutions more efficient.

With the acquisition of Fluent US/AMEA (formerly Dura-Line) in September 2014, the Fluent Business Group incorporated new technologies and products, particularly the following items:

- Highly-engineered conduits, micro conduits, and cable ducting solutions for the voice and data telecommunications market.
- HDPE pipes and high-pressure pipes for the extraction, collection, and distribution of oil and natural gas.
- Highly specialized products for other infrastructure markets such as mining, potable water, irrigation water, and wastewater.

Plants

For more information, see “—Property, plant and equipment.”

Raw materials

The main raw materials used by the Fluent Business Group are PVC, polyethylene and polypropylene resins.

During 2016, PVC resins represented approximately 70% of the sales cost of the products of the Fluent LatAm Business Unit. This business unit buys 50% of its raw materials from American suppliers and from local suppliers in those countries where the logistics costs or customs duties make the PVC resin that we produce too expensive. Fluent LatAm obtains the remaining 50% of its raw materials from Mexichem Resinas Vinílicas, the PVC-resin subsidiary of the Vinyl Business Group, through its operations in Mexico and Colombia.

Additionally, Colombia and Brazil signed a free trade agreement that, as a consequence of the acquisition of Mexichem Resinas Colombia, has allowed us to make tax-exempt exports to Brazil, placing itself in a competitive position to distribute its products to the Andean and South American region from the PVC resin plant located in Colombia.

In the case of Fluent Europe, 50% of its raw materials are polyolefins: polyethylene (PE) and naphtha-based polypropylene (PP), while the Vinyl Business Group provides approximately 7% of the remaining 50% of the raw materials of Fluent Europe (virgin and recycled PVC resins).

The main raw material of Fluent US/AMEA's products is medium- and high-density polyethylene resin, whose price depends substantially on fluctuations in market conditions. A significant determinant factor in the price of resins is the price of oil, which routinely experiences volatility. This raw material is purchased from a limited number of local suppliers of the countries where Fluent US/AMEA operates, generally under supply agreements with duration of one to three years. We maintain long professional relationships, over 10 years in average, with regional suppliers of resins. In terms of prices, the supply agreements are based on the market prices of the region.

Sales and distribution

In the case of pipe sales, the Fluent Business Group has established a series of programs directed towards the different market sectors. This strategy results not only from an evaluation of consumers' profiles and needs, but also from new trends in distribution channels, increasingly influenced by large retailers.

The resulting strategy focuses on:

- Management of retailer networks to improve loyalty.
- Service innovation to provide advice and training support.
- Customized services for construction companies.
- Specialized sales force.
- Alliances for turnkey services with selected construction companies.
- Transparency in transactions and technical support to improve the productivity of our customers.
- Specialized services for access to credit and insurance.

Main clients

Our main clients for the products produced by our Fluent Business Group 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. The main customers of the Fluent Business Group belong to the infrastructure industry, divided into housing (self-build) and construction, including large and small construction companies, governments that carry out public works and telecommunications and energy companies.

Due to the large number of customers of this business group, Fluent LatAm's ten main customers represented 1.3% of our sales, because of Fluent LatAm's diversification and type of customers served. Meanwhile, Fluent Europe's ten main customers represented 10.6% of our sales. In the case of Fluent US/AMEA, its ten main customers represented 3.5% of our sales in 2016.

The Fluent Business Group's ten main customers represented 11.9% of our total sales, among which the largest customer represented 3.5%. Therefore, there is no dependency on any one or several customers since the loss of said customers would not adversely affect the operating results or financial position.

Distribution channels

The Fluent Business Group distributes its products, directly and indirectly, through more than 100,000 points of sale, including large construction companies and small retail stores.

Fluent LatAm distributes its products through more than 50,000 points of sale, mostly with a greater direct contact with the customers.

Fluent Europe operates mainly through indirect distribution, which means it delivers its products to wholesalers or to retailers that have a central storage facility and multiple retail stores. In total, Fluent Europe operates through approximately 65,000 points of sale, including direct distribution to sellers as well as to construction companies. Fluent Europe works in close collaboration with its network of distributors that covers all of Europe, to provide them a better service and a wide portfolio of solutions, thus achieving an effective management of the supply chain.

Fluent US/AMEA distributes its products to more than 2,200 customers, both directly and through distributors located in more than 50 countries, providing solutions and building long-lasting relationships with its customers.

Cyclical

The economic cycles in each of the countries where it operates influence the behavior of the sales of the Fluent Business Group's products, especially the activity of the construction, housing, telecommunications, agriculture, and energy sectors.

In the case of Fluent Europe and Fluent USA/AMEA, the markets' seasonality is similar. Normally, the first and fourth quarters of each year show the lowest cycle caused by winter. However, over the last few years climate conditions have changed in such a manner that the demand's behavior has suffered different influences.

Competition

The main competitive advantages of our Fluent Business Group are its market position in almost all of the Latin American countries and 28 European countries in which it maintains operations, its vast distribution network and its brand recognition. Additionally, since September 2014, through the acquisition of Fluent US/AMEA (formerly Dura-Line), with presence in regions and countries such as the United States, India, Oman, and South Africa, the Fluent Business Group obtained an extensive distribution network and a greater recognition for its brand names. Our Fluent Business Group faces significant competition in the countries in which it operates, which requires significant investment and modernization programs.

According to market research reports, the PVC pipe market in Latin America is positioned under the following scheme, we, through Amanco, are the largest producer, Tigre is second, and Aliaxis is the third largest producer. Several local producers have the remaining market shares.

Fluent Europe (Wavin) is one of the market leaders in Europe and its main competitors include the Aliaxis Group, Uponor, Pipelife, Aalberts Industries, the Geberit Group, and GF Piping Systems.

The main competitors of Fluent US/AMEA in the United States and Canada are: WL Plastics Corporation; Performance Pipe, a division of Chevron Phillips Chemical Company, LP; Blue Diamond Industries, LLC; JM Eagle; and, to a lesser extent, small regional manufacturers. In Europe, its main competitors are Emtelle; Gabo Systemtechnik GmbH (doing business as "gabocom"); and Radius Systems, Ltd. In developing nations, the competitive outlook is much more fragmented when compared to the U.S., Canadian, or European markets. *Market share*

As illustrated in the following table, we hold an approximate 30% share of the Latin American market for PVC pipes in 2016 and we are among the leaders in each country in which we operate.

Country/Region	Product	Position
Brazil	Pipe	2
Mexico.....	Pipe	1
Latin America	Pipe	1
Argentina.....	Pipe	2
Baltics.....	Pipe	2
Belgium.....	Pipe	1
Colombia.....	Pipe	1
Costa Rica	Pipe	1
Czech Republic.....	Pipe	1
Denmark.....	Pipe	1
Ecuador	Pipe	1
El Salvador.....	Pipe	1
France.....	Pipe	2
Germany.....	Pipe	2
Guatemala	Pipe	1
Honduras	Pipe	1
Hungary.....	Pipe	1
Italy.....	Pipe	3
Netherlands	Pipe	1
Nicaragua	Pipe	1
Norway	Pipe	2
Panama	Pipe	1
Peru.....	Pipe	1
Poland.....	Pipe	1
Romania	Pipe	5
Sweden	Pipe	3
Turkey.....	Pipe	5
United Kingdom	Pipe	2
Venezuela.....	Pipe	2

Source: Company market research.

Fluor Business Group

The value chain of this business group is based on calcium fluoride, better known commercially as fluorite (and also as fluorspar when sold as a bulk material or in its processed form), a nonmetallic mineral that acts as a flux, among other applications

We hold the concession for exploitation and extraction of the world's largest fluorite mine, located in the Mexican state of San Luis Potosí, among other concessions. Fluorite, in its natural state, is used in the steel, cement, glass, and ceramic industries, generating important energy savings, among other benefits. This type of fluorite is called metallurgical-grade fluorite

Concentrated fluorite, without impurities, is known as acid-grade fluorite and is used to produce hydrofluoric acid, which is obtained through chemical processes using sulfuric acid coming from sulfur. We compete with China, the main producer of hydrofluoric acid with approximately 45% of worldwide sales.

Hydrofluoric acid is mainly used in the manufacture of refrigerant gases for air conditioning systems, refrigerators, and freezers. It is also used as raw material in the production of gasoline and aluminum fluoride; for stainless steel pickling; in nuclear fuels; in the manufacture of integrated circuits; in the specialty plastics manufacturing industry, such as fluoropolymers, the most famous of which is Teflon®; and in the production of fluorinated salts, such as lithium fluoride, used in batteries. We are one of the main producers of hydrofluoric acid at world level.

We are one of the world's main suppliers of refrigerant gases, especially R-134a refrigerant gas, used mostly in the automotive and refrigeration industries. R-134a gas is also used as propellant gas in medical devices, an application in which we have 75% of the world market.

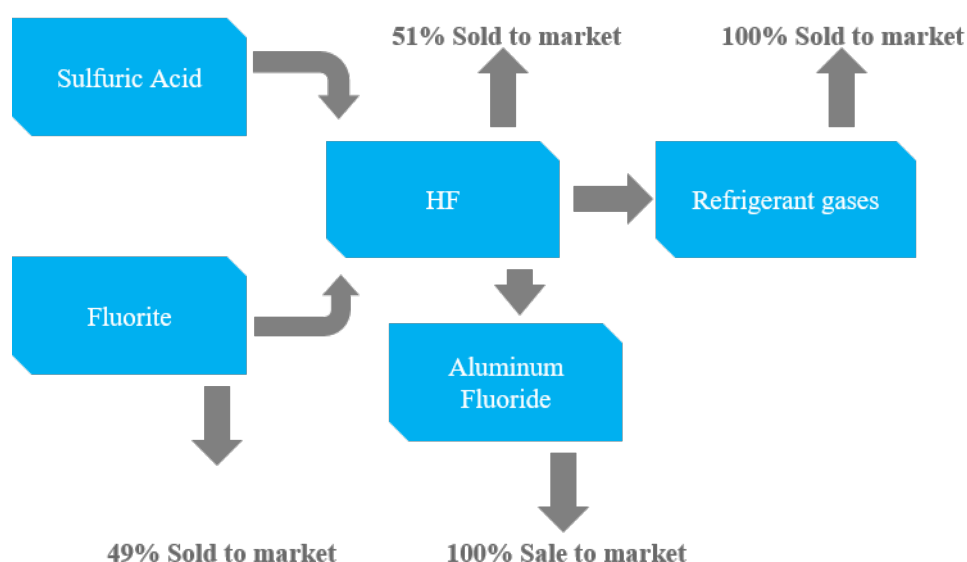
The Fluor Business Group comprises 7 manufacturing plants operating in Mexico, United Kingdom, United States, Taiwan, and Japan, 5 of which are certified under ISO 9001 standards, 3 under ISO 14001 standards, and 1 under OHSAS 18001 standards, 2 with TS 16949, 1 with a Clean Industry Certification by Profepa, 1 with Integral

Responsibility Certification by ANIQ and 2 in ISRS (International Safety Rating System) level 7. The three chemical plants of this business group are signatories of the voluntary commitment of the chemical industry known as "Responsible Care".

The supply of aluminum from China provoked that the average prices of acid grade fluorspar to gradually decrease in January of 2015 and January of 2017 by 10%. This situation is mainly caused by a worldwide overproduction of aluminum and cooling gases, even more so in China. Equally important from 2015 to the beginning of 2017, the prices of aluminum decreased 15%, consequently aluminum producers have had to operate below production cost and close several aluminum plants.

The demand for metallurgical grade Fluorspar during 2016 was kept practically stable since the production of steel in the United States and Europe was kept low, due to the Chinese oversupply of said product.

We are currently the world's largest integrated producer of fluorite. Additionally, we are one of the world's largest producers of hydrofluoric acid, taking into account our operations in Mexico, and the largest supplier in the United States' spot market.



The Fluor Business Group is the world's largest integrated producer of refrigerants. We maintain our commitment to provide latest-generation refrigerants, which are environmentally friendlier.

Sales

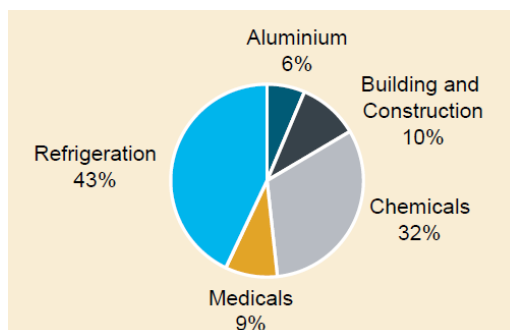
The sales volumes of the Fluor Business Group during the last three fiscal years were as follows:

Fluor Business Group	For the year ended December 31,					
	Sales Volume ⁽¹⁾			Revenues ⁽²⁾		
	2016	2015	2014	2016	2015	2014
	(in millions of tons)			(in millions of U.S. dollars)		
Metspar, Acidspar Grade, HF and ALF3	0.864	0.878	1.013	327	344	407
Refrigerant gases	0.065	0.064	0.057	300	304	296
Eliminations	(0.026)	(0.023)	(0.049)	(44)	(40)	(66)
Total Fluor Business Group	0.903	0.919	1.021	583	608	637

(1) In thousands of tons.

(2) In millions of dollars.

Our Fluor Business Group's products were sold in a variety of markets. The following chart shows our 2016 sales by market:



Fluorspar Manufacturing Process

The fluorite process focuses on the exploitation of fluorite, which is marketed in two basic presentations: (1) metallurgical grade, used in the manufacture of steel, ceramic, glass, and cement; and (2) acid-grade concentrate, used in the production of hydrofluoric acid, which is the main raw material for manufacturing practically all the compounds containing organic and inorganic fluorite, including fluorocarbons and fluoroelastomers, as well as aluminum fluoride for the production of aluminum.

Products

As mentioned above, the fluorite process extracts and processes two main products:

- **Metallurgical-grade fluorite:** Used as a flux in the steel and cement industries. There are different sizes for metallurgical gravel, depending on the size required by each customer for its end process (fines, gravel, standard, and special). The minimum grade of calcium fluoride is between 75% and 90%.
- **Acid-grade fluorite:** Used as raw material to produce hydrofluoric acid and aluminum. The acid-grade fluorite contains at least 97% of calcium fluoride.

Mines and Plants

The following table shows our fluorspar extraction and manufacturing process' production capacity as of December 31, 2016 and annual production output in 2016, 2015 and 2014, by principal product:

Product	Installed Capacity	Year ended December 31,		
		2016	2015	2014
	(thousands of tons)	(sales volume in thousands of tons)		
Total Fluorspar.....	1,931	720	743	862

For more information, see “—Property, plant and equipment.”

Raw materials

The main inputs and materials in the fluorite process are: (1) electric power, (2) water, and (3) consumables. These inputs are supplied under the scheme of long-term supply agreements with periodical reviews. Thus, we have agreements with Mexico's Federal Electric Power Commission (CFE) and the National Water Commission (Conagua), in some cases through exploitation concessions of its own wells.

The main suppliers of these inputs and raw materials in Mexico are Conagua (water), the CFE (electric power), and Pemex Transformación Industrial (natural gas).

Sales and distribution

We have long-term agreements with our main clients of acid-grade fluorite, through a sales scheme that promotes loyalty through volume discounts for purchases over specific periods. These long-term agreements (for 3 to 5 years) include the use of a pricing formula based on international reference prices, allowing both us and our customers to have suitable market conditions and competitive prices.

Main clients

The products from the fluorite process are used by clients in the iron and steel, glass, ceramic, aluminum, cement, and chemical (fluorocarbons for refrigeration, propellants, foaming agents, thermoplastic polymers, etc.) industries. Total sales to the Fluor Business Group's ten most important customers together represent 4.8% of our total sales. No single customer represents more than 1% of our total sales. Therefore, there is no dependency on any one or several customers since the loss of said customers would not adversely affect our operating results or financial position.

Distribution agreements

The products from the fluorite process are sold through worldwide distributors, as well as by delivery directly from the production plants, using land transportation (by rail or road). There is no special sales method since all sales are made by the sales force at our own branches and through distributors.

With respect to freight, we have long-term agreements with railway and maritime shipping companies, which establish a monetary consideration for services represented by a fixed portion (rent) and a variable portion that includes a price per kilometer or mile travelled, tied to fuel prices. These arrangements guarantee a reliable and continuous supply for the operation of the production plants.

Competition

The fluorite process has an important logistics advantage since it produces 1.3 million metric tons of fluorite at a single location, with railroad access to the Mexican port of Tampico, a global distribution port. In comparison, China, according to data from the U.S. Geological Survey (USGC), produces more than 3 million metric tons in more than 650 mines, currently being the world's leader in fluorite production and our major competitor.

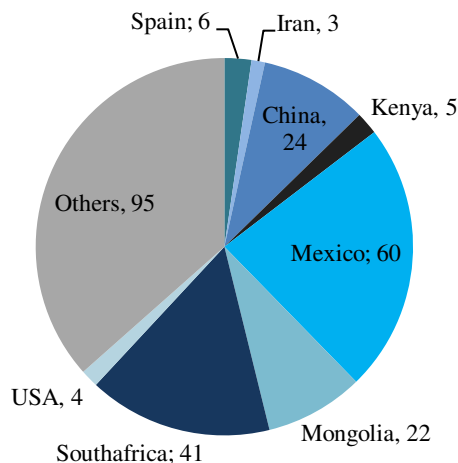
Likewise, we stand out for making constant investments and productivity alliances with workers' unions, which have led to significant productivity increases over the last few years. The ore grade quality of the extracted mineral should also be highlighted, with more than 84% of calcium fluoride, which avoids the application of additional metallurgical processes after extraction. Finally, our long-term agreements with our main customers should be noted as a positive aspect.

Market share

We have a 20% 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 2016:

Global fluorspar reserves (2016)

Million tons



Source: USGS reports and Company data (2016)

Hydrofluoric acid and aluminum fluoride process

Hydrofluoric acid (HF) is produced by reacting fluorite (CaF_2) with sulfuric acid. Once produced, the HF undergoes several distillation stages until achieving 99.99% purity, necessary to meet the high standards required. Our Fluor Business Group produces sulfuric acid from sulfur, which, once placed in contact with air at high temperatures and with water, converts into sulfuric acid and acid-grade fluorite. We are one of the world's largest producers of HF.

Aluminum fluoride is an essential element for the production of metallic aluminum and refrigerant gases and is produced by reacting HF with aluminum hydrate. From our production plant in Matamoros (Mexico), we supplies several of the world's main aluminum producers.

Products

Acid-grade fluorite is the concentrated mineral from which some impurities have been removed. Hydrofluoric acid (HF) results from combining acid-grade fluorite with sulfuric acid, derived from sulfur. The main uses of HF are: (1) production of refrigerant gases for air conditioning systems, refrigerators, and freezers; (2) as a propellant in the production of gasoline; and (3) other applications such as stainless steel pickling, production of nuclear fuels, manufacture of integrated circuits, production of specialty polymers, and production of fluorinated salts.

Plants

We own and operate the world's largest HF plant, located in Matamoros, Mexico, with annual installed capacity of 154,000 tons. The plant is strategically located to have ease of access to its primary raw materials in Mexico and exports 94% 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, 2016, 2015 and 2014:

Plant	Installed Capacity	Year ended December 31,		
		2016	2015	2014
	(thousands of tons)	(sales volume in thousands of tons)		
Hydrofluoric acid	154	101	98	106

Refrigerant gases and fluorocarbon manufacturing process

Fluorocarbons

Fluorinated hydrocarbons or fluorocarbons are aliphatic compounds that have fluorine atoms in their structure or a combination of Chlorine and fluorine. Fluorocarbons's industrial applications are highly developed; they are used as anesthetics in medicine, propellant gases in aerosols, degreasers in metalworking, and cleaners for electrical and electronic contacts, but their most important use is as refrigerants in domestic and industrial refrigeration and air conditioning systems.

- **Refrigerants:** Fluorocarbons combine good thermodynamic properties (boiling points below typical target temperatures, high heat of vaporization, moderate density in their liquid form, and high density in their gaseous phase) with a non-corrosive and safe nature (low toxicity and inflammability).
- **Propellants:** On December 31, 2014, Mexichem UK, Ltd. (from the Fluor Business Group), acquired a license from E.I. du Pont de Nemours and Company for the distribution and sale of pharmaceutical-grade hydrofluorocarbon HFC-227ea/P, a medical propellant, a business transaction that further strengthens its leading position in the market for the Zephex[®] brand. This product is used to emit, in a safe manner, a whole variety of drugs in the form of aerosols, including fixed-dose inhalers for asthma treatment. Under the terms of the acquisition, we have exclusive worldwide rights to sell and distribute the product in the regulated medical and pharmaceutical market under the Zephex[®] brand, a world leading brand in medical propellants contained in approximately 75% of all inhalers produced worldwide.

Raw materials

The main raw materials used in the manufacturing of HF are fluorspar and sulfur. Traditionally the fluorspar has been obtained from a mine in San Luis Potosí and to a lesser degree, through third party purchases.

Historically, sulfur is purchased from Pemex in accordance with long term supply agreements that are renegotiated periodically and more recently also to suppliers in the United States of America. From the HF, the fluorocarbons are produced through different chemical processes.

Sales and distribution

In 2016 we executed two long term HF supply agreements with our main clients in North America, and it is expected that its plant in Matamoros to operate at its maximum capacity during the following years.

Main clients

The ten most important customers of the Fluor Business Group altogether represent 4.8% of our total sales. No individual customer of this business group represents more than 1% of our total sales. Therefore, there is no dependency on any one or several customers since the loss of said customers would not adversely affect our operating results or financial position.

Competition

The main competitive advantage of the hydrofluoric acid (HF) and refrigerant gases process is the vertical integration of its main raw material, fluorite, obtained from our mine in San Luis Potosí (Mexico). This makes a guaranteed supply feasible on the long term and differentiates us from the main nonintegrated producers that depend on an external supply of fluorite. As previously mentioned, China is the world's main producer of fluorite, and it should be noted that its strategy has been to use this mineral to produce finished products in this industry, such as fluorocarbons and fluoropolymers, thus significantly reducing the global supply.

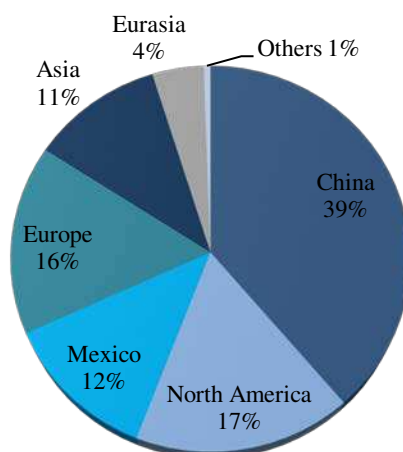
On the other hand, we enjoy a strategic and unique geographical location that provides access to the American market (one of the main consumers of HF and other fluorochemicals in the world), which gives us a sustainable and unbeatable competitive advantage. Additionally, our proximity to such an important market for these products, as the American market, also represents a significant competitive advantage with respect to strict transportation regulations applicable to HF.

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 1.07 million metric tons.

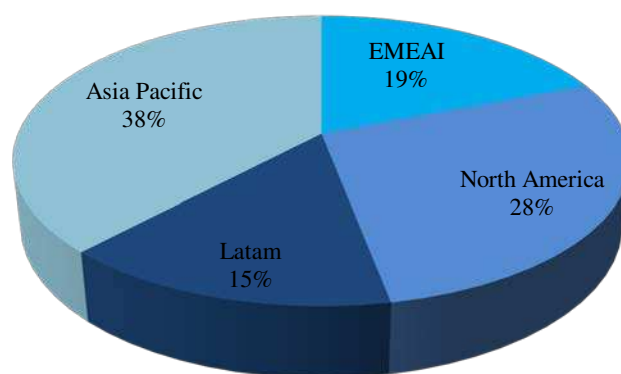
Global market share of HF (2015)



Source: Roskill Bi-annual reports (2016)

The following chart shows the global market share of HFC-134a refrigerant gas, for a total production capacity of 207,750 metric tons.

Global market share of R-134a refrigerant gas (2016)



Source: BSRIA report (2016)

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 us 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 37 countries, over 120 production facilities, 15 research and development centers and more than 18,000 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 Fluent Business Group.

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 Fluor Business Group 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 (US\$61 million). Its production plants are located in Ribeirão das Neves, Anápolis and Maceió, and serve the south east, central and north east regions of Brazil.

On April 1, 2008, we acquired Fluorita de Río Verde, including its production plants, as well as two acid-grade fluorite mining concessions. These plants currently produce approximately 40,000 tons per year of fluorspar concentrates, a substantial portion of which are used by our Matamoros plant. In addition to the vertical integration benefits derived from this acquisition, we intend to increase the production capacity of these plants from 40,000 tons per year to 80,000 tons per year.

On June 20, 2008, we acquired Bidim, a Brazilian leader in the production and distribution of non-woven products for the geotextile industry. Geotextiles are engineering products with various applications in the construction industry, including applications for erosion control and soil separation, filtration, drainage, waterproofing, and reinforcing. With this acquisition, we became the leader in non-woven geotextiles in the Mercosur region and, combined with our activities in Colombia and Peru, consolidated our leadership throughout Latin America in this market.

On November 28, 2008, we acquired Colpozos, S.A. located in Cali, Colombia and a market leader in irrigation.

On March 31, 2009, we acquired Tubos Flexibles, a Mexican company that had four plants located in Mexico that produce PVC pipes and connections. At the same time, we sold our subsidiaries Mexichem Estireno and Frigocel Mexicana S.A. de C.V. to Elementia S.A. de C.V. to focus on our lines of products with higher added-value.

In August 2009, we increased our capital stock by issuing 153.6 million new shares, which represented an increase of Ps. 2,258,000. After the capital increase, our control group held 65% of our capital stock and 35% of our share were free float.

In September 2009, we issued notes in the domestic market in the amount of Ps. 2.5 billion, with a term of five years and a rate of 28-day THIE plus 2.4 basis points, under the MEXCHEM 09 ticker symbol. The proceeds from this issuance were used to refinance previous debt and change our maturity profile, which had limited our short term debt to only 15% of our total debt. On July 20, 2011, we decided to exercise the right to prepay all of the notes paying the amount provided in the most appropriate prepayment premium option referred to in the conditions of the notes.

In October 2009, we acquired the remaining 50% of the shares of Geon Polymers, SA, acquiring control of the company.

In November 2009, we issued notes in the international market in the amount of US\$350 million within a 10-year term and an interest rate of 8.75% per year. The proceeds were used for general corporate purposes, including working capital and possible future acquisitions.

In January 2010, we acquired 73% of Plastisur, SA, a Peruvian company, which increased our shareholding to 98.0%. As a result of this acquisition, we 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 Fluor Business Group 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 us.

On August 31, 2011, we entered into a revolving credit line of US\$1.0 billion with a three-year term with a rate of LIBOR plus 90 basis points, which allowed us to increase our financial flexibility and 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 billion, or its equivalent in UDI, for a period of up to five years from the date of such extension, pursuant to which we conducted a public offering for Ps. 2 billion additional MEXCHEM 11 notes issued on March 21, 2011 and an additional Ps. 2.5 billion notes issued on September 9, 2011. These newly issued notes had the same terms and conditions as those previously issued and totaled Ps. 4.5 billion.

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 Ps. 3 billion. 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, we 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 US\$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 US\$750,000,000 and US\$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 October 9, 2012, we increased our capital stock by issuing 260 million new shares, which represented an increase of Ps.15,600 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, 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. This acquisition had an approximate value of US\$250 million.

On September 11, 2013, we and Pemex Etileno (previously 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 Vinyl Business Group. As a result of this strategic alliance, the vinyl production chain in Mexico (from salt-ethylene to PVC resin and the fluids conduction systems) was expected to be fully vertically integrated. In addition, the Mexican petrochemical industry was expected to become more competitive compared to that of the United States since Mexico was expected to be able to tap into benefits derived from the shale gas revolution as well.

On October 31, 2013, we 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 US\$1.5 billion with a five-year term with a rate of LIBOR plus 95 basis points to 135 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, S.A. de C.V., and Invenergy Clean Power, LLC was selected by MGC Cactus, S.A.P.I. de C.V., a subsidiary company of Pemex Transformación Industrial, to develop a cogeneration power plant with an expected capacity of 530 megawatts in Pemex's Cactus Gas Processing site and with an estimated total investment of US\$650 million. This project seeks to take advantage of the potential of the Cactus gas processing complex to generate electric and steam thermal power with a high level of efficiency and reliability, at a cogeneration power plant to be constructed together with its associated power transmission system.

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.

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).

On September 17, 2014, we completed the issue of International Bonds (Senior Notes) pursuant to Rule 144-A and Regulation S, for US\$750 million, with a 30-year term, at a spread of 270 basis points above U.S. Treasury bonds. The International Bonds are payable upon maturity. The funds obtained were used mainly to refinance the "MEXICHEM 11" issue maturing in 2016 and to fund acquisitions.

On September 19, 2014, we bought 100% of the shares of Dura-Line Corporation from CHS Capital. Dura-Line, based in Knoxville, Tennessee (USA), has a strong presence in the telecommunications segment of various countries and regions around the world, including the United States, India, Europe, and South Africa. The value of this acquisition was US\$630 million.

On September 23, 2014, we prepaid all the "MEXICHEM 11" Debt Exchange Certificates, paying their holders a price per security equal to whichever was highest between the par value of the Debt Exchange Certificates and the clean price, calculated as the arithmetic average over the thirty (30) days prior to the early amortization date, as provided by Proveedor Integral de Precios, S.A. de C.V. (PIP) and by Valuación Operativa y Referencias de Mercados, S.A. de C.V. (Valmer).

In December 2014, we acquired 100% of the shares of Vesto PVC Holding GmbH (VESTOLIT), which is the sole European producer of HIS-PVC resins and the second-largest European producer of PVC paste, and sixth-largest European producer of PVC resins. VESTOLIT's manufacturing facility is located in Marl, Germany and has a total PVC-production installed capacity of 415 thousand mtpy. With this acquisition, we strengthened our position in the European market and, additionally, obtained access to new technologies and best practices that have improved its operations in the Vinyl Business Group. VESTOLIT was acquired for a total of €219 million in cash plus liabilities assumed. As of December 1, 2014, VESTOLIT was consolidated with our Vinyl Business Group for accounting purposes.

On December 31, 2014, Mexichem UK, Ltd. acquired from E.I. du Pont de Nemours and Company exclusive rights at world level for the distribution and sale of pharmaceutical-grade hydrofluorocarbon HFC-227ea/P in the regulated medical and pharmaceutical market for medical propellants. This business transaction supports our strategy to focus on global growth by participating in the specialty product markets. This product is used to emit, in a safe manner, different drugs in the form of aerosols, including fixed-dose inhalers for asthma treatment. It will be sold under the Zephex® brand name owned by us, a world leading brand of medical propellants, with approximately a 75% global market share of medical inhalers. The acquisition price was US\$4.1 million.

On May 12, 2015, we inaugurated a new manufacturing plant in Hyderabad, India. The new plant will produce ducts and high-pressure tubing for the water, telecommunication (voice and data), and gas markets. The new plant is our fourth plant in India, along with another two located in Goa and another in Neemrana, close to Delhi. The location of the Hyderabad plant in Southern India will allow us to have a strategic location to export to Southern Asia, serve clients in Southern India and capture new business opportunities in the region. The plants inauguration is a part of our continuous strategy to become a global chemical entity and vertically integrated focusing towards specialty products and solutions.

On October 18, 2016, we announced the acquisition of Gravenhurst Plastics Ltd. (GPL), in Temiskaming, Ontario, Canada with the purpose of reinforcing the global growth model in added value specialty products. GPL provides HDPE pipes and fittings and fiber optic piping, as well as construction products within the Canadian market. The transaction was consolidated in the Fluent Business Group within the Ethylene Chain and had a value of US\$13 million paid in cash.

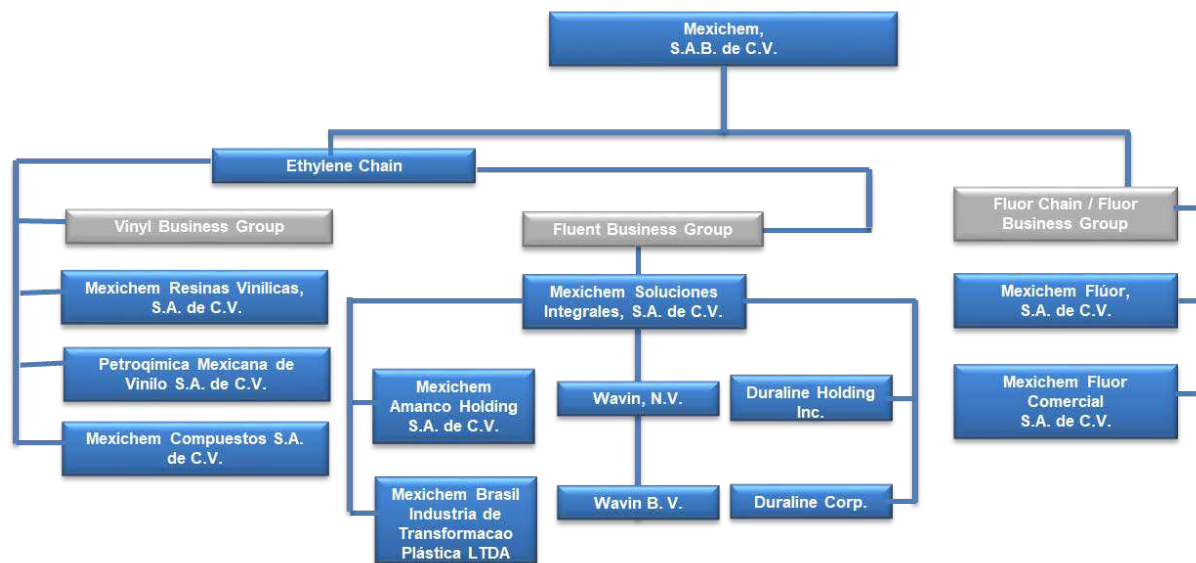
On November 25, 2016, we announced the acquisition in the United Kingdom of 100% of the shares of Vinyl Compounds Holdings Ltd. (VCHL), leading supplier of PVC Compounds which serves a broad spectrum of industries including: building and construction, piping and profiles manufacturing, footwear and consumer products. Our manufacturer of PVC compounds is located in Derbyshire, and annually generates revenue of approximately US\$40 million. We consolidated VCHL's operations under its Compounds Business Unit, leading supplier of PVC Compounds serving the global market and is a part of the Vinyl Business Group within the Ethylene Chain. This acquisition enabled further vertical integration of our Compounds Business unit through stabilizer technologies and recycled PVC capabilities. This transaction had a value of £24 million, paid in cash equivalent to approximately US\$30 million.

On August 6, 2017, we entered into a share purchase agreement with Bluedrip S.a.r.l, Netafim Hatzetim Holdings, Cooperative Association Limited, Megalron—Cooperative Association for Irrigation and Dripping, Ltd., Tamir Fishman Trusts 2004 Ltd., Tamir Fishman Employee Benefits Ltd., and Tamir Fishman Asset Management Ltd., all of them as sellers (jointly, the “Sellers”) to acquire (1) 80% of the voting shares of capital stock of Netafim, Ltd. (“Netafim”), a global leader in smart irrigation solutions, (2) all non-voting shares, representing approximately 0.4% of the capital stock of Netafim, and (3) certain loans made to Netafim by some of its stockholders, including Bluedrip S.a.r.l, Netafim Hatzetim Holdings and Cooperative Association Limited (the “Acquisition”) for an aggregate purchase price of approximately US\$1,500 million (which will be determined at the closing of the transaction). The share purchase agreement was entered into by our subsidiary, Mexichem Soluciones Integrales Holding, S.A. de C.V. (“MSIH”) and Mexichem, S.A.B. de C.V. acted as guarantor. The proposed acquisition of Netafim, if consummated, is part of our growth strategy, giving us access to smart technology, which may be used in cooling and heating, water management, datacom, and other sectors. The Acquisition's closing, as provided in the Share Purchase Agreement, is subject to several conditions precedent, among which the following are included (1) the obtainment of all the authorizations, approvals and/or governmental consents required in several jurisdictions, including, the United States, Turkey, Germany, Ukraine, Russia, Ecuador, Brazil and Honduras and (2) the obtainment of the authorization from our stockholders meeting (which was obtained on August 30, 2017, with a total representation of 81.43% of the total outstanding shares, 98.28% of which voted in favor of the acquisition for a total of 80.02% of the total outstanding shares).

To further strengthen our global leadership, we continually seek acquisition opportunities with potential for the creation of synergies to consolidate all the links in our Chlorine-Vinyl, Fluorine and Fluent Business Groups. 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 manage our growth effectively could adversely affect our business and operating results.”

Organizational structure

The following organization chart shows our corporate structure at the date of this offering memorandum, indicating the position of our main subsidiaries with respect to the business groups.



Our principal subsidiaries are:

Mexichem Resinas Vinílicas S.A. de C.V. is a subsidiary of our Vinyl Business Group, under our Ethylene chain, and is dedicated to the manufacturing and sale of PVC resins for the plastic industry. It is also the holding company of two of our subsidiaries. Mexichem Resinas Vinilicas, S.A. de C.V. does not have any personnel, and as a result does not have any labor commitments, except for joint and several commitments with certain of our other subsidiaries, which could arise from the latter's non-compliance with local and fiscal commitments. Personnel and operative administrative services are provided for Mexichem Resinas Vinilicas, S.A. de C.V. by a related party.

Mexichem Compuestos S.A. de C.V. is a Mexican manufacturer of compounds for several niche markets within the Vinyl Business Group and is the title holder of shares of Mexichem Specialty Compounds Inc., a U.S. manufacturer of polyvinyl chloride and specialty thermoplastic compounds, and Mexichem Compuestos Colombia SAS.

Mexichem Flúor S.A. de C.V. (with registered office and principal place of its business located in the city of San Luis Potosí, México) is a subsidiary of Mexichem, S.A.B. de C.V. and has as a principal activity the extraction and sale of Fluorspar, as well as the production of Hydrofluoric Acid, and is the title holder of the shares of subsidiaries that are dedicated to the production of coolants in the United Kingdom and the United States, mainly. As of January 1, 2011, most of the products are distributed by its subsidiary entity Mexichem Fluor Comercial, S.A. de C.V. This company is consolidated under the Fluor Business Group and chain.

Mexichem Soluciones Integrales Holding, S.A. de C.V. is our Latin America trading subsidiary for our Fluor Business Group, and is the holding company for: (1) Mexichem Amanco Holding S.A. de C.V., the title holder of shares of the Fluor LatAm Business Group), (2) Dura-Line Inc., the title holder of shares for subsidiaries in India, Oman, South Africa, and the Czech Republic, all of which distribute microduct, and (3) Wavin N.V., the holding Company for Fluor Europe's operations.

Legal Proceedings

We are party to civil, commercial, fiscal and labor trials. These proceedings are generated by our normal course of business and are common in the industry in which we operate, according to our inhouse and external legal counsel. Securities legislation in Mexico instructs issuers to disclose legal proceedings that could have a significant impact, as evaluated with respect to our total amount of assets. In general, this duty to disclose any relevant judicial, administrative or arbitration proceeding considers proceedings relevant if, when analyzed individually or jointly with other similar proceedings, they could result in an effect equivalent to at least 10% of our total assets. As of June 30, 2017, our total assets were US\$8,837 million. As a result, and pursuant to Mexican legislation, the judicial, administrative or arbitration proceedings that must be disclosed are those that individually or analyzed jointly with

other similar proceedings could result in a claim of at least US\$884 million. As of the date of this offering memorandum, we have no proceeding that analyzed individually or jointly with other similar proceedings could result in a claim for such amount.

In compliance with our applicable regulations and internal policies, we maintain certain reserves to face the liabilities which could result from proceedings to which we are a party. Those reserves are generated by observing what is stated by the Litigation Reserves policy that was revised and approved by our Audit Committee and published on August 1, 2013, which states that:

- Reserves will be exclusively created for legal proceedings already enacted against us (including lawsuits, claims, and other actions already enacted before the courts or fines for which we have already been notified) where there is a real risk of being ordered to pay of any amount (after having made our legitimate defense), depending on the probability of an adverse outcome occurring in accordance with the legal opinions of our inhouse or external counsel in charge of representing us.
- If in accordance with the legal opinion of the attorney in charge of the case, the probability of an adverse judgment is between 0 and 30%, it is not necessary to create a reserve.
- If in accordance with the legal opinion of the attorney in charge of the case, the probability of an adverse judgment is between 30.1% and 60%, the attorney must complete a questionnaire of nine questions selected by us, which is designed such that each affirmative answer reduces the probability of an adverse judgment. In the event that the number of affirmative answers is five or more, we will generate a reserve of 30% of the maximum amount for which we could be held liable. In the event that the number of affirmative answers is four or less, the reserve is generated for 60% of that amount.
- If in accordance with the legal opinion of the attorney in charge of the case, the probability of an adverse judgment is greater than 60.1%, we reserve 100% of the total amount claimed.

We, and all of our subsidiaries, as of June 30, 2017, are involved in 948 proceedings as defendant or involved party (including 84 legal proceedings and 11 investigation proceedings for which we cannot calculate their expected outcome), with a total reserve of US\$9.6 million for proceedings for which we can calculate the risk of an adverse judgment, and for which the total amount claimed is US\$174.1 million.

Of the 948 proceedings, (1) 637, or 67.2%, are labor lawsuits representing US\$35.6 million or 20.4% of the total amount claimed, with a total reserve of US\$3.2 million or 33.5% of the total reserve; (2) 230, or 24.2%, are proceedings with authorities (primarily with tax authorities) representing US\$126.2 million or 72.5% of the total amount claimed, with a total reserve of US\$5.2 million or 55.9% of the total reserve; (3) 70 or 7.4% are civil or mercantile proceedings representing US\$12.3 million or 7.1% of the total amount claimed with a total reserve of US\$1 million or 10.6% of the total reserve; and (4) 11 or 1.2% are investigation proceedings for which the amount claimed is undeterminable as of the date of this offering memorandum.

With respect to these proceedings:

- 684 proceedings are held in Brazil and represent a total amount claimed of US\$141.8 million, equivalent to 72.2% and 81.4% of our total proceedings and total amount claimed, respectively, and for which we have a total reserve of US\$4.5 million, equivalent to 46.5% of our total reserve. Due to recent events in Brazil and its generally litigious environment, we are evaluating our policy around allocating reserves. This review process could result in an increase or decrease to our reserves. Of the 684 proceedings:
 - 478 are labor lawsuits for a total amount claimed of US\$29.8 million representing 50.4% and 17.1% of our total legal proceedings and total amount claimed, respectively, and 69.9% and 21% of the legal proceedings and total amount claimed in Brazil, respectively. Of these proceedings, the largest is for US\$1.6 million, or 0.9% and 1.1% of our total amount claimed and total amount claimed in Brazil, respectively. The total reserves for these labor lawsuits is \$2.2 million, representing 22.9% and 48.9% of our total overall reserve and our reserve for Brazil proceedings, respectively.
 - 169 are proceedings with authorities (primarily with tax authorities) for a total claimed amount of US\$104 million, representing 17.8% and 59.8% of our total legal proceedings and total amount claimed, respectively, and 24.7% and 73.4% of the legal proceedings and total amount claimed in

Brazil, respectively. Of these proceedings, the largest is for US\$14.1 million or 8.1% and 9.9% of our total amount claimed and total amount claimed in Brazil, respectively. This proceeding was filed and is continuing in São Paulo. The reserves related to proceedings against authorities was US\$2.0 million representing 20.8% and 44.4% of our total reserve and our reserve for Brazil proceedings, respectively.

- 96 proceedings are held in Colombia and represent a total amount claimed of US\$8.8 million, equivalent to 10.1% and 5.1% of our total legal proceedings and total amount claimed, respectively, and for which we have a total reserve of US\$0.9 million, equivalent to 9.7% of our total reserve. Of the 96 proceedings:
 - 72 are labor lawsuits for a total amount claimed of US\$1 million representing 7.6% and 0.6% of our total legal proceedings and total amount claimed, respectively, and 75% and 11% of the legal proceedings and total amount claimed in Colombia, respectively.
 - 23 are proceedings with authorities (primarily with tax authorities) for a total claimed amount of US\$7.7 million representing 2.4% and 4.4% of our legal proceedings and total amount claimed, respectively, and 24% and 88.7% of the legal proceedings and total amount claimed in Colombia, respectively. Of those proceedings, the largest is for US\$5.8 million or 3.3% and 65.9% of our total amount claimed and total amount claimed in Colombia respectively, and was filed and is continuing in the Santander Administrative court. The total reserve for this proceeding with authorities was US\$0.3 million, representing 3.4% and 35% of our total reserve and our reserves for Colombia proceedings, respectively.
- 29 proceedings are held in Peru and represent a total amount claimed of US\$11 million, equivalent to 3.1% and 6.3% of our total legal proceedings and determinable amount claimed, respectively, and for which we do not have a reserve. Of these 29 proceedings:
 - 14 are labor lawsuits for a total claimed amount of US\$0.9 million representing 1.5% and 0.5% of our total legal proceedings and total amount claimed, respectively, and 48.3% and 7.9% in respect of the legal proceedings and total amount claimed in Peru, respectively.
 - eight are proceedings with authorities (primarily with tax authorities) for a total claimed amount of US\$9.9 million representing 0.8% and 5.7% of our legal proceedings and total amount claimed, respectively, and 27.6% and 90% in respect of the legal proceedings and total amount claimed in Peru, respectively.

Furthermore, we are involved in 84 legal proceedings and 11 investigation processes for which we cannot, or cannot completely, determine the risk in monetary terms, but for which we maintain reserves of US\$0.2 million. Below is a summary of some of the 11 investigations in which we are involved:

An administrative proceeding filed before the European Commission related with Fluent Europe (before Wavin), derived from alleged violations to antitrust regulations.

An investigation was initiated in June 2012, and several investigations were made in 2013, by the European Commission. In October 2015, we were informed that due to the lack of elements to demonstrate international violations, the European Commission would leave open the possibility for the authorities of the countries involved to undertake these investigations, and at the date of this offering memorandum we have not been informed that any of these local investigations have been initiated.

Belgium civil proceeding derived from alleged lack of quality in the product

In August 6, 2015, a civil proceeding was brought based off of alleged damages to roads and highways in Belgium allegedly produced by leakages from fittings that we supplied. The total amount is subject to valuation by experts, but does not represent a relevant risk. At the end of 2016, a third party requested for expert assessments to determine the damage caused by the alleged leakages.

Brazilian Administrative Council for Economic Defense (CADE) investigation of alleged violations to antitrust regulations

Mexichem Brasil Industria de Transformação Plástica, Ltda. (before Amanco Brasil, Ltda.) was notified during 2016 by Brazil's Administrative Council for Economic Defense (CADE), of alleged violations of the Brazilian antitrust regulations, by the company and some of its executives from 2003 to 2009 (we acquired DVG Industria e Comercio de Plásticos Ltda. (Plastubos) in 2008, a corporation that was later merged into Brasil Industria de Transformação Plástica, Ltda). We are fully committed to complying with local regulations in all of the countries in which we operate. As of the date of this offering memorandum, the stage in which this administrative process is does not allow us to estimate the amount of the contingency, if any, that could result from this proceeding.

Refrigerant gases ITC proceeding against Chinese imports into the US market

On October 22, 2013, we brought a lawsuit before the United States International Trade Commission (U.S. ITC) against the imports into the United States of cooling gases from China. On December 18, 2013, the U.S. ITC determined, by a unanimous vote of all six commissioners, that there was reasonable evidence that the United States market had been adversely affected by the importing of Cooling Gases (R-134a) from China. As a result of this determination by the U.S. ITC, the United States Department of Commerce (U.S. DOC) continued the investigation and after having received a response from the Chinese government, on October 15, 2014, the U.S. DOC issued its final resolution proposal related to compensatory fees for unfair practices and subsidies, and it was determined that the exports into the United States by China should be subjected to compensatory fees. However, on November 12, 2014, the U.S. ITC ruled that there were no material damages or threatened damages to the cooling gases industry in the United States derived from imports from China. On January 6, 2015, Mexichem Fluor presented an appeal against the resolution of November 12, 2014 before the U.S. ITC. In June of 2016, the resolution on the appeal presented before the International Court of Commerce was issued, denying us the request to appeal and, consequently, upholding the resolution originally adopted.

Later in 2015 the American Hydrofluorocarbons (HFC) Coalition and its members, including us, presented a lawsuit petition with respect to unfair practices in the importing of mixes and individual components of Hydrofluorocarbons from China. The U.S. DOC published in February of 2016 a preliminary determination, finding that imports of Hydrofluorocarbons (HFC) Mixes from China, used in applications such as air conditioners and refrigeration, were being made under unfair practices. The Hydrofluorocarbons Mixes included in this investigation were coolants such as R-410A, R-404A, among others, as well as individual components of Hydrofluorocarbons such as R-32 and R-125. The publication by the U.S. DOC proposed that these type of products from China be subjected to compensatory fees for unfair practices. On August 19, 2016, the U.S. DOC issued a resolution to this proceeding, imposing compensatory fees of 101.82% of such imports.

On March 3, 2016, we, as part of the American Hydrofluorocarbons Coalition, submitted a petition to request the imposition of antidumping fees on imports of the R-134A cooling gas from China, which we believe are causing a material damage to the domestic fluorocarbons industry in the United States. The R-134A gas is used for air conditioning in the automotive industry, plastic foam for the manufacturing industry and as propellant in the pharmaceutical industry. The petition was presented concurrently before the U.S. DOC and U.S. ITC. The American HFC Coalition alleged the existence of dumping margins in the R-134A of more than 150%.

This petition was accepted on April 15, 2016, in which the U.S. ITC determined that (1) there were reasonable indications that the industry in the United States had been materially damaged as a result of unfair imports of R-134A cooling gas from China, and (2) that it is contested whether it has been subsidized and sold in the United States under its real value. All of the six commissioners voted affirmatively, and as a result, the U.S. DOC continued with its investigations with respect to the importing of these products from China in order to determine an antidumping fee.

The new petition in respect of R-134A aimed to impose antidumping fees on Chinese imports to create more equitable competition, particularly in the air conditioning post-sale market for the automotive industry.

On March 23, 2017, the U.S. ITC determined that the importing of R-134A is causing material damages to the production industry of R-134a in the United States. After a one year investigation, the U.S. DOC found that the imports of R-134a from China, were introduced into the United States with prices below fair market price. On February 22, 2017, the U.S. DOC announced that imports from China of R-134a had been sold at dumping prices and it imposed antidumping fees between 148.79% and 167.02% of such imports.

PMV's legal proceedings after the explosion in April 2016

On April 20, 2016, an unfortunate explosion occurred in the VCM plant inside the Petrochemical Complex Pajaritos, where two of the three facilities of PMV are located (VCM and Ethylene). The Chlorine and Caustic Soda plant are located on a separate site. There was no damage to the chlorine-caustic soda plant, but there was business interruption in the supply of raw material. The VCM plant (Clorados III) sustained the most damage, the greatest economic impact of which was the write-off of the asset and the shutdown of that plant.

Our assets, including those in PMV, are adequately insured at today's replacement value, while the related non-cash charge are calculated at book value. Our insurance coverage includes: (1) environmental responsibility, (2) damage to property, (3) damage to assets during assembly process, (4) business interruption, (5) liability for damage to third parties including environmental coverage, and (6) liability of directors and officers.

During the year ended December 31, 2016, PMV recognized charges of: (1) US\$285 million related to asset write-off, of which US\$276 million were recognized under other expenses and US\$9 million recognized under other comprehensive income (equity), respectively; and (2) US\$42 million related to indemnification, legal expenses, and other costs. Together, this represented a charge to our results of US\$318 million and US\$9 million in other net income. Additionally, during the first half of 2017, we recognized US\$4.8 million of other expenses related to the PMV incident.

During the third quarter of 2016, PMV gathered sufficient information to recognize the account receivable related to insurance coverage, which for the full year amounted to US\$276 million related to property damage (US\$220 million), assembly insurance coverage (US\$20 million), and third party expenses and expenses incurred under directors' and officers' coverage (US\$37 million). The one-time expenses were offset by the full year account receivable which generated a net expense effect of US\$42 million. During the first six months of 2017 we recognized US\$4.8 million in expenses, which are mentioned above.

Finally, for the year ended December 31, 2016, and during six months ended June 30, 2017 PMV and Resins, Compounds and Derivatives recognized income of US\$51 million, and US\$31 million, respectively, for business interruption that offset fixed costs that were not absorbed and its margin.

PMV has presented its claims to its insurance companies. During the second quarter of 2017, we received US\$25 million on our insurance claims, but the vast majority of them have yet to be recovered.

Additionally, as of June 30, 2017, the event continues under investigation by the Attorney General's Office (*Procuraduría General de la República*) as a result of two criminal complaints presented after the explosion: i) property damages to the nation and ii) probable damages to the environment. Consequently, after the incident at the VCM plant described above, PMV performed an environmental assessment to determine if a pollutant was deposited in the plant's surrounding areas. Said evaluation was submitted to the authorities working jointly to determine if there were any environmental consequences. Additionally, PMV could be responsible for paying damages to third parties, if there are any. With the information obtained as of the date of this offering memorandum, there is no evidence that said liabilities, if there are any, would be material.

Contingent Asset

PMV together with its shareholders, Mexichem & Pemex, are evaluating several strategic options for the business in the future, which is why we adopted a conservative policy with respect to the monetary amount recognized in the account receivable, reflecting the stated cash value of the plant as of December 31, 2015. When the business plan is finalized, the exact dollar amount of the account receivable could change.

Contingent Liability

As a result of the VCM Plant (Clorados III) incident described in the contingent asset disclosure, PMV performed an environmental assessment to determine if any pollutants were deposited in areas surrounding the facility, delivered the report to the environmental authorities and is working with them in order to determine whether there have been

any environmental damages. Also, PMV could be responsible for third party injuries. Based on the information we have as of the date of this offering memorandum, there is no evidence that there are additional relevant liabilities.

As mentioned above, depending on the decision taken by PMV and its shareholders, once the future of the business is determined PMV will evaluate the impacts on the rest of its assets in the Pajaritos Complex. The remaining fixed asset value of the PMV's plants inside Pajaritos Complex was US\$201 million as of June 30, 2017.

Intellectual property

We own, license or have rights to over 500 patents, over 2,000 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 2017 and 2027. 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. As of December 31, 2016, we and our subsidiaries had more than 500 issued and pending patents and proprietary industrial designs, in Mexico and abroad.

The trademarks, including trademarks on brand names, owned by us have been registered either directly by us or through our subsidiaries in the different countries where we operate or where we could start operating.

We market our products under the following main brands:

Vinyl Business Group - Business Lines	Brand Name
PVC Resins	Primex, Iztavil, Petco
Specialty PVC Resins.....	Vestolit
Compounds	Provin, Polivisol, Vindex B, Iztablend
Specialty Compounds.....	AlphaGary, Alphaseal, Evoprene, Garaflex, Smokeguard
Plasticizers	Iztablend, Lugatom
Fluent Business Group - Business Lines	Brand Name
Civil Construction, Infrastructure.....	Amanco, Pavco, Plastigama, Plastubos
Geosynthetics.....	Amanco, Pavco, Bidim
Irrigation.....	Amanco, Pavco, Plastigama, Colpozos
Telecommunications, Energy, Infrastructure.....	Dura-Line
Plasticizers	Iztablend, Lugatom
Plastic pipe systems and solutions...	Amanco, Pavco, Plastigama, Plastubos, AquaCell, Arot, Chemidro, Climasol, Connect to Better, Hep ₂ O, Hepworth, Q-Bic, Quickstream, Warmafloor, Warmawall, Wavin
Fluor Business Group - Business Lines	Brand Name
Medical Propellants	Zephex, Respia
Refrigerants.....	Klea, Arcton
Compounds	Provin, Polivisol, Vindex B, Iztablend
Specialty Compounds.....	AlphaGary, Alphaseal, Evoprene, Garaflex, Smokeguard
Plasticizers	Iztablend, Lugatom

In the current market, globalization is forcing companies to differentiate themselves from others to be able to compete in the international market and, for this reason, trademarks and brands are important for our development because they are the distinctive marks that indicate the quality of the products marketed under such trademarks and brands. These distinctive marks allow identifying the diverse products offered by us in the market. Trademarks and brands are fundamental assets for the business and maintaining a good reputation is essential for attracting and retaining our customers.

Research and development

We are committed to innovation and development. In this sense, we currently have eight formation academies and 15 research and development laboratories, which are working to obtain cutting-edge technologies destined to create products, processes, and applications that will help improve the life quality of the users through its products and integral solutions.

Of the eight research and development centers of the Vinyl Business Group, three are located in Mexico, two in the United States, two in Germany, and one in the United Kingdom. The Fluor Business Group has three centers, one in the United Kingdom and two in Mexico. Finally, the Fluent Business Group has three centers, located in the Netherlands, the Czech Republic, and India.

One of the business focus lines on which we have placed special interest is the development of its specialty PVC products, custom made according to the requirements of its customers in the construction, utilities, civil infrastructure, water conveyance, basic sanitation, transportation, energy, and telecommunications industries.

Another business focus line is the development of new- or next-generation technology for refrigerant gases, which will be mandatory for the new automotive industry platforms from 2017 on.

The Mexican government has as policy the offering of financial incentives for research and development, through the National Council for Science and Technology (*Consejo Nacional de Ciencia y Tecnología, Conacyt*). We have had Access to this benefit for several years including 2016, through different projects.

We organized a Technology Committee headed by Fluent Europe, creating synergies with Fluent LatAm with the R&D centers, focused in satisfying the global market that we serve and transferring technology from Europe to Latin America. The result was that global solutions were created and the technical team executed the relevant technological changes in the manufacturing processes.

Subsequently in 2015, the strategy in the R&D centers was focused in increasing the project's payback rate and cover the client's requirements by geographical regions, and even if necessary, to create projects in the countries that require it. This focus by region has allowed that the research and development centers tend with a greater opportunity the technological needs of our clients.

We maintain a strategy to migrate to products with a greater added value within its three business Groups: Vinyl with the assets of Mexichem Specialty Resins, Mexichem Specialty Compounds, focused in high spectrum plastic compounds and Vestolit the most important producer of high impact PVC resins; in Fluent the integration of Fluent US/AMEA (Dura-Line) with high density polyethylene products through pressure ducts and tubing for telecommunications (voice and data) and energy solutions; in Fluor with the development and commercialization of medical grade propellants, and fluorocompounds for the cement industry.

We invested in Research, Development and Innovation US\$27 million in 2016 and US\$32 million in 2015.

Employees

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

	2016		2015		2014	
	Number of Employees	%	Number of Employees	%	Number of Employees	%
Unionized and temporary	12,026	63.6%	11,724	62.4%	11,771	61%
Non-unionized.....	6,871	36.4%	7,079	37.6%	7,486	39%
Total.....	18,897	100%	18,803	100%	19,257	100%

As of December 31, 2016, approximately 63.6% 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, over the 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 Minera*), 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, provides a simplified application procedure to obtain a concession and provides a term for the mining concessions of 50 years, renewable for another 50 year term. The Mexican Mining Law permits the issuance of a single mining concession for the performance of both exploration and exploitation activities. Pursuant to the fiscal reform 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 mining concessions could be subject to nullification, cancellation, suspension, or annulment of rights according to applicable legal provisions, or we could not be able to renew our existing concessions, which could have a significant adverse effect on our operations and financial condition."

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 October 12, 2012, 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 (1) environmental impact and risk, (2) forestry land use change and (3) 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: (1) the North American Agreement on Environmental Cooperation (parallel to the North American Free Trade Agreement), (2) the United Nations Framework Convention on Climate Change and (3) 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 (1) the employer fails to provide necessary training on mining-related risks; (2) the employees are not provided with the required safety equipment or with the necessary training on its use; or (3) 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 have been enacted further detailing regulatory provisions of the Secondary Legislation.

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, 2014, 2015 and 2016, 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 in Mexico comply in all material respects with applicable safety and environmental laws. As of the date of this offering memorandum, we have obtained all permits and authorizations required for our operations. We adhere to the comprehensive responsibility program promoted by ANIQ, which is based on the Responsible Care international standards. We have received several awards as a result of our advanced safety and environmental program, and over 75% of our sites have been certified by a third party in the ISRS and the remaining sites are working towards certification by 2019. The Mexican government, through the Mexican

Environmental Protection Agency, has given our chemical operations the “*Industria Limpia*” certification. Most of our operations comply with and are certified in ISO 14001.

If we 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 or impose civil and/or criminal sanctions on us.

We helped contribute to the development of the “eco efficiency” concept, which promotes efficient production methods that minimize our environmental footprint. This project allows us to both help protect the environment and to make our processes more efficient. In 2005, thanks to our energy efficiency program, we were recognized with Mexico’s National Thermal Energy Savings Awards for exemplary thermal energy conservation practices. In 2006, our operations in Coatzacoalcos were also recognized with a National Thermal Energy Savings Award in the Private Sector Industrial Facility Upgrades category, and our operations in Matamoros received an award in the Best Electricity Efficiency Practices category. In 2007, we received two Thermal Energy Savings Awards for our energy efficiency program.

For more than 10 years in a row, we have been recognized by *Centro Mexicano para la Filantropia* (CEMEFI) as a “Socially Responsible Company”, which has been the result of our social efforts, both internally and externally, environmental programs aimed towards the reduction of our environmental footprint and our economic growth.

Brazil

We are subject to Brazilian federal, state and local laws and regulations governing the discharge of effluents and emissions into the environment, the handling and disposal of industrial waste and other matters relating to environmental protection. 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/or criminal sanctions. As of the date of this offering memorandum, all of 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 the environmental issues we are aware of, and we believe that none of these issues will have a material adverse effect on our business, financial condition or operations.

Our safety management system in Brazil has been certified according to Occupational Health and Safety Assessment Series (OHSAS) 18001 standards and our system’s performance has helped us to consistently reduce lost time due to accidents. We are working to ensure that all of our sites in Brazil will be certified by a third party in the ISRS by the end of 2020.

As of the date of this offering memorandum, our operations in Brazil comply with and are certified in ISO 14001.

Colombia

As of the date of this offering memorandum, 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 believe 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 additional standards, such as the Complete Responsibility and 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.

All of our sites in Colombia have been certified by a third party in the ISRS, ensuring a strong culture of safety and continuous improvement. As of the date of this offering memorandum, our chemical operations comply with and are certified in ISO 14001.

Europe

Following our acquisition of Wavin, we became subject to a number of environmental regulations in several jurisdictions in Europe, including regulations related to carbon dioxide emissions, energy usage, recycling and waste disposal and various sustainability initiatives. Prior to the acquisition, Wavin had already implemented various internal processes to monitor and reduce its carbon dioxide emissions by 20% between 2008 and 2015, and had already obtained a 14% reduction in emissions by 2013. Wavin has joined several manufacturing organizations committed to continually reducing energy consumption and improving efficiency. As a best practice in the market, Wavin, in cooperation with its customers and local governments, has implemented a plastic pipe waste collection program and is participating in 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 its production processes.

In 2014, the European Parliament approved new regulations for fluorinated greenhouse gases (F-Gas Regulation), which came into effect in 2015. The objective of these regulations is to prohibit hydro-fluorocarbon (HFC) refrigerants for new equipment and to cut Europe's F-gas emissions by 79% by 2030 as compared to 2009-2012 average levels. To enforce this gas emission reduction, the European Commission has given producers, including us, quotas based on global warming potential.

United States

We are subject to United States federal regulations, such as EPA, state and local laws and regulations governing the discharge of effluents and emissions into the environment and the handling and disposal of industrial waste, among others. Under federal and state environmental laws and regulations, we are required to obtain operating permits for our manufacturing facilities, which must be periodically renewed.

We believe that our operations comply in all material respects with applicable environmental laws and regulations currently in effect in the United States. 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.

Canada

We support the principles of the amendment of the Montreal Protocol undertaken in Kigali in 2016. The proposals derived from this amendment are consistent with our expectations. We are in the process of developing gases that are friendly to the environment and that have a low potential of atmospheric warming. However, we cannot ensure that these developments will be successful or that new regulations will not become effective in other regions.

Quality and safety controls

We consider safety a priority. We also consider the environment and the quality of products and services of relevant importance. We make an effort to comply with our client's requirements, and emphasize that our personnel are our greatest strength.

Our commitments

- Prevent accidents and property damages, emphasizing that safety is the responsibility of everyone.
- Preserve the health, safety and protection of people.
- Create a positive impact on the environment by preventing contamination, reducing the consumption of resources and recycling waste materials.
- Continuously improving the efficiency of the procurement system, establishing performance objectives, measuring results, reviewing and improving processes.

- To have open communication with interested parties; comply with federal and local regulations and with other applicable commitments and external requirements.

The success of the above commitments requires the participation of our personnel, suppliers and clients, as well as the assignment of the necessary resources.

Awards, Certifications and Distinctions:

During 2016, we obtained the following awards, recognitions and certifications:

- IQNet SR10 social responsibility management system in Germany
- Clean Industry Certificate granted by the Environmental Authority in Mexico
- Self-Management in Safety and Health Certificate, Secretaría de Trabajo y Previsión Social (STPS)
- Kosher Certificate, granted by Calidad Kosher, S.C.
- ISO 9001: Quality Management Systems
- ISO 14001: Environmental Management System
- ISO 22000: Food Safety Management
- OHSAS 18001: Occupational Health and Safety Assessment
- NSF: NSF International is a nonprofit, objective independent agency dedicated to the testing and certification of products, that established global performance regulations for a broad variety of household and industrial products
- SARI: Integral Responsibility Management System granted by the Asociación Nacional de la Industria Química en México
- NORVEN: Brand that certifies the quality of the final product in Venezuela
- INEN Quality Stamp
- INASSA Stamp
- KALUZ PRIZE 2016
- White Cross Merit Medal in the category of Excellence in Safety, health protection and environment.
- SEDUMA: Environmental excellence recognition
- Ekos de Oro
- PREAD Recognition. Environmental District Excellence Program within the Elite category
- SIG recertification and ISRS Certification

In our Vinyl Business Group, 16 out of 35 sites comply with ISO 9001 quality management systems standards, 11 of them are certified under ISO 14001 environmental management systems standards, and three of them are certified under OHSAS 18001 standards on occupational health and safety management systems. These production plants also form part of an initiative of the global chemical industry known as “Responsible Care”, whereby chemical manufacturers are committed to comply with strict safety, health, and environmental protection standards throughout their manufacturing lifecycle.

Our Fluor Business Group comprises seven manufacturing plants operating in Mexico, the United Kingdom, the United States, Taiwan, and Japan, five of which are certified under ISO 9001 standards, three under ISO 14001 standards, one under OHSAS 18001 standards, two with TS 16949, one with a Clean Industry Certification by Profepa, one with Integral Responsibility Certification by ANIQ and two in ISRS level 7. The three chemical plants of this business group are signatories of the voluntary commitment of the chemical industry known as “Responsible Care”.

Property, plant and equipment

Our properties consist primarily of production facilities in almost all Latin American countries, 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, 2016 by location of facilities, total capacity and utilized capacity.

Business Group / Unit	Process	Country or region	Number of product ion plants	Type of assets	Products	Installed capacity (mtpy)	Percentage of use in 2016 (%)
Vinyl	Chlorine-caustic soda	Mexico	1	Mine	Salt	157	59%
Vinyl	Chlorine-caustic soda	Mexico	4	Production plants	Chlorine, caustic soda, by-products	790	63%
Vinyl	Chlorine-caustic soda	Colombia	2	Production plants	Chlorine, caustic soda, by-products	78	77%
Vinyl	Chlorine-caustic soda	Germany	2	Production plant	Chlorine, caustic soda, by-products	610	86%
Vinyl	Chlorine-caustic soda	Mexico	4	Production plant	Phosphates	146	28%
Vinyl	Vinyl	Mexico	5	Production plants	PVC resins	781	72%
Vinyl	Vinyl	Colombia	3	Production plant	PVC resins	500	87%
Vinyl	Vinyl	United States	2	Production plants	PVC resins	116	63%
Vinyl	Vinyl	Germany	2	Production plant	PVC resins	415	80%
Vinyl	Vinyl	Mexico	2	Production plants	Compounds	68	78%
Vinyl	Vinyl	Colombia	1	Production plant	Compounds	22	57%
Vinyl	Vinyl	United States	2	Production plants	Compounds	68	83%
Vinyl	Vinyl	United Kingdom	2	Production plant	Compounds	118	69%
Vinyl	Vinyl	Mexico	3	Production plant	Phthalic acid and plasticizers	141	61%
Fluent LatAm	Amanco	Latin America	30	Production plants	Pipes and fittings	514	67%
Fluent Europe	Wavin	Europe, China, and Australia	29	Production plants	Pipes and fittings	519	51%
Fluent US/AMEA	Dura-Line	United States, Czech Republic, India, Oman, South Africa, Mexico	20	Production plants	HDPE conduits and micro conduits	379	63%
Fluor	Fluorite	Mexico	2	Mines	Acid-grade and metallurgical-grade fluorite	>1,900	85%
Fluor	Fluorite	Mexico	5	Production plants	Acid-grade and metallurgical-grade fluorite	>600	87%
Fluor	Hydrofluoric acid	Mexico	2*	Production plant	Hydrofluoric acid	154	80%

Business Group / Unit	Process	Country or region	Number of production plants	Type of assets	Products	Installed capacity (mtpy)	Percentage of use in 2016 (%)
Fluor	Hydrofluoric acid	Mexico	1	Production plant	Aluminum fluoride	66	64%
Fluor	Refrigerant gases	United States	1	Production plant	Fluorinated hydrocarbons and refrigerants	39	95%
Fluor	Refrigerant gases	Japan	1	Production plant	Fluorinated hydrocarbons and refrigerants	21	68%

*One productive unit includes two plants

We own and operate the following fixed assets, as part of our Fluor Business Group:

- **Fluor LatAm (Amanco and subsidiaries).** Fluor LatAm owns and operates 30 plants in 12 Latin American countries, with a combined-production installed capacity of 514,000 metric tons of PVC extracts, PVC, and injected polyethylene and polyethylene products, using cutting-edge processing technologies.
- **Fluor Europe (Wavin).** Fluor Europe is the owner of 29 manufacturing and assembly plants in 17 European countries, with a combined-production installed capacity of 519,000 metric tons. This business unit has procedures in place for compliance with ISO 9000 and ISO 9001 standards, reviewed and certified by independent certification companies. Fluor's Europe production plants also use an improvement program called the "Total Management Program", or TMP. The plants' operations follow the regionally-established health and safety policies, according to ISO 12001 and similar standards.
- **Fluor US/AMEA (formerly Dura-Line).** Fluor US/AMEA owns 20 manufacturing and assembly plants located in the United States, Mexico, India, Oman, Czech Republic, and South Africa, with a combined-production installed capacity of 379,000 metric tons. This business unit has procedures in place for compliance with ISO 9001, ISO 14001, and OHSAS 18001 standards and with the certifications by the Underwriters Laboratories (UL) and the Bureau of India Standards, as well as with other pertinent regulations and standards set by the competent authorities. All such compliance procedures are reviewed and certified by independent companies. The design practices are subject to different customs and regulatory tests to ensure that the products meet or exceed the expectations of the customers and applicable regulatory requirements.

Within the period of 2014-2016, we concluded the acquisitions of Vestoil (Vinyl Business Unit), of Fluor US/AMEA (before Dura-Line), Gravenhurst in Canada (Fluor Business Unit) and Vinyl Compounds Holdings Limited (Vinyl Business Unit) that include the following within their main assets, and that are included in the preceding table:

- **Vestolit (2014).** The production facilities are located in Marl, Germany, within the Marl Chemical Park of Evonik Industries, and include four plants, two of which produce basic chemicals such as Chlorine, Caustic Soda, and hydrogen, as well as Ethylene carbonate (EC), methylene chloride (MC), and hydrochloric acid (HCl). The plants have a production installed capacity of 286,000 metric tons of Caustic Soda and 64,000 tons of specialty chemicals (methyl chloride and ethyl chloride, among others). The Marl plants have a production capacity of 415,000 mtpy of PVC resins, distributed into: (1) 215,000 mtpy for the production of high-impact suspension PVC (HIS-PVC) resin, mainly used for window frames; (2) 165,000 mtpy for the production of emulsion resins, mainly used for PVC paste; and (3) 35,000 mtpy for the production of other PVC resins.
- **Fluor US/AMEA (antes Dura-Line) (2014)** Fluor US/AMEA owns 20 manufacturing and assembly plants, which are located in the United States, Mexico, India, and one in each of the following countries: Oman, Czech Republic, and South Africa. These plants produce specialty high-density polyethylene (HDPE) ducts, conduits, and micro conduits for the telecommunications and energy sectors.

- **Gravenhurst (2016):** has 2 manufacturing plants located in Gravenhurst and Temiskaming, Ontario.
- **Vinyl Compounds Holdings Limited (2016):** It owns a PVC compounds manufacturing plant for the production of specialty compounds, located in Derbyshire, United Kingdom.

For the purpose of preventing our operations from being suddenly affected, our policy is to have predictive and preventive maintenance programs applied on our assets, including plant, equipment, etc. The object of these maintenance programs is to maintain facilities in optimum conditions, complying with the government regulations and standards of each country and, if necessary, apply corrective maintenance, without being a recurring case. We allocate approximately 3.8% of our sales proceeds for preventive, predictive, and corrective maintenance. However, such allocation could be reduced by 100 basis points to support investments that could result strategic. All these resources have been financed through our cash flow.

According to Mexican legislation, mineral resources belong to the nation and the Federal Government may grant concessions to individuals and private entities to explore and exploit mineral reserves. Mexichem's mining rights arise from concessions granted by the Ministry of Economy (*Secretaría de Economía*), pursuant to the Mining Act (*Ley Minera*), which regulates Article 27 of the Mexican Constitution, and its regulations. The Mining Act in force, enacted in 1992, simplified the procedures for obtaining concessions, extended the exploitation term of the concessions from 25 to 50 years, and eliminated direct taxes applied to mining activities. This Act was recently amended; the main change refers to the establishment of a single concession for exploration and exploitation.

Mining concessions grant diverse specific rights to the concession holder, including the right to:

- (i) Carry out exploration and exploitation works and operations within the mining lots under the concession.
- (ii) Use the mineral products obtained from said mining lots as a result of the works and operations carried out during the concession term.
- (iii) Use the lands within the area covered by the concession, unless such lands correspond to another valid mining concession.
- (iv) Obtain the expropriation, temporary occupation, or establishment of an easement over the land that is essential to carry out the exploration, exploitation and beneficiation works and operations and for mine spoil dumps, tailings, and slag heaps and dumps, as well as to establish *underground right-of-way easements* through mining lots.
- (v) Use the mining water for the exploration or exploitation and beneficiation of minerals or of substances obtained and for domestic use by the mine's employees.
- (vi) Obtain a preferential concession over the waters of the mines for any use other than the uses mentioned in the immediately preceding point, according to the law of the matter.
- (vii) Transfer the title on the mining concession, or the rights established in preceding points (i) through (vi), to legally competent persons.
- (viii) Reduce, divide, and identify the surface area of the lots under a concession, or to unify them with other neighboring concessions.
- (ix) Abandon concessions and the rights conferred by them.
- (x) Unify two or more concessions for the purpose of verifying works and operations foreseen in the Mining Act and submit statistical and technical reports.
- (xi) Request administrative corrections or duplicates of the concession titles.
- (xii) Obtain an extension of the mining concessions for an equal term of duration.

In general, we own the lands covered by our mining concessions, although land ownership is not required to operate the concessions. Within the Vinyl Business Group the plants have an average surface area of 34 hectares, as well as an average age of 46 years. We own 94% of the plants.

We believe that all of our production facilities are in good operating condition. At June 30, 2017, the consolidated net carrying amount of our property, plant and equipment was US\$3,774 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. We maintain at holding company level, the insurance policies mentioned below for all of the companies comprising the Mexichem group, with the coverages usually required and according to the standard practice of the mining, chemical, and petrochemical industries.

Multiple business insurance (assets and business interruption):

The multiple business insurance policies have the following coverages:

- Broad coverage for fire, including hydrometeorological hazards, earthquake, and volcanic eruption, covering buildings, contents (plant and equipment), inventories, and gross profits.
- Equipment breakdown coverage, including machinery, electronic equipment, and mobile equipment without license plates (for underground work).
- Coverage for miscellaneous losses, including theft by violent or forced entry, money and securities, and glass breakage.

The sums insured cover the declared values considering the replacement cost or replacement cost value for fixed assets and the last purchase price for inventories. The gross profits have been determined according to the approved budget for fiscal year 2016 and the insured sums vary according to the values of each company.

- **Goods in transit (carriage) insurance:** This insurance covers all those shipments in which we have an insurable interest (purchases, sales, inter-warehouse transfer, etc.).
- **Liability insurance:** This insurance covers damages (including pollution) to third-party property and personal injury, as well as consequential damages arising from direct damages.
- **Directors' and officers' liability insurance:** This insurance protects the members of the Board of Directors and the officers of the company in the event of any third-party legal action brought for alleged wrongful acts in their capacity as directors and officers.
- **Crime insurance:** This insurance covers loss and damages resulting from internal and external criminal acts.
- **Credit insurance:** This insurance covers the risks of nonpayment and prolonged payment delay by debtors.

In addition to our insurance policies mentioned above, each subsidiary has its own insurance policies, taken according to its particular needs or to fulfill its contractual obligations, or to comply with applicable local laws and regulations.

Although we believe that we have adequate and sufficient insurance coverage, in accordance with industry practices and particularly adapted to our operations, it is possible that insurance coverage of unforeseen losses and other liabilities arising from events that are very unpredictable or that could be, in some extreme cases, catastrophic, is not sufficient. Consequently, the results of such insurance coverage insufficiency would have an adverse effect on our financial results that is not anticipated or foreseen within expenses and costs.

The following companies and their affiliate and subsidiary companies that form part of the Mexichem group have similar insurance policies, in an independent manner and outside the insurance policies taken and controlled by the holding company: Dura-Line Holdings, Inc., Vestolit GmbH, Wavin N.V., Mexichem Brasil Indústria de Transformação Plástica Ltda and Mexichem Trading Comercio, Importacao e Exportacao S/A.

MANAGEMENT

Our Directors

Our Board of Directors consists of 11 members. 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
Adolfo del Valle Ruíz	March 17, 1948	Director	1993
María de Guadalupe del Valle Perochena .	March 29, 1967	Director	2005
Ignacio del Valle Ruíz	August 17, 1949	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
Guillermo Ortiz Martínez	July 21, 1948	Independent Director	2010
Eduardo Tricio Haro	August 5, 1963	Independent Director	2008
Eugenio Santiago Clariond Reyes Retana .	August 10, 1943	Independent Director	2007

Antonio del Valle Ruíz 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.B. 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 JCI, Inc in the USA, Grupo Lala, S.A.B. de C.V., Elementia, S.A.B. de C.V. and Grupo Pochteca S.A.B. de C.V., 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 Latin American Conservation Council of The Nature Conservancy.

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 Chairman of the board of directors of Grupo Financiero Ve por Mas, S.A. de C.V. and the Chairman of the board of directors of Kaluz, our parent company. He is a member of the board of directors of Banco Ve por Mas S.A., Elementia S.A.B. de C.V., Controladora GEK, S.A.P.I. de C.V., Grupo Pochteca. S.A.B. de C.V., Afianzadora Sofimex, S.A. and Byline Bank. 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.

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., Grupo Institución, S.A. de C.V. and Inmobiliaria Pabellón Altavista, S.A. de C.V.

Jaime Ruíz Sacristán holds a degree in Business Administration from Universidad Anáhuac and an MBA from Northwestern University of Evanston, Illinois. 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 2011-2013. Currently, Mr. Ruiz Sacristán is a member of the Board of Directors of Byline Bank and Chairman of the Board of Directors of the Mexican Stock Exchange (*Bolsa Mexicana de Valores, BMV*) since January 1, 2015. He is also a member of the boards of directors of the following companies: Grupo Financiero Ve por Mas S.A. de C.V., Elementia, S.A.B. de C.V., 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: Inmobiliaria del Norte, Pro-Invest, Organización del Norte, Promotora ECO, Servicios de Comercio Electrónico, DAB-Invest (all of these commercial real state), Circulo de Crédito (risk qualifier), Circulo Laboral (labor data base), Grupo Aradam (food franchise), Quonia (real estate Spanish society). He is a member of the boards of directors of the following companies: Net Capital (technological school), Banco Ve por Más, S.A. de C.V., Grupo Financiero Ve por Mas S.A. de C.V. and Elementia, S.A.B. 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 Universidad Anahuac, IPADE and the Universidad Panamerica. He is also the tax advisor for the Consejo Mexicano de Hombres de Negocios. He is a member of the boards of directors, audit committees and/or corporate practices committees of the following companies: Bolsa Mexicana de Valores, S.A.B. 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., , Arcelor Mittal México, S.A. de C.V., Arcelor Mittal Las Truchas, S.A. de C.V., Kimberly Clark de Mexico S.A.B. de C.V., Rassini S.A.B. de C.V. and S.D. Indeval, S.A. de C.V.

Guillermo Ortiz Martínez holds a degree in Economics from UNAM and a Ph. D. in Economics from Stanford University. Currently, Dr. Ortiz Martínez is Chairman of the Mexican operations of the investment bank BTG Pactual, Casa de Bolsa. He participates in several international financial and economic councils, as a member of the Group of Thirty (G30), the advisory board of the Center for Financial Stability, the advisory council of the SWIFT Institute, the China International Financial Forum, and the Council on Global Financial Regulation, and as chairman of the board of the Per Jacobsson Foundation. Dr. Ortiz Martínez is founder of GO Asociados, a business consulting firm established in 2009. He is member of the Advisory Council on Life Quality, Progress, and Development of Mexico's Federal District Government (*Consejo Consultivo de Calidad de Vida, Progreso y Desarrollo del Gobierno del Distrito Federal*). Dr. Ortiz Martínez was chairman of the board of directors of Grupo Financiero Banorte-Ixe from 2011 to 2014. He is also member of the international board of Zurich Insurance Group, Ltd. and of the board of directors of Weatherford International, a company established in Geneva, Switzerland specialized in the supply of technology, products, and field services for the oil and gas industry. He is member of the board of directors of Mexican companies such as Aeropuertos del Sureste S.A.B. de C.V., Grupo Comercial Chedraui S.A.B. de C.V., and Vitro S.A.B. de C.V. Dr. Ortiz Martínez was Governor of the Mexican central bank, Banco de México, between January 1998 and December 2009, and Minister of Finance and Public Credit of Mexico from December 1994 to December 2009.

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. 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., Areoméxico S.A.B. de C.V. , Grupo Porres, S.A. de C.V., Nuplen Alimentos, 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, and The Latin American Conservation Council of the Nature Conservancy, among others.

Eugenio Santiago Clariond Reyes Retana holds a degree in Business Administration and an MBA from ITESM. He is the Chairman of Grupo Cuprum, Grupo Cleber, Grupo FMC Capital and Mexichem Amanco Holding, S.A. de C.V. 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), Consejo Mexicano de Hombres de Negocio, A.C. He also served as a member of the board in Grupo Industrial Saltillo, S.A.B. de C.V., Grupo Pochteca, S.A.B. de C.V. He is also a member of the Business Administration Advisory Committee of the University of Texas in Austin and a member of the Engineering College of the University of California in San Diego. Mr. Clariond is an Honorary Consul to Brazil.

María de Guadalupe del Valle Perochena holds a degree in Economics from Universidad Anáhuac and a postgraduate degree in Top Management from the IPADE Business School of Universidad Panamericana. She is member of the board of directors of the following Mexican companies: Kaluz, Banco Ve por Más S.A. de C.V., and Controladora GEK S.A. de C.V.

Antonio del Valle Ruíz, Adolfo del Valle Ruíz and Ignacio del Valle Ruíz are brothers. Antonio del Valle Ruíz is the father of María de Guadalupe del Valle Perochena, Antonio del Valle Perochena, Francisco Javier del Valle Perochena and Juan Pablo del Valle Perochena. Antonio del Valle Ruíz, Adolfo del Valle Ruíz and Ignacio del Valle Ruíz are cousins of Jaime Ruíz Sacristán.

Kaluz, Controladora GEK, S.A. de C.V., Elementia, S.A.B. 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. 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 25, 2017. Our bylaws provide that the members of the Board of Directors are elected for the term established by the General Meeting of Shareholders that appointed them and may be reelected (ratified) as such, 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 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, the president of the corporate practices committee or the audit committee, or the secretary of the Board of Directors 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 three standing committees: the corporate practices committee, the audit committee and the finance committee. In April 2016, the audit and corporate practices committee responsibilities were separated, creating the two respective committees. The finance committee was also created in 2016.

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 Eugenio Santiago Clariond Reyes, Divo Milán Haddad and Juan Pablo del Valle Perochena.

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 Eduardo Tricio Haro, all of whom are independent Directors.

Finance committee

Our finance committee is composed of three members of the Board of Directors, who were appointed by this Board; except for its President, who was appointed by the Annual Ordinary Shareholders' Meeting. This Committee shall support the Board of Directors in the fulfillment of its responsibilities with the shareholders regarding the policies, practices and strategies related to its financial affairs' management. Its main objectives are: (1) to formulate and recommend for the approval of the Board of Directors the financial policies of the Company, including the management of financial matters, (2) to review management's plans to manage the exposure of the Company's financial risks, (3) to review the Company's cash flow plan, balance sheet and capital structure and (4) to review the Company's capital allocation strategy, including the capital cost. Our finance committee currently consists of Jaime Ruiz Sacristán (President), Guillermo Ortíz Martínez, Antonio del Valle Perochena, María de Guadalupe del Valle Perochena, Adolfo del Valle Ruíz and Ignacio del Valle Ruíz.

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
Francisco Hernández Castillo.....	March 3, 1966	Chief Legal Officer (CLO) (Corporate General Counsel)
Alejandra Rodríguez Sáenz.....	September 13, 1971	Corporate Vice President, Human Capital
Andrés Múgica Jimenez de la Cuesta.....	June 2, 1965	President, Fluor Business Group
Carlos Manrique Rocha.....	December 4, 1955	President, Vinyl Business Group
Paresh Chari.....	October 24, 1950	President, Fluent Business Group
Pedro Martínez Puig.....	July 5, 1971	Corporate Vice President, Information Technology (IT)
Jorge Luis Guzmán Mejía.....	August 24, 1970	Corporate Vice President, Internal Audit

Antonio Carrillo Rule. Holds Mechanical and Electrical Engineering degrees from Universidad Anáhuac (Mexico) and a Master in Business Administration with Major in Finance from the Wharton School of the University of Pennsylvania (USA). Mr. Carrillo Rule began his career with Grupo Infra, in the operations area. He then joined Trinity Industries de México as Vice President of Operations, being appointed President in 2011. Since 2012, Mr. Carrillo Rule is the Chief Executive Officer (CEO) of Mexichem. He has been a professor of Finance at Instituto Tecnológico Autónomo de México (ITAM). He is member of the World Presidents' Organization (WPO) in Mexico City; the Executive Board for Latin America of the Wharton School of the University of Pennsylvania; the Board of Directors of Trinity Industries, Inc. (NYSE: TRN); and the Board of Directors of Dr. Pepper Snapple Group (NYSE: DPS).

Rodrigo Guzmán Perera. Holds a Business Administration degree from Instituto Tecnológico Autónomo de México (ITAM) and a Master in Global Business Administration with honorable mention, in a joint program between Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and the Thunderbird School of Global Management (Arizona, USA). Mr. Guzmán Perera began his career with Grupo Financiero Capital. He then joined

Grupo Financiero Banamex, where he was assigned to the opening of operations of Grupo Unión Fenosa (now Gas Natural Fenosa) in Mexico, as Chief Financial Officer (CFO). In 2001 he was appointed Director of Administration and Finance of Grupo Aeroportuario del Pacífico, where he was responsible for the company's Initial Public Offering (IPO) in the New York Stock Exchange (NYSE: PAC) and in the Mexican Stock Exchange (BMV). Mr. Guzmán Perera has over 30 years of experience in the financial sector. He was appointed CFO of Mexichem in June, 2013.

Francisco Hernández Castillo, studied Law in the Universidad Católica de Andrés Bello in Caracas, Venezuela, he also has a Master's Degree in Law from the University of New York, from the Universidad de Roma (La Sapienza) as well as an Advanced Studies Diploma (ASD) from the Université Paris II Assas. Mr. Hernández has more than 20 years of experience in international companies in multiple geographies. Previously, he served as VP & General Counsel for Emerging Markets for Tyco International, where he was responsible for legal, public, regulatory affairs, as well as regulation compliance, for their corporate headquarters as well as of all Tyco International divisions in Africa, India, Middle East and Latin America. Before this position, he served as General Counsel for Latin America and the Caribbean for Tyco, position that he occupied from July 2007 to February 2013. Mr. Hernández joined Tyco in May of 2005 as compliance attorney and before he occupied several positions as legal advisor for multinational companies, private law firms as well as recognized institutions such as the World Bank Ingram Micro, Inc. and industrial groups in Latin America. He was awarded the CEO award by Tyco in 2012 and recognized as one of the 100 most influential attorney in Latin America in 2013 by Legal 500 and by the Ejecutivo Hispano publication as one of the main Hispanic legal leaders in the United States in December of 2014.

Alejandra Rodríguez Sáenz. Holds an Organizational Psychology degree from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and a Master in Business Administration from Instituto Tecnológico Autónomo de México (ITAM). Before joining Mexichem, Ms. Rodríguez Sáenz served as Human Resources Director for Latin America of the Clorox Company. She has over 20 years of experience in the human resources area of multinational corporations such as the Gillette Company, the Procter & Gamble Company, and Koninklijke Philips N.V. (Philips).

Andrés Múgica Jiménez de la Cuesta. Holds an Industrial Engineering degree from Universidad Anáhuac (Mexico) and a Master in Business Administration from Universidad Iberoamericana (Mexico). Mr. Múgica Jiménez de la Cuesta has over 25 years of experience in the automotive, cement, and renewable energy industries, among others. Before joining Mexichem, Mr. Múgica Jiménez de la Cuesta served in diverse companies, including the Apasco (Holcim) Group and the Enerland Group, in Mexico, and Tata Hispano Motors Carrocera, S.A. in Spain and Morocco. He is President of Mexichem's Fluor Business Group since 2014.

Carlos Manrique Rocha. Holds a Chemical Engineering degree from Benemérita Universidad Autónoma de Puebla (Mexico) and postgraduate degrees in Business Administration from the IPADE Business School of Universidad Panamericana and in Statistical Control from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM), both in Mexico. Mr. Manrique Rocha has served in Mexichem for more than 30 years and was appointed President of the Vinyl Business Group in 2011. He is also member of the board of directors of Petroquímica Mexicana de Vinilo (PMV) and of Terminal Portuaria (TEPEAL).

Paresh Chari. Holds a Master in Business Administration from the University of Michigan (USA) and an Engineering degree and Master in Engineering from the Indian Institute of Technology (India). He is also a Certified Public Accountant. Mr. Chari has more than 16 years of experience in the industry, having served in Dura-Line since 2005. In Mexichem, he was appointed Director of Integral Solutions for the Americas in 2015 and President of the Fluent Business Group in 2016.

Pedro Martínez Puig. Holds a Business Management and Administration degree from Escuela Superior de Administración y Dirección de Empresas (ESADE) in Barcelona, Spain and Master degrees in International Business Management and Administration from ESADE and from the Erasmus School of Economics of the Erasmus University Rotterdam (The Netherlands). Mr. Martínez Puig has 20 years of experience in the information technology sector, having served in the Henkel Group, first as Chief Information Officer (CIO) in Latin America and later as Director of Information Technology at the corporate offices in Germany. He joined Mexichem in October 2015 as Corporate Vice President of Information Technology.

Jorge Luis Guzmán Mejía. Holds a Business Administration degree and a Master in Business Administration from Universidad Iberoamericana (Mexico). He is also a Certified Internal Auditor (CIA) and holds a Certification in Control Self-Assessment (CCSA), certified by the Central Florida Chapter of the Institute of Internal Auditors (IAA).

Mr. Guzmán Mejía has more than 20 years of experience in the areas of finance, treasury, credit, auditing, risks, and internal control (pursuant to the U.S. Sarbanes-Oxley Act), having served in Avon, Becton, Dickinson and Company, DuPont Corporation, and The Dow Chemical Company. He joined Mexichem in 2008, as Corporate Vice President of Internal Audit.

Compensation of directors and officers

The General Meeting of Shareholders held on April 28, 2016 resolved, and on April 25, 2017 ratified, that the chairman of the (i) Board of Directors, (ii) audit committee, (iii) finance committee and (iv) corporate practices committee, will receive Ps. 160,000 for each meeting they attend. All other members of the Board of Directors, audit committee, corporate practices committee and the finance committee will receive Ps. 80,000 for each meeting they attend.

The compensation paid to management and other key members of our management during the last three years was as follows:

	2016	2015	2014
	(Millions of U.S. dollars)		
Short-term benefits	\$ 8	\$ 6	\$ 6
Postretirement benefits.....	-	1	-
Terminated benefits	1	-	1
Total	<u>\$ 9</u>	<u>\$ 7</u>	<u>\$ 7</u>

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.....	901,186,189	42.9
Shareholders related to the controlling group	184,961,248	8.8
Subtotal	1,086,147,437	51.7
Public shareholders	1,013,852,563	48.3
Total	2,100,000,000	100.0

Members of the Del Valle family control approximately 51.7% of our outstanding voting capital stock, 42.9% 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 48.3% 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 investments, trust funds and bank accounts with Banco Ve por Más, S.A. de C.V. and Casa de Bolsa Ve por Más, S.A. de C.V. 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 amount equal to the costs and expenses for the services, plus a fee at market price.

All transactions with related parties have been made in the normal course of our business operations, and are on terms no less favorable to us than would have been obtained in an arm's-length transaction.

The following table sets forth amounts due to and from our related parties as of December 31, 2016, 2015 and 2014:

Related Party Balances	As of December 31,		
	2016	2015	2014
	(in millions of dollars)		
Due from related parties:			
Elementia, S.A. de C.V.	\$ 1.2	\$ 0.2	\$ 1.6
Pochteca Materias Primas, S.A. de C.V.	0.8	1.0	1.4
Eternit Colombiana, S.A.	0.4	0.2	0.4
Others	0.8	0.2	0.6
Total amount receivable	\$ 3.2	\$ 1.6	\$ 4.0
Due to related parties:			
Kaluz, S.A. de C.V.	\$ 49.5	\$ 26.4	\$ 32.1
Others	2.0	0.4	0.5
Total expenses	\$ 51.5	\$ 26.8	\$ 32.6

* 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 2027 Notes and the 2048 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 US\$1,000,000,000 (US\$500,000,000 of 2027 Notes and US\$500,000,000 of 2048 Notes);
- will mature at 100% of their principal amount, the 2027 Notes maturing on October 4, 2027 and the 2048 Notes maturing on January 15, 2048;
- will be issued in denominations of US\$200,000 and integral multiples of US\$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: (1) Mexichem Brasil Industria de Transformação Plastica Ltda. (2) Mexichem Derivados, S.A. de C.V.; (3) Mexichem Resinas Vinílicas, S.A. de C.V.; (4) Mexichem Flúor, S.A. de C.V.; (5) Mexichem Resinas Colombia, S.A.S. (6) Mexichem Soluciones Integrales, S.A. de C.V.; (7) Mexichem Compuestos, S.A. de C.V.; (8) Mexichem UK Limited.; (9) Mexichem Fluor, Inc.; (10) Mexichem Ecuador, S.A.; and (11) Mexichem Flúor Comercial, S.A. de C.V. (collectively, the “Subsidiary Guarantors”). As of and for the six months ended June 30, 2017, the Subsidiary Guarantors (in addition to Mexichem, on a stand-alone basis) accounted for 48.9% of our total assets and 46.7% of our EBITDA on a consolidated basis.

Interest on the Notes:

- will accrue at a fixed rate of 4.000% per annum for the 2027 Notes and at a fixed rate of 5.500% per annum for the 2048 Notes;
- 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 April 4 and October 4 of each year, commencing on April 4, 2018 for the 2027 Notes;
- will be payable in cash, semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2018 for the 2048 Notes;

- will be payable to the persons in whose name the 2027 Notes are registered at the close of business on the March 20 and September 21 immediately preceding each interest payment date;
- will be payable to the persons in whose name the 2048 Notes are registered at the close of business on the December 31 and June 30 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 Interests 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. The 2027 Notes and the 2048 Notes rank *pari passu* in priority of payment with each other and if we were to issue any debt other than the Notes, the Notes 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 Interests, and any other amounts that may become due and payable by us in respect of the 2027 Notes and the 2048 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 2027 Notes and the 2048 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. It is not expected that Netafim will become a Subsidiary Guarantor following the Acquisition. 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: (1) 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"; (2) if the guarantee was required pursuant to the terms of the indenture, the cessation of the circumstances requiring the guarantee; or (3) defeasance or discharge of the Notes, as provided below under the caption "—Defeasance".

In addition, the Company may terminate upon written notice of such election to the trustee the guarantee of any Subsidiary Guarantor that does not guarantee any other Debt of the Company, or any other Subsidiary of the Company, *provided* that, subsequent to the termination of such Subsidiary Guarantor's guarantee, such Subsidiary Guarantor will not guarantee any Debt of the Company or any other Subsidiary of the Company unless contemporaneously therewith effective provision is made to guarantee the Notes on the same terms as such Subsidiary Guarantor's initial guarantee under the indenture.

As of June 30, 2017, we and the Subsidiary Guarantors had US\$2.3 billion of total indebtedness, none of which is secured, and US\$70.9 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 Interests.” No commissions or expenses will be charged to the holders in respect of such payments.

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 US\$200,000 and integral multiples of US\$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

Each series of 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 (1) 100% of the principal amount of the series of Notes to be redeemed and (2) 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 30 basis points for the 2027 Notes and at the Treasury Rate plus 45 basis points for the 2048 Notes, plus accrued interest thereon to the date of redemption and any Additional Interests payable with respect thereto.

In addition, we may redeem either series of Notes, in whole or in part, at any time and from time to time, beginning on the date that is three months prior to the scheduled maturity of the notes for the 2027 Notes and on the date that is six months prior to the scheduled maturity of the notes for the 2048 Notes, at our option at a redemption price equal to 100% of the principal amount of the series of Notes to be redeemed, plus accrued and unpaid interest on the principal amount of the Notes being redeemed to the date of redemption.

Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Notes or portions thereof called for redemption.

On and after the redemption date, interest on the Notes or any portion of the Notes called for redemption will cease to accrue (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with the trustee funds sufficient to pay the redemption price and accrued interest, through the redemption date, on the Notes subject to redemption. If the redemption date falls after a record date but on or prior to the corresponding interest payment date, we will pay accrued interest to the holder of record on the corresponding record date, which may or may not be the person who will receive payment of the redemption price (which will exclude such accrued interest). If less than all the Notes of a series are to be redeemed, the Notes of such series to be redeemed will be selected by the trustee by lot or by such method in accordance with DTC procedures.

Tax redemption

We may at any time redeem each series of Notes, at our option, in whole, but not in part, 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 Interests, 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 Interests in connection with payments on the Notes in respect of withholding taxes in excess of 4.9% (the "Excess Additional Interests") 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 Interests if a payment in respect of the relevant series of Notes were then due.

Before giving any notice of redemption as described in the preceding clauses, we will deliver an 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 Interests as a result of such change or amendment; and

(b) all governmental approvals necessary for us to effect the redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion have not been obtained.

Redemption upon change of control

Upon the occurrence of a Change of Control Triggering Event, the holders of each series of Notes will have the right to require us to purchase all or a portion of their Notes (in integral multiples of US\$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 Interests 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 US\$200,000.

We will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of Notes in connection with a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the covenant described hereunder by virtue of our compliance with such securities laws or regulations.

We will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes a Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Open market purchases

We may at any time purchase Notes of either series in the open market or otherwise at any price.

Transfer of notes

The Notes may be transferred in whole or in part in an authorized denomination upon the surrender of the Note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the registrar or the specified office of any transfer agent. Each new note to be issued upon exchange of Notes or transfer of Notes will, within three business days of the receipt of a request for exchange or form of transfer, be mailed at the risk of the holder entitled to the note to such address as may be specified in such request or form of transfer.

The Notes will be subject to certain restrictions on transfer as more fully set out in the indenture. See “Notice to investors.” Transfer of beneficial interests in the Global Notes will be effected only through records maintained by DTC and its participants, including Euroclear and Clearstream Luxembourg.

Transfers will be effected without charge by or on our behalf, the registrar or the transfer agents, but upon payment, or the giving of such indemnity as the registrar or the relevant transfer agent may require, in respect of any tax or other governmental charges which may be imposed on such transfer. 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 Interests

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 interests (“Additional Interests”) 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 Interests 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 Interests on presenting such Note for payment on any date during such 30-day period (and no Additional Interests 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 (1) 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 (2) 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 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;

(f) any tax, assessment or other governmental charge which is payable other than by deduction or withholding from payments on the Note;

(g) 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 Interests had the beneficiary, settlor, member or beneficial owner been the holder of the Note; or

(h) any combination of the above.

The limitations on our obligations and of any Subsidiary Guarantor to pay Additional Interests set forth in clause (c) above shall not apply if (1) 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 (2) 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 Interests. 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 Interests 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 (1) 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 (2) 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 (1) the Lien is not created in contemplation of or in connection with such acquisition, merger or consolidation, (2) the Debt secured by the Liens may not exceed the Debt secured on the date of such acquisition, merger or consolidation, (3) the Lien will not apply to any other property or assets owned by us or any of our Subsidiaries and (4) 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 (1) *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 (2) 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: (1) with respect to transactions secured by receivables from export sales to third parties, 50% of our consolidated gross revenues from export sales for the immediately preceding calendar year; or, (2) with respect to transactions secured by receivables from domestic (Mexican) sales to third parties, 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 each series of Notes and the indenture;

(b) the resulting, surviving or transferee person (if not the Company), if not organized and existing under the laws of Mexico, undertakes, in such supplemental indenture, to pay such additional interests 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 Interests” 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 each series of Notes and the indenture;

(b) the resulting, surviving or transferee person (if not such Subsidiary Guarantor), if not organized and existing under the laws of Mexico, undertakes, in such supplemental indenture, to pay such additional interests 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 Interests” 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 (1) the CNBV and (2) 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 security holders 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 relevant series of Notes will occur if:

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

(b) we default in the payment of principal (including any related Additional Interests) on the relevant series of Notes on the due date;

(c) we fail to comply with any of the covenants described under "—Covenants—Limitation on liens," "—Limitation on consolidation, merger or transfer of assets," and such failure continues for 30 days after the notice specified below;

(d) we fail to comply with any of our covenants or agreements in the relevant series of Notes or the indenture (other than those referred to in clauses (a), (b) and (c) above), and such failure continues for 60 days after the notice specified below;

(e) we or any Significant Subsidiary defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Debt for money borrowed by us or any such Significant Subsidiary (or the payment of which is guaranteed by us or any such Significant Subsidiary) whether such Debt or guarantee now exists, or is created after the date of the indenture, which default (1) 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 (2) 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 US\$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 US\$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 (1) 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 (2) there is a period of 60 days following such judgment during which such judgment or decree is not discharged, waived or the execution thereof stayed;

(g) any guarantee of the relevant series of Notes is held in any judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force and effect, or any Subsidiary Guarantor (or any person acting on behalf of any Subsidiary Guarantor) denies or disaffirms its obligations under the guarantees of the relevant series of 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 relevant series of Notes until the trustee or the holders of at least 25% in principal amount of the 2027 Notes or the 2048 then outstanding, as the case may be, notify us of the Default and we do not cure such Default within the time specified after receipt of such notice.

The trustee is not to be charged with knowledge of any Default or Event of Default or knowledge of any cure of any Default or Event of Default with respect to the relevant series of Notes unless either (1) an authorized officer of the trustee with direct responsibility for the indenture has actual knowledge of such Default or Event of Default or (2) 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) with respect to the relevant series of Notes occurs and is continuing, the trustee or the holders of not less than 25% in principal amount of the 2027 Notes or the 2048 Notes then outstanding, as the case may be, may declare all unpaid principal of and accrued interest on the corresponding series of Notes to be due and payable immediately, by a notice in writing to us, and upon any such declaration such amounts will become due and payable immediately. If an Event of Default specified in clause (h) above with respect to the relevant series of Notes occurs and is continuing, then the principal of and accrued interest on all Notes of such series will become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Subject to the provisions of the indenture relating to the duties of the trustee in case an Event of Default under the relevant series of Notes 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 of such series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

Defeasance

We may at any time terminate all of our obligations with respect to either series of Notes (“defeasance”), except for certain obligations, including those regarding any trust established for a defeasance and obligations to register the transfer or exchange of the Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain agencies in respect of Notes. We may at any time terminate our obligations under certain covenants set forth in the indenture, and any omission to comply with such obligations will not constitute a Default or an Event of Default with respect to either series of Notes issued under the indenture (“covenant defeasance”). In order to exercise either defeasance or covenant defeasance, we must irrevocably deposit in trust, for the benefit of the holders of the relevant series of Notes, with the trustee money or U.S. government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants expressed in a written certificate delivered to the trustee, without consideration of any reinvestment, to pay the principal of and interest on the 2027 Notes or the 2048 Notes, as the case may be, to redemption or maturity and comply with certain other conditions, including the delivery of an opinion of legal counsel of recognized standing to the effect that the holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance and will be subject

to U.S. federal income tax on the same amount and in the same manner and at the same time as would otherwise have been the case (and in the case of a defeasance that is not a covenant defeasance, such opinion shall be based on a change in law or a ruling of the U.S. Internal Revenue Service).

Amendment, supplement, waiver

Subject to certain exceptions, the indenture may be amended or supplemented with the consent of the holders of at least a majority in principal amount of each series of Notes then outstanding, and any past Default or compliance with any provision may be waived with the consent of the holders of at least a majority in principal amount of each series of Notes then outstanding. However, without the consent of each holder of an outstanding Note affected thereby, no amendment may:

- (a) reduce the rate of or extend the time for payment of interest on 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 relevant series of Notes will receive prior notice as described under “—Notices” of any proposed amendment to the Notes or the indenture described in this paragraph. After an amendment described in the preceding paragraph becomes effective, we are required to mail to the holders a notice briefly describing such amendment. However, the failure to give such notice to all holders of such series of Notes, or any defect therein, will not impair or affect the validity of the amendment.

The consent of the holders of a series of Notes is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

We may, without the consent or vote of any holder of a series of Notes, amend or supplement the indenture or the Notes for the following purposes:

- (a) to cure any ambiguity, omission, defect or inconsistency 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.

Further issuances

We may from time to time without notice to or consent of the holders create and issue an unlimited principal amount of additional Notes of the same series as the Notes initially issued in this offering; provided that such additional Notes shall be issued under a separate CUSIP, ISIN, Common Code or other identifying number unless the additional Notes are issued pursuant to a "qualified reopening" of the original series of Notes, are otherwise treated as part of the same "issue" of debt instruments as the original series of Notes or are issued with no more than a de minimis amount of original discount, in each case for U.S. federal income tax purposes.

Notices

For so long as Notes in global form are outstanding, notices to be given to holders will be given to the depository, in accordance with its applicable policies as in effect from time to time. If Notes are issued in individual definitive form, notices to be given to holders will be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to holders of the Notes at their registered addresses as they appear in the trustee's records. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and trading on the Euro MTF 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 either series of Notes, the trustee need perform only those duties that are specifically set forth in the indenture and no others, and no implied covenants or obligations will be read into the indenture against the trustee. In case an Event of Default with respect to either series of Notes has occurred and is continuing, the trustee shall exercise those rights and powers vested in it by the indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. No provision of the indenture will require the trustee to expend or risk its own funds or otherwise incur any financial liability or other 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 Interests” has the meaning set forth under “Additional Interests” above. For the sake of clarity, all Additional Interests will be deemed a payment of interest for purposes of Mexican tax law.

“Advance Transaction” means an advance from a financial institution involving either (1) a foreign exchange contract or (2) 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 a series of Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such series of Notes.

“Comparable Treasury Price” means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Company obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Consolidated Net Tangible Assets” means the total amount of assets of the Company and its Subsidiaries less (1) applicable depreciation, amortization and other valuation reserves, (2) all current liabilities excluding intercompany Debt and (3) 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 (1) was a member of the board of directors on the date of the indenture or (2) 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 (1) indebtedness of such person for money borrowed and (2) 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, Antonio del Valle Perochena, Juan Pablo del Valle Perochena, María Guadalupe 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 or their respective affiliates or successors which are primary U.S. Government securities dealers and a primary U.S. government securities dealer selected by MUFG Securities Americas Inc. (or its respective successors or affiliates), 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 is a summary of certain 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 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. It is important to analyze whether the United States holder complies with all of the requirements set forth in the tax treaty, including but not limited to satisfying at least one of the test provided by the Limitation on Benefits provision, in order to apply the benefits stated in the tax treaty. 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 Notes, 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; provision of 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 Interests to the holders of Notes in respect of the Mexican withholding taxes mentioned above. Such Additional Interests shall be considered as income for Mexican tax purposes subject to taxation according to the applicable provisions of the Mexican Income Tax Law. If we pay Additional Interests in respect of such Mexican withholding taxes, any refunds of such Additional Interests will be for our account. See “Description of Notes— Additional Interests.”

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 Interests may be limited as set forth under “Description of Notes— Additional Interests.”

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 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 gains may apply, which shall be considered as interest subject to withholding tax, nevertheless such tax 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 exemptions 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.

United States Federal Income Taxation

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a holder of a Note. This summary is based on provisions of the Internal Revenue Code of 1986, as amended, applicable Treasury regulations, case laws, rulings and decisions now in effect, all of which are subject to change, possibly with retroactive effect. This summary deals only with beneficial owners of Notes that will hold Notes as capital assets, and does not address particular tax considerations that may be applicable to investors that are subject to special tax rules, such as banks, tax-exempt entities, insurance companies, regulated investment companies, dealers in securities or currencies, traders in securities electing to mark to market, persons that will hold Notes as a position in a “straddle” or conversion transaction, or as part of a “synthetic security” or other integrated financial transaction, entities taxed as partnerships or the partners therein, persons subject to the alternative minimum tax, non-resident alien individuals present in the United States for more than 182 days in a taxable year, U.S. expatriates or persons that have a “functional currency” other than the U.S. dollar.

This summary addresses only U.S. federal income tax consequences, and does not address consequences arising under state, local, foreign tax laws or the Medicare tax on net investment income. Investors should consult their own

tax advisors in determining the tax consequences to them of holding Notes under such tax laws, as well as the application to their particular situation of the U.S. federal income tax considerations discussed below.

As used herein, a “U.S. holder” is a beneficial owner of a Note that is a citizen or resident of the United States, U.S. domestic corporation or any other person that otherwise will be subject to U.S. federal income taxation on a net income basis in respect of the Note.

Payments of Interest and Additional Interests

The gross amount of stated interest and Additional Interests (i.e., without reduction for Mexican withholding tax) will generally be taxable to a U.S. holder as ordinary interest income at the time it accrues or is actually or constructively received, in accordance with the U.S. holder’s method of accounting for U.S. federal income tax purposes.

Subject to generally applicable limitations, restrictions and conditions, Mexican withholding taxes paid at the appropriate rate applicable to a U.S. holder will be treated as foreign income tax eligible (1) for credit against a U.S. holder’s U.S. federal income tax liability, or (2) at the election of such U.S. holder, for deduction in computing such U.S. holder’s taxable income (provided that the U.S. holder elects to deduct, rather than credit, all foreign income taxes paid or accrued for the relevant taxable year). Interest and Additional Interests will constitute income from sources without the United States for foreign tax credit purposes. Such income generally will constitute “passive category income” or, in the case of certain U.S. holders, “general category income.” The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of such deduction, involves the application of rules that depend on a U.S. holder’s particular circumstances. U.S. holders should consult their own tax advisors regarding the availability of foreign tax credits or deductions in their particular situations.

Sale, Exchange and Retirement of Notes

Upon the sale, exchange or retirement of a Note, a U.S. holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued interest, which will be taxable as such) and the U.S. holder’s tax basis in such Note. A U.S. holder’s tax basis in a note will generally equal the cost of the Note to such holder. Gain or loss recognized by a U.S. holder generally will be long-term capital gain or loss if the U.S. holder has held the Note for more than one year at the time of disposition. Long-term capital gains recognized by an individual holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income. The deduction of capital losses is subject to limitations.

Capital gain or loss recognized by a U.S. holder generally will be U.S.-source gain or loss.

Specified Foreign Financial Assets

Individual U.S. holders that own “specified foreign financial assets” with an aggregate value in excess of US\$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which may include Notes issued in certificated form) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the Notes, including the application of the rules to their particular circumstances.

Information Reporting and Backup Withholding

Information returns may be filed with the IRS in connection with payments on the Notes made to, and the proceeds of dispositions of Notes effected by, certain U.S. holders. In addition, certain U.S. holders may be subject to backup withholding in respect of such amounts if they do not provide their taxpayer identification numbers to the person from whom they receive payments. A holder that is not a U.S. holder may be required to comply with applicable certification procedures to establish that he or she is not a U.S. holder in order to avoid the application of such information reporting requirements and backup withholding. The amount of any backup withholding from a payment to a U.S. or non-U.S.

holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that 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 MUFG Securities Americas Inc. are acting as the representatives of the initial purchasers.

Subject to the terms and conditions stated in the purchase agreement, dated September 27, 2017, 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 2027 Notes
BBVA Securities Inc.	\$124,942,000
J.P. Morgan Securities LLC.....	\$124,942,000
Morgan Stanley & Co. LLC.....	\$124,942,000
MUFG Securities Americas Inc.	\$124,942,000
Leumi Partners Underwriters Ltd.	\$116,000
Poalim IBI - Underwriting and Issuing Ltd.	\$116,000
Total	\$500,000,000

Initial Purchaser	Principal Amount of 2048 Notes
BBVA Securities Inc.	\$124,942,000
J.P. Morgan Securities LLC.....	\$124,942,000
Morgan Stanley & Co. LLC.....	\$124,942,000
MUFG Securities Americas Inc.	\$124,942,000
Leumi Partners Underwriters Ltd.	\$116,000
Poalim IBI - Underwriting and Issuing Ltd.	\$116,000
Total	\$500,000,000

Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed to purchase all of the Notes of each series sold under the purchase agreement if any of these Notes are purchased. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased or the purchase agreement may be terminated. 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 each series of Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer's certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The initial purchasers have advised us that they propose initially to offer each series of Notes at the offering price set forth on the cover page of this offering memorandum and to certain dealers at that price less a selling concession. After the initial offering, the offering price, concession or any other term of the offering may be changed.

Notes Are Not Being Registered

The Notes have not been registered under the Securities Act, or the securities law of any other jurisdiction, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities

Act. Each purchaser of the Notes of each series will be deemed to have made acknowledgements, representations and agreements as described under “Notice to investors.” In connection with sales outside the United States, each of the initial purchasers has agreed that it will not offer, sell or deliver the Notes to, or for the account of, U.S. persons (unless in reliance on Rule 144A) (1) as part of their distribution at any time or (2) otherwise until 40 days after the later of the commencement of the offering and the closing date, and it will send to each dealer to whom it sells such Notes during such period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Resales of the Notes of each series are restricted as described below under “Notice to investors.”

Further, until 40 days after the commencement of the offering, an offer or sale of the Notes of either series within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

New Issue of Notes

Each series of Notes will constitute a new issue of securities with no established trading market. Application has been made to list the Notes of each series on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market. However, we cannot assure you that the listing application will be approved. We have been advised by the initial purchasers that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes of each series. If an active trading market for the Notes of each series does not develop, the market price and liquidity of the Notes of each series may be adversely affected. If the Notes of each series are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Settlement

We expect that delivery of each series of Notes will be made to investors on or about October 4, 2017, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as “T+5”). Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, trades in the secondary market are required to settle in two 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+5, 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. Certain of the initial purchasers or their affiliates have also acted as lenders under our revolving line of credit for US\$1,500 million.

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, (1) 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 (2) 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 (1) persons who are outside the United Kingdom or (2) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (3) 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 (1) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), (2) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder or (3) 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 memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum 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 (1) to an institutional investor under Section 274 of the SFA, (2) 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 (3) 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.

Notice to Prospective Investors in Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Notice to Prospective Investors in Israel

This offering memorandum does not constitute a prospectus under the Israeli Securities Law, 5728-1968, and has not been filed with or approved by the Israel Securities Authority. In Israel, this offering memorandum is being distributed only to, or is directed only at, qualified investors listed in the first addendum, or the Addendum, to the

Israeli Securities Law. Qualified investors may be required to submit written confirmation that they fall within the scope of the Addendum. In addition, we may distribute and direct this document in Israel, at our sole discretion, to investors who are not considered qualified investors, provided that the number of such investors in Israel shall be no greater than 35 in any 12-month period.

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 to non U.S. persons 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

Application will be made to have the Notes accepted for clearance through Euroclear and Clearstream Luxembourg. In addition, application will be made to have the Notes accepted for trading in book-entry form by DTC. For the 2027 Rule 144A Notes, the ISIN number is US59284BAF58, the CUSIP number is 59284BAF5 and the common code number is 169792356. For the 2027 Regulation S Notes, the ISIN number is USP57908AG32, the CUSIP number is P57908AG3 and the common code number is 169533229. For the 2048 Rule 144A Notes, the ISIN number is US59284BAG32, the CUSIP number is 59284BAG3 and the common code is 169792399. For the 2048 Regulation S Notes, the ISIN number is USP57908AH15, the CUSIP number is P57908AH1 and the common code is 169536112.

Listing

Application has been made to the Luxembourg Stock Exchange for each series of Notes to be listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF market. Copies of (1) our by-laws, (2) the by-laws of our subsidiary guarantors, (3) the indenture, which contains the terms of the subsidiary guarantees, as may be amended or supplemented from time to time, (4) our published annual audited consolidated financial statements and (5) 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 each series of 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 of each series or our solvency, liquidity or credit quality. The information contained in this offering memorandum is exclusively our responsibility and has not been reviewed or authorized by the CNBV. The acquisition of each series of Notes by an investor who is a resident of Mexico will be made under its own responsibility.

Authorization

Pursuant to resolutions adopted by our board of directors on September 18, 2017, 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, 2017.

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

Each series of 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; and
- (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 addresses of the subsidiary guarantors are the following:

- (i) Mexichem Brasil Industria de Transformação Plastica Ltda., in Barra Velha 100, Barrio Floresta, 89211,-730, Joinville, Santa Catarina, Brasil;
- (ii) Mexichem Derivados, S.A., de C.V., in Río San Javier No. 10, Fraccionamiento Viveros del Río, Tlalnepantla, Estado de México, México, C.P. 54060;
- (iii) Mexichem Resinas Vinílicas, S.A. de C.V., in Autopista Altamira Km. 4.5, Puerto Industrial de Altamira, Altamira, Tamaulipas, México, C.P. 89603;
- (iv) Mexichem Flúor, S.A. de C.V., in Eje 106 S/N, Zona Industrial, San Luis Potosí, San Luis Potosí, México, C.P. 78395;
- (v) Mexichem Resinas Colombia, S.A.S., in Zona Industrial Mamonal, Km. 8, Cartagena, Colombia;

- (vi) Mexichem Soluciones Integrales, S.A. de C.V., in Río San Javier No. 10, Fraccionamiento Viveros del Río, Tlalnepantla, Estado de México, México C.P. 54060;
- (vii) Mexichem Compuestos, S.A. de C.V., in Autopista Altamira km 4.5 Col. Puerto Industrial de Altamira, Altamira, Tamaulipas, México, C.P. 89603;
- (viii) Mexichem UK Limited, in The Heath, Bussines and Technical Park, Runcorn, Cheshire WA7 4QF, United Kingdom;
- (ix) Mexichem Fluor, Inc., in 4990 B, ICI Road Highway 75, PO Box 30, St. Gabriel, LA, USA. 70776;
- (x) Mexichem Ecuador, in S.A. Km. 4.5 Vía Durán-Tambo, Guayas, Durán, Ecuador; and
- (xi) Mexichem Flúor Comercial, S.A. de C.V., in Eje 106 sin número, Zona Industrial, San Luis Potosí, San Luis Potosí, México, C.P. 78395.

LEGAL MATTERS

The validity of the Notes and the subsidiary guarantees 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, 2016, 2015 and 2014 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, 2017 and for the six and three months ended June 30, 2017 and 2016 included in this offering memorandum have been reviewed by Galaz, Yamazaki, Ruíz Urquiza, S.C. (member of Deloitte and Touche Tohmatsu Limited), independent auditors.

INDEX TO FINANCIAL STATEMENTS

Unaudited Interim Condensed Consolidated Financial Statements of Mexichem, S.A.B. de C.V. and Subsidiaries as of June 30, 2017 and for the three and six months ended June 30, 2017 and 2016

Independent Auditor's Interim Review Report	F-3
Interim Condensed Consolidated Statements of Financial Position	F-5
Interim Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income	F-6
Interim Condensed Consolidated Statements of Changes in Stockholders' Equity	F-8
Interim Condensed Consolidated Statements of Cash Flows	F-9
Notes to Interim Condensed Consolidated Financial Statements	F-11

Audited Consolidated Financial Statements of Mexichem, S.A.B. de C.V. and Subsidiaries as of and for the years ended December 31, 2016, 2015 and 2014

Independent Auditors' Report	F-22
Consolidated Statements of Financial Position	F-31
Consolidated Statements of Profit or Loss and Other Comprehensive Income	F-32
Consolidated Statements of Changes in Stockholders' Equity	F-34
Consolidated Statement of Cash Flows	F-35
Notes to Consolidated Financial Statements	F-37

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

Interim Condensed
Consolidated Financial
Statements for the periods of
three and six months ended
June 30, 2017 and 2016
(Unaudited), and Independent
Auditors' Report Dated
September 14, 2017

Report on Review of Interim Financial Information from Independent Auditors to the Board of Directors and Stockholders of Mexichem, S.A.B. de C.V.

Introduction

We have reviewed the unaudited condensed consolidated interim statements of financial position of Mexichem, S.A.B. de C.V. and subsidiaries ("Mexichem") as of June 30, 2017 and the unaudited condensed consolidated statements of profit or loss and other comprehensive income for the three and six months ended June 30, 2017 and 2016, and the unaudited condensed consolidated interim statements of changes in stockholders' equity and the unaudited condensed consolidated interim statements of cash flows for the six months periods then ended, and notes to consolidated financial statements, including a summary of significant accounting policies ("Unaudited Condensed Consolidated Interim Financial Statements"). Management is responsible for the preparation and fair presentation of the accompanying condensed consolidated financial statements in accordance with International Accounting Standards (IAS 34) "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of the Review

Our review was conducted in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". An interim financial information review consists of conducting inquiries, primarily with staff responsible for financial and accounting matters, as well as analytical procedures and other review procedures. A review is substantially less in scope than an audit in accordance with International Standards on Auditing, therefore, there is no assurance to acknowledge all the significant matters that could be identified with an audit. Consequently, we do not express an audit opinion on the condensed consolidated interim financial information.

Emphasis on an Issue

As a result of the explosion in the Pajaritos Petrochemical Complex, explained in Note 2b to the Unaudited Condensed Consolidated Interim Financial Statements, Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV), with the support of its stockholders, Mexichem and Pemex, is assessing several strategic options to define the future business structure, integrated in the salt-chlorine-soda-ethylene-VCM chain or individually segmenting each business and, based on the decisions approved, PMV will assess the impacts on its operations in the Pajaritos Petrochemical Complex. As of the date of this report, this assessment has not been concluded and negotiations are still taking place among both partners; however, the financial projections of the individual businesses show that it is not necessary to record any impairment effect. The net value of the plant subject to this evaluation is US\$201 million as of June 30, 2017.



Conclusion

Based on our review, we were not aware of any situation that would call our attention to consider that the accompanying unaudited condensed consolidated interim financial information does not present fairly, in all material respects, the condensed consolidated financial position of Mexichem, S.A.B. de C.V. and subsidiaries as of June 30, 2017, and its condensed consolidated statements of profit or loss and other comprehensive income for the three and six month periods ended June 30, 2017 and 2016, and condensed consolidated changes in stockholders' equity and condensed consolidated cash flows for the six month periods then ended, in accordance with IAS 34, "Interim Financial Reporting".

Other Matter

The accompanying unaudited condensed consolidated interim financial statements have been translated into English for the convenience of readers.

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

C. P. C. Carlos M. Pantón Flores
Mexico City, Mexico
September 14, 2017

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

Interim Condensed Consolidated Statements of Financial Position

As of June 30, 2017, and December 31, 2016

(Thousands of U.S. dollars)

Assets	Notes	June 30, 2017 (Unaudited)	December 31, 2016 (Audited, As Adjusted)
Current assets:			
Cash and cash equivalents		\$ 735,443	\$ 713,607
Accounts and notes receivable, Net	5	1,525,911	1,180,581
Inventories, Net	6	713,315	606,389
Other current assets		48,723	38,576
Assets held-for-sale		<u>22,439</u>	<u>21,050</u>
Total current assets		<u>3,045,831</u>	<u>2,560,203</u>
Non-current assets:			
Property, plant and equipment, Net		3,774,444	3,749,593
Investment in shares of associates and other entities		31,518	30,909
Other assets, Net		74,108	64,294
Deferred taxes	7	-	66,025
Intangible assets, Net		1,215,149	1,192,808
Goodwill		<u>695,964</u>	<u>690,183</u>
Total non-current assets		<u>5,791,183</u>	<u>5,793,812</u>
Total assets		<u>\$ 8,837,014</u>	<u>\$ 8,354,015</u>

See accompanying notes to interim condensed consolidated financial statements.

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

Interim Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

For the periods of three and six months ended June 30, 2017 and 2016 (Unaudited)
(Thousands of U.S. dollars, except gain (loss) per share expressed in U.S. dollars)

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited, As Adjusted)	(Unaudited)	(Unaudited, As Adjusted)
Continuing operations:				
Net sales	\$ 1,463,797	\$ 1,420,013	\$ 2,858,790	\$ 2,678,336
Cost of sales	<u>1,082,544</u>	<u>1,059,568</u>	<u>2,179,475</u>	<u>2,020,923</u>
Gross profit	381,253	360,445	679,315	657,413
General expenses	151,961	193,376	327,296	368,422
Impairment of assets as a result of the PMV claim	<u>-</u>	<u>276,153</u>	<u>-</u>	<u>276,153</u>
Total general expenses	151,961	469,529	327,296	644,575
Exchange result, Net	24,534	(4,122)	34,950	(1,373)
Interest expense	50,597	51,926	98,635	99,081
Interest income	(6,144)	(6,072)	(12,295)	(11,416)
Monetary position loss (gain)	4,865	(216)	(2,096)	(1,365)
Equity in income of associated entities	<u>(240)</u>	<u>(2,688)</u>	<u>(728)</u>	<u>(3,615)</u>
Profit (loss) before income taxes	155,680	(147,912)	233,553	(68,474)
Income tax expense (benefit)	<u>63,745</u>	<u>(26,026)</u>	<u>88,116</u>	<u>(4,450)</u>
Profit (loss) for the period from continuing operations	91,935	(121,886)	145,437	(64,024)

(Continued)

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited, As Adjusted)	(Unaudited)	(Unaudited, As Adjusted)
Discontinued operations:				
Gain (loss) from discontinued operations, Net	<u>25</u>	<u>(1,092)</u>	<u>(154)</u>	<u>(1,490)</u>
Consolidated net profit (loss) for the period	<u>91,960</u>	<u>(122,978)</u>	<u>145,283</u>	<u>(65,514)</u>
Other comprehensive (loss) income for the period	<u>(9,534)</u>	<u>(34,655)</u>	<u>48,792</u>	<u>48,619</u>
Consolidated comprehensive income (loss) for the period	<u>\$ 82,426</u>	<u>\$ (157,633)</u>	<u>\$ 194,075</u>	<u>\$ (16,895)</u>
Consolidated net profit (loss) for the period:				
Owners of the Entity	\$ 67,187	\$ (27,228)	\$ 119,111	\$ 30,515
Non-controlling interests	<u>24,773</u>	<u>(95,750)</u>	<u>26,172</u>	<u>(96,029)</u>
	<u>\$ 91,960</u>	<u>\$ (122,978)</u>	<u>\$ 145,283</u>	<u>\$ (65,514)</u>
Consolidated comprehensive income (loss) attributable to:				
Owners of the Entity	\$ 108,479	\$ (254,597)	\$ 162,359	\$ 80,813
Non-controlling interests	<u>(26,053)</u>	<u>96,964</u>	<u>31,716</u>	<u>(97,708)</u>
	<u>\$ 82,426</u>	<u>\$ (157,633)</u>	<u>\$ 194,075</u>	<u>\$ (16,895)</u>
Gain (loss) per share attributable to owners of the Entity:				
From continuing operations	<u>\$ 0.04</u>	<u>\$ (0.06)</u>	<u>\$ 0.07</u>	<u>\$ (0.03)</u>
From discontinued operations	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Basic gain (loss) per share	<u>\$ 0.04</u>	<u>\$ (0.06)</u>	<u>\$ 0.07</u>	<u>\$ (0.03)</u>
Weighted average common shares outstanding	<u>2,100,000,000</u>	<u>2,100,000,000</u>	<u>2,100,000,000</u>	<u>2,100,000,000</u>

(Concluded)

See accompanying notes to interim condensed consolidated financial statements.

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

Interim Condensed Consolidated Statements of Changes in St

For the periods of six months ended June 30, 2017 and 2016 (Unaudited)
(Thousands of U.S. dollars)

	Paid-in capital			
	Nominal	Additional paid-in capital	Cumulative effect of restatement	
Balances as of January 1, 2016 (Audited, As Adjusted)	\$ 256,482	\$ 1,474,827	\$ 23,948	\$
Sale of shares	-	-	-	
Additional non-controlling equity derived from business acquisition	-	-	-	
Consolidated comprehensive income (loss) for the period	-	-	-	
Balances as of June 30, 2016 (Unaudited)	<u>\$ 256,482</u>	<u>\$ 1,474,827</u>	<u>\$ 23,948</u>	<u>\$</u>
Balances as of January 1, 2017 (Unaudited)	\$ 256,482	\$ 1,474,827	\$ 23,948	\$
Sale of shares	-	-	-	
Additional non-controlling equity derived from business acquisition	-	-	-	
Consolidated comprehensive income (loss) for the period	-	-	-	
Balances as of June 30, 2017 (Unaudited)	<u>\$ 256,482</u>	<u>\$ 1,474,827</u>	<u>\$ 23,948</u>	<u>\$</u>

See accompanying notes to interim condensed consolidated financial statements.

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

Interim Condensed Consolidated Statements of Cash Flows

For the periods of six months ended June 30, 2017 and 2016 (Unaudited)
(Thousands of U.S. dollars)

	Six months ended June 30	
	2017	2016
	(Unaudited)	(Unaudited, As Adjusted)
Cash flows from operating activities:		
Consolidated net income (loss) for the period	\$ 145,283	\$ (65,514)
Adjustments for:		
Income tax expense (benefit)	88,116	(4,450)
Loss from discontinued operations	154	1,490
Depreciation and amortization	189,171	161,983
(Recoveries from insurance companies) impairment of assets as a result of the PMV claim	(31,357)	276,153
Gain on sale of fixed assets	(1,662)	(483)
Unrealized exchange loss (gain)	60,975	(11,264)
Equity in income of associated entity	(728)	(3,615)
Interest income	(12,295)	(11,416)
Interest expense	<u>98,635</u>	<u>99,081</u>
	536,292	441,965
Changes in working capital:		
(Increase) decrease in:		
Accounts receivable	(277,877)	(87,555)
Inventories	(106,683)	(11,365)
Other assets and interest gain	3,885	1,610
Increase (decrease) in:		
Suppliers and other liabilities	252,600	58,445
Income tax paid	<u>(80,237)</u>	<u>(103,626)</u>
Net cash provided by operating activities	327,980	299,474
Cash flows from investing activities:		
Acquisition of machinery and equipment	(121,812)	(260,790)
Proceeds from sale of machinery and equipment	5,451	28,173
Investments in other assets	<u>(9,814)</u>	<u>(7,444)</u>
Net cash used in investing activities	(126,175)	(240,061)

(Continued)

	Six months ended June 30	
	2017	2016
	(Unaudited)	(Unaudited, As Adjusted)
Cash flows from financing activities:		
Loans	8,668	36,040
Loan payments	(29,589)	(15,800)
Interest paid	(98,299)	(99,814)
Dividends paid	(52,585)	(27,976)
Sale of shares	<u>348</u>	<u>6,618</u>
Net cash used in financing activities	(171,457)	(100,932)
Adjustment to cash flows due to exchange rate fluctuations	<u>(8,512)</u>	<u>49,766</u>
Net increase in cash and cash equivalents	21,836	8,247
Cash and cash equivalents at the beginning of the year	<u>713,607</u>	<u>653,274</u>
Cash and cash equivalents at the end of the period	<u>\$ 735,443</u>	<u>\$ 661,521</u>

(Concluded)

See accompanying notes to interim condensed consolidated financial statements.

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

Notes to the Interim Condensed Consolidated Financial Statements

For the periods of three and six months ended June 30, 2017 and 2016 (Unaudited)
(Thousands of U.S. dollars, except per share data)

1. Activities

Mexichem, S.A.B. de C.V. and Subsidiaries (the Entity or Mexichem), whose main address and place of business is in Río San Javier No.10, Fraccionamiento Viveros de Río, Tlalnepantla, C.P. 54060 Estado de México, is an entity that holds the shares of a group of companies located in the American and European continents, some Asian countries and Africa. Mexichem is a leading supplier of goods and solutions in multiple sectors, from the petrochemical industry to construction, infrastructure, agriculture, health, transportation, telecommunications, and energy, among others. It is one of the largest manufacturers of plastic pipes and connectors worldwide and one of the largest chemical and petrochemical companies in Latin America. The strategic position of the Entity focuses on the chemical sector through three Business Groups: Vinyl, Fluor and Fluent.

2. Significant event

- a. ***Beginning of the Cracker operations*** - On February 2017, Mexichem announced that its ethylene cracker 50/50 joint venture with Occidental Chemical Corporation (OxyChem), a subsidiary of Occidental Petroleum Corporation (NYSE:OXY), which is located at OxyChem's Ingleside, Texas complex, began operations on schedule and on budget. The ethylene cracker is currently in a production stabilization phase. The cracker, which is operated by OxyChem, has the capacity to produce 1.2 billion pounds (550,000 metric tons) of ethylene per year and provide OxyChem with an ongoing source of ethylene for manufacturing vinyl chloride monomer (VCM), which Mexichem will use to produce polyvinyl chloride (PVC resin) and PVC piping systems. During 2017, the investment was \$77 million.
- b. ***Effect of the claim related to the VCM plant in the subsidiary Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV)*** - On April 20, 2016, there was an explosion in the Pajaritos Petrochemical Complex, where two of the three plants of the subsidiary PMV, VCM and Ethylene, are located. The VCM plant (Clorados III) suffered the greatest damage and the recognition of the asset loss and the closing of the plant represent the most significant economic impact. PMV has the Chlorine and Soda production plant at a separate location. Its facilities were not damaged but there was business interruption in the provision of raw materials. The economic impact was the recording of the asset loss of \$276 million under general expenses in the consolidated statements of profit or loss and other comprehensive income and costs related to the plant closing of \$42 million, (of which \$10 million were recorded as of June 30, 2016) which represented an annual charge to results of \$318 million. As of December 31, 2016, PMV gathered sufficient evidence to conclude that insurance claims have become an account receivable, thereby recognizing \$275 million under other revenues, related to property damage, third party liability, and director and officer liability. Similarly, PMV and Mexichem Resinas Vinlicas, S.A. de C.V. recognized business interruption of \$51 million and \$31 million as of December 31, 2016 and June 30, 2017, respectively. Assets and contingent liabilities arose from this event, as explained in Note 26 to Consolidated Financial Statements for the Years Ended December 31, 2016, 2015 and 2014.

3. Basis of preparation

a. *Basis of preparation*

The interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

b. *Ciclicity*

- i. **Fluent** - The Entity is particularly sensitive in this business because the behavior of product sales is influenced by the economic cycles of each of the countries in which it operates, especially the activity in construction, housing, communications, agriculture and energy. In the case of Fluent Europe and Fluent US/AMEA, the seasonality is similar. Normally, the first and fourth quarters of each year have the lowest cycle because of the winter; however, climate conditions in the last few years have been so variable that demand has also been inconsistent.
- ii. **Vinyl** - Furthermore, in the Vinyl business Mexichem is the largest producer of PVC in Latin America and the fourth largest producer and second producer of specialty resins in the world. The PVC market is subject to major fluctuations in demand and price, reflecting either growth or a downturn in the global economy. The balance between global supply and demand still tends toward oversupply, and although the new capacities are being installed mainly in Asia, in the North American region the balance is increasingly even between supply and demand, which generates less excess.
- iii. **Fluor** - The Fluorite Process of the Fluor business group does not present any cyclical behavior whatsoever.

4. Summary of significant accounting policies

The condensed financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments.

The same accounting policies, presentation and methods of computation have been followed in these interim consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended December 31, 2016, except for the change in accounting policy related to the revaluation of property, plant and equipment as described below.

a. *Change in accounting policy*

On February 20 and 21, 2017, respectively, the Entity's Audit Committee and the Board of Directors held on February 20 and 21, 2017, the change in the accounting policy related to the valuation of property, plant and equipment was authorized, changing from the revaluation model to the assumed cost model as of January 1, 2017. The Entity conducted an analysis where it identified that the main purpose of acquiring assets is to use them continuously over the useful life. For this reason, it is the practice of the industry to recognize property, plant and equipment based on the assumed cost model. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The Entity recognizes the effects of change retroactively. This change mainly impacted the subsidiaries in Latin America without having effects on the Entity's cash flows.

Given the above, the Entity retrospectively recalculated all the effects and in consequence, the financial statements as of December 31, 2016 and previous years incorporated the adjustments related to this change in accounting policy. The original figures differ from those previously issued, only for that reason. Therefore, the figures as of December 31, 2016 of these financial statements are identified as "As Adjusted" to differentiate them from those originally issued. The effects in each year are shown in greater detail in Note 2a of the consolidated financial statements for the years ended December 31, 2016, 2015 and 2014.

The effect generated from this change in accounting policy, in the Entity's assets, liabilities, stockholders' equity as of December 31, 2016 and net income and other comprehensive income for the three and six months period ended June 30, 2016 is as follows:

	As originally reported	Change in accounting policy	Discontinued operations and freight reclassification	As Adjusted
Line items in the statement of financial position as of December 31, 2016				
Property, plant and equipment, net	\$ 4,201,580	\$ (451,987)	\$ -	\$ 3,749,593
Deferred taxes	\$ 286,889	\$ (136,039)	\$ -	\$ 150,850
Stockholders' equity	\$ 3,897,554	\$ (315,948)	\$ -	\$ 3,581,606
Line items in the statement of profit or loss and other comprehensive income for the six-month period ended June 30, 2016:				
Net sales	\$ 2,689,388	\$ -	\$ (11,052)	\$ 2,678,336
Cost of sales	\$ 1,901,423	\$ (16,779)	\$ 136,279	\$ 2,020,923
General expenses	\$ 799,424	\$ (3,062)	\$ (151,787)	\$ 644,575
Income tax expense (benefit)	\$ (12,705)	\$ 6,472	\$ 1,783	\$ (4,450)
Discontinued operations	1,183	\$ -	\$ (2,673)	\$ (1,490)
Net income (loss)	\$ (78,884)	\$ 13,370	\$ -	\$ (65,514)
Other comprehensive income (loss)	\$ 51,480	\$ (2,861)	\$ -	\$ 48,619
Line items in the statement of profit or loss and other comprehensive income for the three-month period ended June 30, 2016:				
Net sales	\$ 1,427,005	\$ -	\$ (6,992)	\$ 1,420,013
Cost of sales	\$ 998,400	\$ (8,411)	\$ 69,579	\$ 1,059,568
General expenses	\$ 549,336	\$ (416)	\$ (79,391)	\$ 469,529
Income tax expense (benefit)	\$ (30,093)	\$ 2,939	\$ 1,128	\$ (26,026)
Discontinued operations	\$ 600	\$ -	\$ (1,692)	\$ (1,092)
Net income (loss)	\$ (128,867)	\$ 5,889	\$ -	\$ (122,978)
Other comprehensive income (loss)	\$ 37,516	\$ (72,171)	\$ -	\$ (34,655)

- b. **Reclassifications** - Certain amounts in the consolidated financial statements for the three and six months periods ended June 30, 2016 have been reclassified to conform to the presentation of the 2017 interim condensed consolidated financial statements, such as: (i) the presentation of freight paid by the Entity under cost of sales which was previously recorded under selling and development expenses in the consolidated statements of profit or loss and other comprehensive income, because this is the industry practice and is aligned to the conditions and circumstances of customer contracts in which Mexichem acts as principal, and (ii) the discontinued operations in business Fluent (see Note 24 Discontinued operations of Consolidated Financial Statements for the Years Ended December 31, 2016, 2015 and 2014).

5. Accounts and notes receivable

	2017 (Unaudited)	2016(Audited, As Adjusted)
Customers	\$ 1,144,833	\$ 837,291
Less - Allowance for doubtful accounts	<u>(37,767)</u>	<u>(34,445)</u>
	1,107,066	802,846
Accounts receivable from insurance companies (PMV)	282,149	282,149
Accounts receivable from business interruption (PMV)	76,020	44,663
Recoverable and other taxes	<u>60,676</u>	<u>50,923</u>
	<u>\$ 1,525,911</u>	<u>\$ 1,180,581</u>

6. Inventories

	2017 (Unaudited)	2016(Audited, As Adjusted)
Finished products	\$ 436,309	\$ 371,690
Raw materials	214,901	188,297
Goods in-transit	56,182	35,737
Spare parts	<u>40,546</u>	<u>40,829</u>
	747,938	636,553
Less - Allowance for obsolete and slow-moving inventory	<u>(34,623)</u>	<u>(30,164)</u>
	<u>\$ 713,315</u>	<u>\$ 606,389</u>

7. Income taxes

Interim period income tax is accrued based on the real inter-annual effective income tax rate. Main deviations in tax effective rate arose from permanent differences associated with exchange results in local currencies, which had a tax impact but were not reflected on the financial statements presented in US dollars as the functional currency.

8. Fair value of financial instruments

As of June 30, 2017, and December 31, 2016, the hierarchy of the fair value of cash and cash equivalents for \$735,443 and \$713,607, respectively, is Level 1.

The fair values shown at June 30, 2017 and December 31, 2016 do not differ from carrying values, except bank loans including current portion of the long-term debt (their related fair values as of June 30, 2017 and December 31, 2017 are \$1,935,965 and \$1,915,606, respectively) as the values observed in the market are very similar to those recorded as of such date.

During the period, there were no transfers between Level 1 and 2.

9. Derivative financial instruments

a. Exchange rate Swap

During 2017 forwards was contracted EUR/TRY with Ak Bank, in effect from January 27 to July 2017 for a notional amount of EUR\$8 million. The exchange rates agreed ranges from 4.399 Turkish Pounds per Euro.

The forward contracted in May 27, 2016 with Ak Bank for a notional amount of EUR\$8 million with the exchange rate agreed from 3.534 Turkish Pounds per Euro was amortized on January 27, 2017.

b. Interest rate and exchange rate Swap

Swap contract transactions performed in 2017 and 2016 represent a hedge from an economic standpoint; for accounting purposes they were classified as for hedging and trading purposes. The fair value as of June 30, 2017 and December 31, 2016 was \$115,843 and \$99,162, respectively. The variations in fair value were recognized in the consolidated statements of profit or loss and other comprehensive income.

The following exchange and interest rates swaps were contracted with different financial institutions, as follows:

Derivatives	Financial institution	Starting date	Ending date
Exchange rate and interest rate Swap	Morgan Stanley	9/October/2013	05/March/2021
Exchange rate and interest rate Swap	Bancomer	10/September/ 2015	05/March/2021
Exchange rate and interest rate Swap	HSBC	23/January/2014	05/March/2021
Exchange rate and interest rate Swap	Banamex	16/January/2017	09/March/2022
Principal-Only swap EUR/USD	Morgan Stanley	10/June/2015	17/March/2022
Principal-Only swap EUR/USD	Santander	11/June/2015	17/March/2022
Principal-Only swap EUR/USD	HSBC	17/September/ 2014	17/September/ 2024
Principal-Only swap EUR/USD	Bancomer	05/May/2015	18/March/2025
Principal-Only swap EUR/USD	Banamex	03/December/ 2015	17/March/2025
Principal-Only swap EUR/USD	Barclays	03/December/ 2015	17/March/2025
Exchange rate Forward	Ak Bank	27/January/2017	27/July/2017

Derivatives	Financial institution	Starting date	Ending date
Exchange rate and interest rate Swap	Morgan Stanley	09/October/ 2013	05/March/2021
Exchange rate and interest rate Swap	Bancomer	10/September/ 2015	05/March/2021
Exchange rate and interest rate Swap	HSBC	23/January/2014	05/March/2021
Principal-Only swap EUR/USD	Morgan Stanley	10/June/2015	17/March/2022
Principal-Only swap EUR/USD	Santander	11/June/2015	17/March/2022
Principal-Only swap EUR/USD	HSBC	17/September/ 2014	17/September/ 2024
Principal-Only swap EUR/USD	Bancomer	05/May/2015	18/March/2025
Principal-Only swap EUR/USD	Banamex	03/December/ 2015	17/March/2025
Principal-Only swap EUR/USD	Barclays	03/December/ 2015	17/March/2025
Exchange rate Forward	Ak Bank	27/May/2016	27/January/2017

10. Information by industry segment

Segment information is presented according to the business group, which are grouped according to the vertical integration of their raw materials; the Entity's operating decisions are made based on such segmentation for purposes of assigning resources and assessing the performance of each segment.

The Entity's operating segments are included in the three business groups: Vinyl, Fluor and Fluent. The main goods of such segments are: resins and polyvinyl chloride compounds (PVC), fluorite, fluor compounds, hydrofluoric acid, cooling gases and medical propellants, as well as PVC, polyethylene (PE) and polypropylene (PP), high-density polyethylene (HDPE) and geosynthetic piping and connections, among others.

Below is a summary of the most significant line items of the consolidated financial statements for each business group:

	Vinyl	Other	Fluor
Net sales	\$ 1,171,233	\$ 811	\$ 2
Cost of sales	<u>977,254</u>	<u>744</u>	<u>1</u>
Gross profit	193,979	67	1
General expenses	44,605	(13)	
Other expenses (income) related parties	24,466	(6)	
Exchange loss (gain), Net	30,135	(317)	
Interest expense	23,130	-	
Interest income	(1,057)	(9)	
Monetary position loss	-	-	-
Income from dividends	(3,936)	-	
Equity in income of associated	<u>513</u>	<u>-</u>	<u>-</u>
Profit (loss) before income taxes	76,123	412	
Income tax (benefit)	<u>40,369</u>	<u>(180)</u>	<u></u>
Profit for the year from continuing operations	35,754	592	
Discontinued operations	<u>-</u>	<u>-</u>	<u></u>
Consolidated profit (loss) of the year	<u>\$ 35,754</u>	<u>\$ 592</u>	<u>\$</u>
	Vinyl	Other	Fluor
Net sales	\$ 998,325	\$ 785	\$ 1
Cost of sales	<u>832,560</u>	<u>717</u>	<u>1</u>
Gross profit	165,765	68	
General expenses	359,569	214	
Other expenses (income) related parties	22,969	(5)	
Exchange loss (gain), Net	(11,105)	22	
Interest expense	13,648	3	
Interest income	(729)	-	
Monetary position loss	-	-	-
Income from dividends	(7,915)	-	
Equity in income of associated	<u>(1,882)</u>	<u>-</u>	<u>-</u>
Profit (loss) before income taxes	(208,790)	(166)	
Income tax (benefit)	<u>(62,298)</u>	<u>91</u>	<u></u>
Profit (loss) for the year from continuing operations	(146,492)	(257)	
Discontinued operations	<u>-</u>	<u>-</u>	<u></u>
Consolidated profit (loss) of the year	<u>\$ (146,492)</u>	<u>\$ (257)</u>	<u>\$</u>

	Vinyl	Other	Flu
Net sales	\$ 572,225	\$ 399	\$
Cost of sales	<u>462,648</u>	<u>368</u>	
Gross profit	109,577	31	
General expenses	16,138	(13)	
Other expenses (income) related parties	12,227	(5)	
Exchange loss (gain), Net	12,483	(522)	
Interest expense	13,011	-	
Interest income	(586)	(6)	
Monetary position loss	-	-	-
Income from dividends	(3,936)	-	-
Equity in income of associated	<u>513</u>	<u>-</u>	<u>-</u>
Profit (loss) before income taxes	59,727	577	
Income tax (benefit)	<u>27,268</u>	<u>(180)</u>	
Profit (loss) for the year from continuing operations	32,459	757	
Discontinued operations	<u>-</u>	<u>-</u>	
Consolidated profit (loss) of the year	<u>\$ 32,459</u>	<u>\$ 757</u>	<u>\$</u>

	Vinyl	Other	Flu
Net sales	\$ 499,716	\$ 402	\$
Cost of sales	<u>415,694</u>	<u>366</u>	
Gross profit	84,022	36	
General expenses	323,825	199	
Other expenses (income) related parties	11,404	(1)	
Exchange loss (gain), Net	(11,314)	11	
Interest expense	7,275	2	
Interest income	(321)	-	
Monetary position loss	-	-	-
Income from dividends	(7,915)	-	-
Equity in income of associated	<u>(1,806)</u>	<u>-</u>	<u>-</u>
Profit (loss) before income taxes	(237,126)	(175)	
Income tax (benefit)	<u>(74,090)</u>	<u>-</u>	
Profit (loss) for the year from continuing operations	(163,036)	(175)	
Discontinued operations	<u>-</u>	<u>-</u>	
Consolidated profit (loss) of the year	<u>\$ (163,036)</u>	<u>\$ (175)</u>	<u>\$</u>

	Vinyl	Other	Flu
Current assets:			
Cash and cash equivalents	\$ 183,810	\$ 316	\$
Accounts receivable, Net	754,386	518	
Inventories and other current assets	290,519	2,980	
Assets classified as held for sale	<u>-</u>	<u>-</u>	
Total current assets	1,228,715	3,814	0
Property, plant and equipment, Net	2,545,571	8,359	2
Other assets, Net	<u>622,984</u>	<u>9,477</u>	<u>1</u>
Total assets	<u>\$ 4,397,270</u>	<u>\$ 21,650</u>	<u>\$ 1,0</u>

	Vinyl	Other	Fluor
Bank loans and current portion of long-term debt	\$ 17,572	\$ -	\$ -
Suppliers and credit letters	881,412	-	-
Other current liabilities	560,040	765	-
Liabilities classified as held for sale	-	-	-
Total current liabilities	<u>1,459,024</u>	<u>765</u>	<u>-</u>
Bank loans and long-term debt	102,197	-	-
Other long-term liabilities	<u>564,328</u>	<u>156</u>	<u>-</u>
Total liabilities	<u>\$ 2,125,549</u>	<u>\$ 921</u>	<u>\$ -</u>

	Vinyl	Other	Fluor
Current assets:			
Cash and cash equivalents	\$ 127,472	\$ 813	\$ -
Accounts receivable, Net	611,299	(2,687)	-
Inventories and other current assets	240,496	2,162	-
Assets classified as held for sale	-	-	-
Total current assets	<u>979,267</u>	<u>288</u>	<u>-</u>
Property, plant and equipment, Net	2,520,927	8,344	-
Other assets, Net	<u>623,165</u>	<u>7,597</u>	<u>-</u>
Total assets	<u>\$ 4,123,359</u>	<u>\$ 16,229</u>	<u>\$ -</u>
Bank loans and current portion of long-term debt	\$ 18,707	\$ -	\$ -
Suppliers and credit letters	785,279	2	-
Other current liabilities	544,422	773	-
Liabilities classified as held for sale	-	-	-
Total current liabilities	<u>1,348,408</u>	<u>775</u>	<u>-</u>
Bank loans and long-term debt	95,699	-	-
Other long-term liabilities	<u>502,822</u>	<u>114</u>	<u>-</u>
Total liabilities	<u>\$ 1,946,929</u>	<u>\$ 889</u>	<u>\$ -</u>

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

	Depreciation and amortization		
	Six months ended		
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited As Adjusted)	June 30, 2015 (Unaudited)
Vinyl	\$ 87,035	\$ 65,498	\$ -
Other	516	516	-
Fluor	26,311	25,383	-
Fluent	69,979	65,602	-
Holding Entity	<u>5,330</u>	<u>4,984</u>	<u>-</u>
	<u>\$ 189,171</u>	<u>\$ 161,983</u>	<u>\$ -</u>

Below is the financial information classified by geographical area:

Country	Net sales from external customers		Property, plant and equipment, net	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited As Adjusted)	June 30, 2017 (Unaudited)	December 31, 2016 (Audited, As Adjusted)
Mexico	\$ 589,275	\$ 527,121	\$ 939,550	\$ 931,289
Northwest Europe	587,155	548,839	318,926	312,624
U.S.A.	466,925	454,658	1,642,854	1,624,718
Southwest Europe	307,236	286,279	150,316	118,229
Colombia	229,907	223,474	237,498	245,734
Brazil	165,754	156,440	109,193	113,289
Central and Eastern Europe	116,057	105,894	65,499	68,909
Central America	96,612	95,286	73,110	72,935
Southeast Europe	82,347	75,923	36,915	33,263
Others	78,648	78,381	29,131	37,191
Ecuador	49,300	40,689	47,071	50,168
Peru	32,524	34,940	59,516	62,123
Japan	30,133	24,186	8,274	8,793
Argentina	21,074	16,726	6,080	5,878
Other Europe	3,980	6,581	41,048	44,205
Venezuela	1,863	2,919	9,463	20,245
	<u>\$ 2,858,790</u>	<u>\$ 2,678,336</u>	<u>\$ 3,774,444</u>	<u>\$ 3,749,593</u>

11. Subsequent event

In August 2017, Mexichem Soluciones Integrales Holding, S.A. de C.V. (“MSIH”), a subsidiary of Mexichem, reached an agreement for the acquisition of: i) the stock representing 80% of the voting shares of capital stock, ii) all non-voting shares representing approximately 0.4% of the capital stock, both of Netafim, and iii) certain credits granted by some of the stockholders of Netafim Blue drip S.ar.l, y Netafim Hatzetim Holdings, Cooperative Association Limited, in favor of Netafim (the “Acquisition” or “Operation”). Netafim is a company with its headquarters in Israel, a presence in 10 countries, 17 plants and which holds a 30% global market share in the area of irrigation solutions for agriculture, greenhouses, landscaping and mining, with demand for its products in 110 countries. As this acquisition is subject to regulatory approval, the transaction is expected to be concluded during the fourth quarter of 2017.

According to the terms of the Share Purchase Agreement, the enterprise value of Netafim was agreed at US\$1,895 million, which will be utilized to calculate the value of the shares representing common stock at closing of the transaction date based on the process established in the Share Purchase Agreement, which considers the following adjustments: (i) available working capital; (ii) debt; (iii) transaction costs; (iv) available cash; and (v) the cost of canceling certain share plan granted to certain employees of Netafim according to the terms defined in the Share Purchase Agreement. MSIH will pay at the conclusion date an amount equal to approximately the value of: i) the stock representing 80% of the voting shares of capital stock, ii) all non-voting shares representing approximately 0.4% of the capital stock, both of Netafim, iii) and certain credits granted by some of the stockholders of Netafim Blue drip S.ar.l, y Netafim Hatzetim Holdings, Cooperative Association Limited, in favor of Netafim (the “Acquisition” or “Operation”). It is currently estimated that MSIH will pay the approximate amount of US\$1,500 million included in the abovementioned concepts. This amount will be financed with the cash and cash equivalents of Mexichem for the amount of up to US\$300 million.

12. Financial statement issuance authorization

The interim condensed consolidated financial statements for the periods of three and six months ended June 30, 2017 and 2016 were authorized by Rodrigo Guzmán Perera, Finance and Administration Director on September 14, 2017; consequently, they do not reflect events occurred after that date and they are subject to the approval of the Entity's Audit Committee and Board of Directors, where they may be modified.

* * * * *

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

Consolidated Financial
Statements for the Years
Ended December 31, 2016,
2015 and 2014 (As Adjusted),
and Independent Auditors'
Report Dated September 14,
2017

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

(Figures in millions of US dollars)

Opinion

We have audited the accompanying consolidated financial statements (As Adjusted) of Mexichem, S.A.B. de C.V. and Subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2016, 2015 and 2014, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, as well as the explanatory notes to the consolidated financial statements that include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (As Adjusted) present fairly, in all material respects, the consolidated financial position of the Entity as of December 31, 2016, 2015 and 2014, and its consolidated financial performance and consolidated cash flows, for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those which, in our professional judgment, have been the most significant in our audit of the current period's consolidated financial statements. These matters have been treated in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not express a separate opinion on these matters. We have determined that the matters below are key audit matters which must be described in our report.

i) Explosion of the VCM "Pajaritos" Plant of the Subsidiary Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV), see Notes 2a and 26

On April 20, 2016, an explosion occurred in the Pajaritos Petrochemical Complex, where two of the three plants of the subsidiary PMV, VCM and Ethylene, are located. The VCM plant (Clorados III) suffered the greatest damage and the recognition of the asset loss and the closing of the plant represent the most significant economic impact. PMV has the Chlorine and Soda production plant at a separate location. Its facilities were not damaged but business was interrupted in the provision of raw materials.

PMV assets are insured at current replacement value. Insurance coverage includes: (i) environmental liability, (ii) property damage, (iii) damage to assets in assembly process, (iv) business interruption, (v) third-party liability, and (vi) director and officer liability.

The following arise from this event: financial assets derived from the recording of the account receivable from insurance companies; recognition of the write-off or impairment of affected assets; liabilities and provisions for obligations and contingencies related to damage repair; and the assessment of options to continue with the segments of the various businesses, as well as plant reconstruction. They were recorded with the support documentation available as of the date of these financial statements, with the advice of independent experts, and the best and most significant elements available to Entity's Management.

The economic impact was the recording of the asset loss of \$276 million under other revenues, net in the consolidated statements of profit or loss and other comprehensive income and costs related to the plant closing of \$42 million, which represented a charge to results of \$318 million. As of December 31, 2016, PMV gathered sufficient evidence to conclude that insurance claims have become an account receivable, thereby recognizing \$275 million under other revenues, related to property damage, third party liability, and director and officer liability. Similarly, PMV and Mexichem Resinas Vinílicas, S.A. de C.V. recognized business interruption of \$51 million. Assets and contingent liabilities arose from this event, as explained in Note 26.

PMV has documented and filed the claims mentioned above and, as of the date of these financial statements, has obtained payments of \$7 million as an advance for business interruption in its Chlorine-Soda plant, as well as advances of \$7 million for severance payments and legal expenses incurred by PMV as a result of the explosion in the Clorados III plant.

How our audit approached the key audit matter:

We focused our audit tests on verifying and ascertaining the following:

- i) Identifying the book values of the various components of the affected plants in the perpetual files of PMV.
- ii) The correct recording of write-off values of the fixed assets affected by the event (property, plant and equipment, construction in progress, and unamortized maintenance).
- iii) Interviews with the Entity's Risk Management area to understand the scope of the insurance policy coverage in effect.
- iv) Reading of official and Entity engaged expert reports to determine the root cause of the explosion and, consequently, the right to recognize a financial asset in favor of PMV in the consolidated financial statements.
- v) Obtaining written opinions from the Entity's external legal counsel and advisors on the interpretation of insurance policy clauses to identify the rights to collect from insurance companies.
- vi) Validation of the technical skills and independence of the specialists used by the Entity.
- vii) Confirmation of the reasonableness of the liability and provision amounts recorded for damages and contingencies caused by the plant explosion and which were necessary to repair the damage.

- viii) Adequate support for the files supporting the evidence of damage which give rise to the recognition of a financial asset in favor of PMV, resulting from claims to insurance companies.
- ix) Verification of the composition of the account receivable from insurance companies regarding amount, description and coverage through formal claims and communication with insurance companies and an analysis thereof against insurance policies and the breakdown prepared by independent advisors.
- x) We attended meetings of the Board of Directors and Audit Committee of the Entity and PMV and verified that the agreements and information presented were adequately recognized in the consolidated financial statements.

We believe that the Entity's records and disclosures regarding the main items which arose from the VCM explosion and are reported in Notes 2a and 26 to the accompanying consolidated financial statements are appropriate.

ii) *Impairment of Long-Lived Assets, Goodwill and Intangible Assets, see Notes 4i, 4o and 4p*

The Entity has identified various cash generating units related to the plants that serve geographic and/or business segments. An impairment analysis is prepared annually, considering tangible and intangible assets, as stated in IAS 36, which calculates discounted future flows to determine if there is asset value impairment. The risk exists that the assumptions used by the Entity Management to calculate future cash flows are not reasonable based on current and future conditions.

How our audit approached the key audit matter:

Our audit procedures included, among others:

- i) Involving our internal specialists to:
 - Critically assess whether the model used by the Entity Management to calculate the value in use of individual cash generating units complies with the requirements of IAS 36.
 - Assess the reasonableness of the assumptions used by the Entity to determine appropriate discount rates in each case.
 - Review the consistency of projected flows with audited historical information and that any nonrecurring effect, based on our knowledge of the business, is normalized.
 - Selectively recalculate the projections to validate their calculations.
- ii) Tests of internal controls and substantive procedures related to the information entered into the financial model to determine the recoverable amount of the cash generating units.
- iii) We questioned the methodology and reasoning used by Entity Management to analyze impairment and concluded that the assumptions used are comparable to historical performance and future expected perspectives and ascertained that the discount rates used were adequate under the circumstances.



The results of our audit tests were reasonable. As stated in Notes 4i, 4o and 4p to the accompanying consolidated financial statements, in 2016 the Entity recognized an impairment of long-lived assets of \$3 million in the consolidated statement of profit or loss and other comprehensive income. Apart from this amount, the Entity did not show any other indication of impairment requiring adjustments in the values of long-lived assets, goodwill and intangible assets.

iii) Allowance for Doubtful Accounts, see Note 9

The Entity recognizes the allowance for doubtful accounts for all accounts receivable deemed irrecoverable due to prior counterparty noncompliance experience and an analysis of its current financial position. Upon determining the recoverability of an account receivable, the Entity considers any changes in credit rating from the date on which the credit was originally granted to the end of the period. We have identified a risk of trade receivables which, due to their aging and particular credit rating, may not have been included in the allowance for doubtful accounts at yearend. This process requires solid knowledge of the customer portfolio and qualitative and quantitative judgments by Entity's Management.

How our audit approached the key audit matter:

Our audit procedures included, among others:

- i) Understanding and assessment of the Entity's internal control over the classification, monitoring and analysis of the overdue receivables portfolio.
- ii) Review of the application of general guidelines for the creation of the recorded allowances for potential losses.
- iii) Substantive tests focused on the analysis of balance aging classification considering the date on which the collection right originated according to source documents.
- iv) Inquiries with Management to obtain an understanding of the qualitative and quantitative reasons which impact customers' credit ratings and aging.
- v) Tests focused on challenging old or unusual customer balances not included in the allowance for doubtful accounts and on understanding the reasons for their exclusion, together with documents supporting Management's judgment.
- vi) Comparative, retrospective, and prospective analysis of portfolio behavior over time according to Entity's policies and the amounts of the allowances created.

The results of our audit tests regarding the judgment used by Entity's Management to determine and record the allowance for doubtful accounts, are reasonable.

iv) Reserve for Slow-Moving and Obsolete Inventories, see Note 10

The Entity performs certain analyzes to the inventories line item to determine any indication of production batches whose net realizable value is lower than cost or if it is impossible to sell, under current market conditions, production volumes, and product supply and demand. Inventory value reductions are composed of reserves representing inventory impairment. There is a risk that not all slow-moving and obsolete inventories are adequately reserved according to Management's judgment.



How our audit approached the key audit matter:

Our audit procedures included, among others:

- i) Test of Management controls over information used to calculate the reserve for slow-moving and obsolete inventories and their classification, monitoring, and analysis.
- ii) Comparative, retrospective, and prospective analysis of inventory days and created reserve amounts.
- iii) Interviews with Management to understand the new strategies and sales plans for aged or less demanded products.
- iv) Review of the application of Entity Management's general guidelines for the creation and recording of the required reserves.
- v) Application of substantive tests to corroborate the correct classification of unsold inventory batches or products, based on their aging and manufacture date.
- vi) We ascertained that all slow-moving, old or obsolete product or batch amounts were included in the determination of the inventory reserve. We analyzed Management's reasons and evidence supporting the non-inclusion of such inventories in the reserve balance.
- vii) Confirmation that the assumptions used by Management to calculate the reserve reflect current inventory behavior conditions.

The results of our audit tests regarding the judgment used by Entity's Management to calculate and record the reserve for slow-moving and obsolete inventories, are reasonable.

v) Revenue Recognition, see Note 4dd

The Entity recognizes revenues at the fair value of the consideration received or to be received based on when ownership is transferred as a result of commercial conditions. There is a revenue cutoff risk due to the various agreements among the Entity's customer universe, as different sales negotiations result in different risk transfer moments, which may not be considered by the Entity for yearend revenue recognition purposes.

How our audit approached the key audit matter:

Our procedures included, among others:

- i) Understanding of the Entity's internal controls to identify the different contractual and commercial agreements with customers and their parameterization in the accounting system to determine the unrealized sales amount at yearend.
- ii) We analyzed agreements signed with customers, identifying the performance obligations established therein and ensuring that revenues are recognized only when risks have been transferred and the performance obligation has been fulfilled.
- iii) Random review of merchandise shipments to confirm the commercial terms in the agreements and determine when the risks are transferred to the customers depending on such conditions (free on board, delivered at place, etc.), and consequently identify whether they have been correctly included as revenues at yearend.

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

vi) Deferred Income Taxes, see Note 23

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

How our audit approached the key audit matter:

Our audit procedures included, among others:

- i) Involving our internal specialists to:
 - Clearly understand the tax laws of every country in which the Entity operates.
 - Review the tax and accounting result reconciliations of each subsidiary and identify temporary and permanent items.
 - Recalculate the effective rates prepared by Entity's Management.
 - Review cash flow projections to confirm the application of tax losses by the Entity's subsidiaries during the recovery term established and supported by relevant tax laws.
- ii) Validation of future flows based on business trends and supported by the Entity's prior experience and historical results, confirming that existing tax losses will very probably be applied before their expiration.
- iii) Assessment of current operating strategies and their impact on future flow projections.

During the year ended December 31, 2016, Entity's Management reserved tax loss carryforwards of \$82 million because they would probably not be applied, thus affecting this year's effective rate reconciliation. As a result of our audit tests, we believe that the Entity has reasonably incorporated deferred assets, mainly generated by tax losses, in determining deferred income taxes. Similarly, it has corroborated the effective tax rate based on the respective permanent items.

Emphasis on Matters

- a. As a result of the explosion in the Pajaritos Petrochemical Complex, explained in subsection i) of the "Key Audit Matters" section, PMV, with the support of its stockholders, Mexichem and Pemex, is assessing several strategic options to define the future business structure, integrated in the salt-chlorine-soda-ethylene-VCM chain or individually segmenting each business and, based on the decisions approved, PMV will assess the impacts on its operations in the Pajaritos Petrochemical Complex. As of the date of this report, this assessment has not been concluded and negotiations are still taking place among both partners; however, the financial projections of the individual businesses show that it is not necessary to record any impairment effect. The net value of the plant subject to this evaluation is US\$201 million as of this report's date.



- b. On February 21, 2017 we issued our unqualified audit report on the consolidated financial statements for the years ended December 31, 2016, 2015 and 2014. In such financial statement it was disclosed that the Audit Committee and the Board of Directors had authorized a change in the accounting policy related to the valuation of property, plant and equipment as of January 1, 2017. Consequently, as mentioned in Note 2a, the Entity adopted the assumed cost method, instead of the revaluation method which was used up to December 31, 2016. This change required the retroactive recalculation of all of the effects based upon a consolidated statement of financial position prior to the last statement shown in these financial statements, in accordance with IAS 8 *Accounting policies, changes in accounting estimates and errors*. Furthermore, the accumulated effects as of December 31, 2013, are presented in the consolidated statements of changes in stockholders' equity under "Retrospective adjustments due to a change in accounting policy". These financial statements incorporate the adjustments related to this change in accounting policy and are different from those previously issued, only for that reason. The effects in each year are shown in greater detail in Note 2a. Accordingly, these financial statements are denominated as "As Adjusted" to differentiate them from those originally issued.

Other Information

Entity's Management is responsible for other information, such as information included in the Offering Memorandum which is being prepared in connection with the process of issuing long-term Senior Notes. The Offering Memorandum is expected to be available to us after the date of this audit report.

Our opinion on the consolidated financial statements does not cover other information and we do not express any form of assurance in this regard.

With regard to our audit of the consolidated financial statements, our responsibility will be to read the Offering Memorandum, when available, and consider whether the information therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or if it appears to contain a material misstatement. Once we read the Offering Memorandum, we will issue a comfort letter on the information contained on such document.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



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

- Identify and assess the risks of material misstatement of the consolidated financial statements, due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, deceit, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the Going Concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a Going Concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a Going Concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a way that constitutes fair presentation.
- We obtained sufficient and appropriate audit evidence about the Entity's financial information and its business activities to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit group. We continue to be solely responsible for our audit opinion.

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

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

The matters which have been communicated to those responsible for governance have been determined as the most significant in the audit of the consolidated financial statements and, consequently, are the key audit matters. We describe such matters in this audit report unless legal or statutory provisions bar the public disclosure of such matters or, in very rare situations, when we determine that a matter should not be communicated in our report because it is reasonable to expect that the adverse consequences of doing so would exceed the related public interest benefits.



Other Matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

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

C. Carlos M. Pantoja Flores

September 14, 2017

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

Consolidated Statements of Financial Position

As of December 31, 2016, 2015, 2014 and January 1, 2014 (As Adjusted)
(Thousands of U.S. dollars)

Assets	Notes	2016 (As Adjusted)	2015 (As Adjusted)	2014 (As Adjusted)	January 1, 2014 (As Adjusted)
Current assets:					
Cash and cash equivalents	8	\$ 713,607	\$ 653,274	\$ 619,525	\$ 1,232,561
Accounts receivable, Net	9	1,180,581	884,344	1,124,167	1,032,726
Due from related parties	21a	3,265	1,577	4,058	11,168
Inventories, Net	10	606,389	647,984	775,219	728,805
Prepaid expenses		35,311	48,169	48,322	27,537
Assets classified as held for sale		<u>21,050</u>	<u>16,505</u>	<u>12,183</u>	<u>20,181</u>
Total current assets		<u>2,560,203</u>	<u>2,251,853</u>	<u>2,583,474</u>	<u>3,052,978</u>
Non-current assets:					
Property, plant and equipment, Net	14 and 17	3,749,593	3,732,533	3,285,988	2,639,103
Investment in shares of associates and other entities	4l	30,909	31,232	33,354	33,381
Other assets, Net		64,294	69,378	79,143	72,639
Deferred income taxes	23b	66,025	186,989	169,122	125,357
Intangible assets, Net	15a	91,192,808	1,249,140	1,407,964	1,208,186
Goodwill	15b	<u>690,183</u>	<u>678,157</u>	<u>723,220</u>	<u>536,513</u>
Total non-current assets		<u>5,793,812</u>	<u>5,947,429</u>	<u>5,698,791</u>	<u>4,615,179</u>
Total assets		<u>\$ 8,354,015</u>	<u>\$ 8,199,282</u>	<u>\$ 8,282,265</u>	<u>\$ 7,668,157</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, 2016, 2015 and 2014 (As Adjusted)
(Thousands of U.S. dollars, except gain (loss) per share expressed in U.S. dollars)

		2016	2015	2014
	Notes	(As Adjusted)	(As Adjusted)	(As Adjusted)
Continuing operations:				
Net sales		\$ 5,349,807	\$ 5,612,392	\$ 5,514,345
Cost of sales	22a	<u>4,108,968</u>	<u>4,338,887</u>	<u>4,361,199</u>
Gross profit		1,240,839	1,273,505	1,153,146
Selling and development expenses	22b	375,042	391,190	394,168
Administrative expenses	22c	327,834	354,707	346,440
Other income	22d	(14,968)	(20,255)	(37,628)
Exchange gain		(95,164)	(38,313)	(79,101)
Exchange loss		92,936	95,335	170,410
Interest expense		192,372	212,075	195,013
Interest income		(9,735)	(21,785)	(34,679)
Monetary position (gain) loss		(17,478)	(2,097)	6,381
Equity in income of associated entity		<u>(2,873)</u>	<u>(3,080)</u>	<u>(2,729)</u>
Profit before income taxes		392,873	305,728	194,871
Income tax expense	23d	<u>134,756</u>	<u>98,946</u>	<u>53,853</u>
Profit for the year from continuing operations		258,117	206,782	141,018
Discontinued operations:				
(Loss) gain from discontinued operations, Net	24b	<u>(10,780)</u>	<u>(54,165)</u>	<u>3,005</u>
Consolidated profit for the year		<u>247,337</u>	<u>152,617</u>	<u>144,023</u>
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to profit or loss:				
Actuarial (losses) gains recognized during the year		(33,927)	40,497	(57,944)
Income taxes		<u>10,178</u>	<u>(9,408)</u>	<u>14,489</u>
		(23,749)	31,089	(43,455)

(Continued)

	Notes	2016 (As Adjusted)	2015 (As Adjusted)	2014 (As Adjusted)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations		(48,945)	(349,324)	(215,854)
Valuation of financial instruments		(10,453)	101,954	46,531
Income taxes		<u>3,136</u>	<u>(30,586)</u>	<u>(13,959)</u>
		(56,262)	(277,956)	(183,282)
Other comprehensive loss for the year		<u>(80,011)</u>	<u>(246,867)</u>	<u>(226,737)</u>
Consolidated comprehensive income (loss) for the year		<u>\$ 167,326</u>	<u>\$ (94,250)</u>	<u>\$ (82,714)</u>
Consolidated net income for the year:				
Owners of the Entity		\$ 263,007	\$ 155,426	\$ 151,475
Non-controlling interests		<u>(15,670)</u>	<u>(2,809)</u>	<u>(7,452)</u>
		<u>\$ 247,337</u>	<u>\$ 152,617</u>	<u>\$ 144,023</u>
Comprehensive income (loss) attributable to:				
Owners of the Entity		\$ 184,049	\$ (88,211)	\$ (72,895)
Non-controlling interests		<u>(16,723)</u>	<u>(6,039)</u>	<u>(9,819)</u>
		<u>\$ 167,326</u>	<u>\$ (94,250)</u>	<u>\$ (82,714)</u>
Earnings per share attributable to owners of the Entity:				
From continuing operations		<u>\$ 0.12</u>	<u>\$ 0.10</u>	<u>\$ 0.07</u>
From discontinued operations		<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ -</u>
Basic earnings per share		<u>\$ 0.12</u>	<u>\$ 0.07</u>	<u>\$ 0.07</u>
Weighted average common shares outstanding		<u>2,100,000,000</u>	<u>2,100,000,000</u>	<u>2,100,000,000</u>

(Concludes)

See accompanying notes to consolidated financial statements.

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

(A Subsidiary of Kaluz, S.A. de C.V.)

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2016, 2015 and 2014 (As Adjusted)

(Thousands of U.S. dollars)

	Paid-in capital			Accumulated	
	Nominal	Additional paid in capital	Cumulative effect of restatement	Legal reserve	Retained
Balances as of January 1, 2014	\$ 256,482	\$ 1,708,376	\$ 23,948	\$ 51,298	\$
Retrospective adjustments due to a change in accounting policy	-	-	-	-	-
Balances as of January 1, 2014 As Adjusted	256,482	1,708,376	23,948	51,298	
Dividends declared in cash	-	-	-	-	
Purchase of shares	-	-	-	-	
Increase in buy-back shares program reserve	-	-	-	-	(
Transfer of equity accounts	-	(233,549)	-	-	
Partial cancellation of the buy-back shares program reserve	-	-	-	-	
Additional non-controlling equity derived from business acquisition	-	-	-	-	-
Other comprehensive (loss) profit of the year	-	-	-	-	
Consolidated profit for the year	-	-	-	-	
Balances as of December 31(As Adjusted), 2014	256,482	1,474,827	23,948	51,298	
Dividends declared in cash	-	-	-	-	
Purchase of shares	-	-	-	-	
Partial cancellation of the buy-back shares program reserve	-	-	-	-	
Increase in buy-back shares program reserve	-	-	-	-	(
Additional non-controlling equity derived from business acquisition	-	-	-	-	-
Other comprehensive (loss) profit of the year	-	-	-	-	
Consolidated profit for the year	-	-	-	-	
Balances as of December 31 (As Adjusted), 2015	256,482	1,474,827	23,948	51,298	1,
Dividends declared in cash	-	-	-	-	(
Purchase of shares	-	-	-	-	
Dividends declared for mandatory reinvestment	-	-	-	-	(
Partial cancellation of the buy-back shares program reserve	-	-	-	-	
Increase in buy-back shares program reserve	-	-	-	-	(
Additional non-controlling equity derived from business acquisition	-	-	-	-	-
Other comprehensive (loss) profit of the year	-	-	-	-	
Consolidated profit for the year	-	-	-	-	
Balances as of December 31 (As Adjusted), 2016	<u>\$ 256,482</u>	<u>\$ 1,474,827</u>	<u>\$ 23,948</u>	<u>\$ 51,298</u>	<u>\$</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, 2016, 2015 and 2014 (As Adjusted)

(Thousands of U.S. dollars)

	2016	2015	2014
	(As Adjusted)	(As Adjusted)	(As Adjusted)
Cash flows from operating activities:			
Consolidated net income for the year	\$ 247,337	\$ 152,617	\$ 144,023
Adjustments for:			
Income tax expense	134,756	98,946	53,853
Loss (gain) from discontinued operations	10,780	54,165	(3,005)
Net labor obligation (gain) cost	(286)	6,033	11,989
Depreciation and amortization	330,826	362,558	368,247
Impairment of assets as a result of the PMV claim net of account receivable from insurance companies (see Note 22d.)	9,184	-	-
Gain on sale of fixed assets	(1,333)	(2,990)	(1,302)
Unrealized exchange (gain) loss	(32,300)	32,538	(55,786)
Impairment of fixed assets	3,322	-	1,088
Equity in income of associated entity	(2,873)	(3,080)	(2,729)
Interest income	(9,735)	(21,785)	(34,679)
Interest expense	<u>192,372</u>	<u>212,075</u>	<u>195,013</u>
	882,050	891,077	676,712
Changes in working capital:			
(Increase) decrease in:			
Accounts receivable	(1,576)	105,116	84,666
Inventories	33,684	102,325	49,543
Other assets	(21,290)	31,597	(58,638)
Discontinued operations	11,633	22,353	8,041
Increase (decrease) in:			
Suppliers	70,611	75,197	34,465
Related parties	(26,301)	(3,315)	38,046
Other liabilities	(203,438)	(102,319)	(52,064)
Discontinued operations	(37,128)	(45,248)	(10,348)
Interest received	<u>9,735</u>	<u>21,785</u>	<u>34,679</u>
Net cash provided by operating activities	717,980	1,098,568	805,102
Cash flows from investing activities:			
Acquisition of machinery and equipment	(488,277)	(710,967)	(517,700)
Proceeds from sale of machinery and equipment	22,128	57,469	17,738
Investments in other assets	-	(8,938)	(5,741)
Acquisition of subsidiaries, net of cash acquired	<u>(41,991)</u>	<u>-</u>	<u>(831,045)</u>
Net cash used in investing activities	(508,140)	(662,436)	(1,336,748)

(Continued)

	2016 (As Adjusted)	2015 (As Adjusted)	2014 (As Adjusted)
Cash flows from financing activities:			
Loans	65,981	32,416	842,013
Loan repayments	(48,984)	(59,252)	(479,235)
Interest paid	(190,903)	(211,556)	(187,025)
Dividends paid	(54,236)	(64,642)	-
Purchase of shares	<u>9,316</u>	<u>(17,718)</u>	<u>(55,657)</u>
Net cash (used in) provided by financing activities	(218,826)	(320,752)	120,096
Adjustment to cash flows due to exchange rate fluctuations	<u>69,319</u>	<u>(81,631)</u>	<u>(201,486)</u>
Net increase (decrease) in cash and cash equivalents	60,333	33,749	(613,036)
Cash and cash equivalents at the beginning of the year	<u>653,274</u>	<u>619,525</u>	<u>1,232,561</u>
Cash and cash equivalents at the end of the year	<u>\$ 713,607</u>	<u>\$ 653,274</u>	<u>\$ 619,525</u>

(Concludes)

See accompanying notes to consolidated financial statements.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016, 2015 and 2014 (As Adjusted)
(Thousands of U.S. dollars)

1. Activities

Mexichem, S.A.B. de C.V. and Subsidiaries (the Entity or Mexichem), whose main address and place of business is in Río San Javier No.10, Fraccionamiento Viveros de Río, Tlalnepantla, C.P. 54060 Estado de Mexico, is an entity that holds the shares of a group of companies located in the American and European continents, some Asian countries and Africa. Mexichem is a leading supplier of goods and solutions in multiple sectors, from the petrochemical industry to construction, infrastructure, agriculture, health, transportation, telecommunications, and energy, among others. It is one of the largest manufacturers of plastic pipes and connectors worldwide and one of the largest chemical and petrochemical companies in Latin America. The strategic position of the Entity focuses on the chemical sector through three Business Groups: Vinyl, Fluor and Fluent.

2. Significant events

- a. ***Change in accounting policy of property, plant and equipment***-At the meetings of the Audit Committee and the Board of Directors held on February 20 and 21, 2017, the change in the accounting policy related to the valuation of property, plant and equipment was authorized, changing from the revaluation model to the cost model as of January 1, 2017. The Entity conducted an analysis where it identified that the main purpose of acquiring assets is to use them continuously over the useful life. Also, it is the practice of the industry to recognize property, plant and equipment based on the cost model. In accordance with IAS 8 “*Accounting Policies, Changes in Accounting Estimates and Errors*”, the Entity recognized the effects of change retroactively. This change mainly impacted the subsidiaries in Latin America without having an impact on the Entity’s cash flows.

Given the above, the Entity retrospectively recalculated all of the effects, presenting a consolidated statement of financial position as of the beginning of the last period presented as comparative information. Furthermore, the effects calculated as of December 31, 2013 are presented in the consolidated statements of changes in stockholders’ equity under “Retrospective adjustments for change in accounting policy”. These financial statements incorporate the adjustments related to this change in accounting policy and differ from those previously issued, only for that reason. For this reason these financial statements are identified as “As Adjusted” to differentiate them from those originally issued

The impact of this change in accounting policy as of December 31, 2016, 2015, 2014 and at the beginning of 2014 in the aforementioned assets, liabilities, stockholders’ equity and results is as follows:

	As of December 31, 2016 presented originally	Adjustments for change in accounting policy	As of December 31, 2016 as Adjusted
Line items in the consolidated statement of financial position:			
Property, plant and equipment, Net	\$ 4,201,580	\$ (451,987)	\$ 3,749,593
Deferred taxes	\$ 286,889	\$ (136,039)	\$ 150,850
Stockholders’ equity	\$ 3,897,554	\$ (315,948)	\$ 3,581,606

	Year ended December 31, 2016 presented originally	Adjustments for change in accounting policy	Year ended December 31, 2016 as Adjusted
Line items in the consolidated statement of income and statement of other comprehensive income:			
Cost of sales	\$ 4,143,473	\$ (34,505)	\$ 4,108,968
Administrative expenses	\$ 332,021	\$ (4,187)	\$ 327,834
Income tax	\$ 121,921	\$ 12,835	\$ 134,756
Consolidated profit for the year	\$ 221,480	\$ 25,857	\$ 247,337
Other comprehensive income:			
Gain from the revaluation of property, plant and equipment	\$ 23,497	\$ (23,497)	\$ -
Impairment of assets as a result of the PMV claim	\$ (8,527)	\$ 8,527	\$ -
Income tax	\$ 5,687	\$ 4,491	\$ 10,178
	As of December 31, 2016 presented originally	Adjustments for change in accounting policy	As of December 31, 2016 as Adjusted
Consolidated statement of cash flows:			
Depreciation and amortization	\$ 369,518	\$ (38,692)	\$ 330,826
	As of December 31, 2015 presented originally	Adjustments for change in accounting policy	As of December 31, 2015 as Adjusted
Line items in the consolidated statement of financial position:			
Property, plant and equipment, Net	\$ 4,202,927	\$ (470,394)	\$ 3,732,533
Deferred taxes	\$ 476,130	\$ (141,577)	\$ 334,553
Stockholders' equity	\$ 3,678,781	\$ (328,817)	\$ 3,349,964
	Year ended December 31, 2015 presented originally	Adjustments for change in accounting policy	Year ended December 31, 2015 as Adjusted
Line items in the consolidated statement of income and statement of other comprehensive income:			
Cost of sales	\$ 4,369,294	\$ (30,407)	\$ 4,338,887
Administrative expenses	\$ 356,337	\$ (1,630)	\$ 354,707
Income tax	\$ 88,415	\$ 10,531	\$ 98,946
Consolidated profit for the year	\$ 131,111	\$ 21,506	\$ 152,617
Other comprehensive income:			
Gain from the revaluation of property, plant and equipment	\$ 99,094	\$ (99,094)	\$ -
Income tax	\$ (30,496)	\$ 21,088	\$ (9,408)

	As of December 31, 2015 presented originally	Adjustments for change in accounting policy	As of December 31, 2015 as Adjusted
Consolidated statement of cash flows:			
Depreciation and amortization	\$ 394,595	\$ (32,037)	\$ 362,558
	As of December 31, 2014 presented originally	Adjustments for change in accounting policy	As of December 31, 2014 as Adjusted
Line items in the consolidated statement of financial position:			
Property, plant and equipment, Net	\$ 3,729,968	\$ (443,980)	\$ 3,285,988
Deferred taxes	\$ 481,689	\$ (139,620)	\$ 342,069
Stockholders' equity	\$ 3,489,739	\$ (304,360)	\$ 3,185,379
	Year ended December 31, 2014 presented originally	Adjustments for change in accounting policy	Year ended December 31, 2014 as Adjusted
Line items in the consolidated statement of income and statement of other comprehensive income:			
Cost of sales	\$ 4,401,781	\$ (40,582)	\$ 4,361,199
Administrative expenses	\$ 347,420	\$ (980)	\$ 346,440
Income tax	\$ 41,701	\$ 12,152	\$ 53,853
Consolidated profit for the year	\$ 114,613	\$ 29,410	\$ 144,023
Other comprehensive income:			
Gain from the revaluation of property, plant and equipment	\$ 10,118	\$ (10,118)	\$ -
Impairment of fixed assets	\$ (1,088)	\$ 1,088	\$ -
Income tax	\$ 11,361	\$ 3,128	\$ 14,489
	As of December 31, 2014 presented originally	Adjustments for change in accounting policy	As of December 31, 2014 as Adjusted
Consolidated statement of cash flows:			
Depreciation and amortization	\$ 409,809	\$ (41,562)	\$ 368,247
	As of December 31, 2013 presented originally	Adjustments for change in accounting policy	As of December 31, 2013 as Adjusted
Line items in the consolidated statement of financial position:			
Property, plant and equipment, Net	\$ 3,152,748	\$ (513,645)	\$ 2,639,103
Deferred taxes	\$ 511,913	\$ (159,338)	\$ 352,575
Stockholders' equity	\$ 3,591,057	\$ (354,307)	\$ 3,236,750

- b. ***Effect of the claim related to the VCM plant in the subsidiary Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV)*** - On April 20, 2016, there was an explosion in the Pajaritos Petrochemical Complex, where two of the three plants of the subsidiary PMV, VCM and Ethylene, are located. The VCM plant (Clorados III) suffered the greatest damage and the recognition of the asset loss and the closing of the plant represent the most significant economic impact. PMV has the Chlorine and Soda production plant at a separate location. Its facilities were not damaged but there was business interruption in the provision of raw materials. The economic impact was the recording of the asset loss of \$276 million under other revenues, net in the consolidated statements of profit and loss and other comprehensive income) and costs related to the plant closing of \$42 million, which represented a charge to results of \$318 million. As of December 31, 2016, PMV gathered sufficient evidence to conclude that insurance claims have become an account receivable, thereby recognizing \$275 million under other revenues, related to property damage, third party liability, and director and officer liability. Similarly, PMV and Mexichem Resinas Vinílicas, S.A. de C.V. recognized business interruption of \$51 million. Assets and contingent liabilities arose from this event, as explained in Note 26.
- c. ***Establishment and acquisition of new businesses*** - During 2016, 2015 and 2014, Mexichem established and acquired the businesses described below:
- i. On October 18, 2016, Mexichem acquired 100% of the shares of Gravenhurst Plastic, Inc, a private Canadian plastic tube manufacturer located in Ontario. The value of this acquisition was \$13 million, paid in cash.
 - ii. On November 25, 2016, Mexichem acquired 100% of the shares of Vinyl Compounds Holdings, Ltd (VCHL), a leading PVC compound Company which serves a broad range of industries, including: building and construction, piping and stock manufacturing, footwear and consumer goods. VCHL is located in Derbyshire, United Kingdom. The value of this acquisition was 24 million pounds sterling, paid in cash.
 - iii. As of December 31, 2016, the 50/50 joint venture formalized on October 31, 2013 between Mexichem and Occidental Chemical Corporation (OxyChem), called Ingleside Ethylene LLC, to build an ethylene cracker with an annual capacity of 1,200 million pounds (550 thousand tons), represents a total investment of \$1,376 million. Such investment is located at the facilities of OxyChem in Ingleside, Texas, and will employ the duct and storage system located in Markham, Texas.
 - iv. On May 12, 2015, Mexichem opened a new manufacturing plant in Hyderabad, India. The new plant produces high-pressure pipes and tubes for water, voice and data markets in the telecommunications and gas transportation industry. The new plant is the fourth Mexichem plant in India, together with two more located in Goa and another in Neemrana, close to Delhi. The location of the Hyderabad plant in southern India enable Mexichem to have a strategic positioning to make exports to Southeast Asia, deal with customers from southern India and exploit new business opportunities in the region. The opening of the plant is part of the ongoing strategy of Mexichem to become a globally and vertically integrated company, with a focus on specialty products and solutions.
 - v. On December 1, 2014, Mexichem acquired 100% of the shares of VESTO PVC Holding GmbH (Vestolit), the sixth-largest company manufacturer of PVC in Europe. Vestolit is located in Marl, Germany and is the only European producer of high impact suspension PVC resin (HIS-PVC), for applications such as climate resistant windows, auto chassis coverings, ladies' purses, and plastic bins. Vestolit is the second largest producer in Europe of PVC paste for floors and walls. This acquisition had a value of €219 million in cash and assumed liabilities, equivalent to US \$273.2 million.

- vi. On September 19, 2014, Mexichem acquired 100% of the shares of Dura-Line Holding Inc (Dura-Line). With this transaction Mexichem entered the high density polyethylene pipe business (HDPE), specialized in the telecommunications sector, with manufacturing plants headquartered in North America, India, Oman, Europe and South Africa. This acquisition had a value of US \$630 million.

d. ***Issuance of International Bond -***

On September 9, 2014, the issuance of a 30 year International Debt Bond was concluded under Rule 144^a / RegS for \$750 million with a spread of 270 base points on U.S. treasury bonds. The International Bond is payable upon maturity. The resources were used mainly for the refinancing of the issue “MEXICHEM 11”, which matures as of 2016, for funding of new business acquisitions.

e. ***Advance repayment of Securitized Certificates -***

On September 23, 2014 Mexichem settled in advance the totality of the securitized certificates “MEXICHEM 11”, for which purpose it paid the holders a price per instrument equal to the higher of the face value of the Securitized Certificates or the clean price calculated through the arithmetical average of the last 30 (thirty) days before the date of advance payment provided by independent price suppliers.

3. **Basis of presentation**

- a. ***Explanations for translation into English -*** The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of IFRS. Certain accounting practices applied by the Entity that conform with IFRS may not conform with accounting principles generally accepted in the country of use.
- b. ***New and revised IFRSs issued but not yet effective***

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

IFRS 9	Financial Instruments ²
IFRS 15	Revenue from Contracts with Customers ²
IFRS 16	Leases ³
Amendments to IAS 12	Income taxes ¹
Amendments to IAS 7	Statements of cash flows ¹
Amendments to IFRS 2	Classification and measurement of share-based payments ¹

¹ Effective for annual periods beginning as of January 1, 2017, with early application permitted.

² Effective for annual periods beginning on or after January 1st, 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after January 1st, 2019, with earlier application permitted.

IFRS 9, Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2015 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2016 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described below:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both, by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI.

All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).

- Regarding the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income; unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Entity's management anticipates that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Entity's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of such effect until the Entity undertakes a detailed review.

IFRS 15 Revenue from Contracts with Customers

In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The basic principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Entity's management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Entity's consolidated financial statements. However, it is not practical to provide a reasonable estimate of such effect until the Entity performs a detailed review.

IFRS 16, Leases

IFRS 16 "Leases" was issued in January 2016 and supersedes IAS 17 "Leases" and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after January 1st, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use an asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use an asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental loan rate.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options. (This election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

The Entity is in the process of determining the potential impacts that will derive from the adoption of this standard in its consolidated financial statements, although by the nature of its operations it would not expect significant impacts.

Amendments to IAS 12 Income Taxes: Recognition of deferred tax assets related to unrealized losses, clarify how to account for deferred tax assets related to debt instruments measured at fair value.

IAS 12 establishes requirements for the recognition and measurement of current or deferred tax assets or liabilities. The amendments clarify the requirements for recognition of deferred tax assets related to unrealized losses, so as to address diversity in practice.

Entity Management does not expect significant impacts as a result of these amendments.

Amendments to IAS 7 Statements of Cash Flows: Provide disclosures

The objective of the amendments with disclosure initiative (Amendments to IAS 7) is for entities to provide disclosures which will allow financial statement users to assess changes derived from financing activities.

To achieve this goal, the IASB requires disclosure (as applicable) of the following changes in liabilities resulting from financing activities: (i) changes in financing cash flows; (ii) changes derived from obtaining or losing control over subsidiaries or other businesses; (iii) the effect of exchange rate variances; (iv) changes in fair value; and (v) other changes.

Entity Management expects certain impacts as a result of these amendments.

Amendments to IFRS 2 Classification and Measurement of Share-Based Payments

The amendments to IFRS 2, Share-Based Payments, clarify the classification and measurement of share-based payment transactions. The amendments include clarifications and changes related to the accounting for share-based payment transactions paid in cash; the classification of share-based payment transactions with net settlement characteristics; and accounting for changes in share-based payment transactions settled in cash or subject to settlement using equity instruments. Early application is permitted. The amendments are applied prospectively.

Entity Management expects certain impacts as a result of these amendments.

- c. ***Classification of costs and expenses*** - These are presented according to their function because this is the practice of the industry to which the Entity belongs.

4. Summary of significant accounting policies

a. ***Statement of compliance***

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. The standards include provisions known as IFRS, IAS, IFRIC and SIC.

b. ***Basis of measurement***

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

i. **Historical cost**

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. Fair value

Fair value is the price that would be received when and if the asset is sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

-
- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

c. ***Basis of financial statements consolidation***

The consolidated financial statements incorporate the financial statements of the Mexichem, S.A.B. de C.V. and its subsidiaries. Control is achieved when Mexichem:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

Mexichem reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When Mexichem has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. Mexichem considers all relevant facts and circumstances in assessing whether or not the Mexichem's voting rights in an investee are sufficient to give it power, including:

- The size of Mexichem holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by Mexichem, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Mexichem has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when Mexichem obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Net income (loss) and each component of other comprehensive income are attributed to the owners of Mexichem and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of Mexichem and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Mexichem's accounting policies.

All intragroup balances and transactions between Mexichem members are eliminated in full on consolidation.

Mexichem's shareholding interest in the subsidiaries as of December 31, per business group, is as follows:

Group	Country	% Ownership		
		2016	2015	2014
Vinyl:				
Mexichem Derivados, S.A. de C.V.	Mexico	100	100	100
Mexichem Compuestos, S.A. de C.V.	Mexico	100	100	100
Mexichem Resinas Vinílicas, S.A. de C.V.	Mexico	100	100	100
VESTO PVC Holding GmbH, Marl	Germany	100	100	100
Mexichem America, Inc.	USA	100	100	100
Mexichem Specialty Compounds, Inc	USA	100	100	100
Mexichem Specialty Compounds, Ltd	UK	100	100	100
Vinyl Compounds Holdings, Ltd	UK	100	-	-
Mexichem Resinas Colombia, S.A.S.	Colombia	100	100	100
Mexichem Speciality Resins, Inc.	USA	100	100	100
C.I. Mexichem Compuestos Colombia, S.A.S.	Colombia	100	100	100
Petroquímica Mexicana de Vinilo, S.A. de C.V.	Mexico	55.91	55.91	55.91
Ingleside Ethylene LLC	USA	50	50	50
Fluor:				
Mexichem Flúor, S.A. de C.V.	Mexico	100	100	100
Mexichem Flúor Comercial, S.A. de C.V.	Mexico	100	100	100
Fluorita de México, S.A. de C.V.	Mexico	100	100	100
Mexichem Fluor Inc.	USA	100	100	100
Mexichem Fluor Canadá Inc.	Canada	100	100	100
Mexichem UK Ltd	UK	100	100	100
Mexichem Fluor Japan Ltd.	Japan	100	100	100
Mexichem Fluor Taiwan Ltd.	Taiwan	100	100	100
Fluent:				
Dura-Line Holdings, Inc.	USA	100	100	100
Mexichem Canada Holding, Inc	Canada	100	-	-
Mexichem Soluciones Integrales Holding, S.A. de C.V.	Mexico	100	100	100
Mexichem Amanco Holding, S.A. de C.V.	Mexico	100	100	100
Mexichem Soluciones Integrales, S.A. de C.V.	Mexico	100	100	100
Mexichem Guatemala, S.A.	Guatemala	100	100	100
Mexichem Honduras, S.A.	Honduras	100	100	100
Mexichem El Salvador, S.A.	El Salvador	100	100	100
Mexichem Nicaragua, S.A.	Nicaragua	100	100	100

	Country	2016	2015	2014
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 Indústria de Transformação Plástica, Ltda.	Brazil	100	100	100
Wavin N.V.	Netherlands	100	100	100
Wavin Nederland B.V.	Netherlands	100	100	100
Wavin Belgium N.V.	Belgium	100	100	100
Wavin (Foshan) Piping Systems Co. Ltd.	China	100	100	100
	Czech			
Wavin Ekoplastik s.r.o.	Republic	100	100	100
Nordisk Wavin A/S	Denmark	100	100	100
Norsk Wavin A/S	Norway	100	100	100
Wavin Estonia OU	Estonia	100	100	100
Wavin-Labko Oy	Finland	100	100	100
Wavin France S.A.S.	France	100	100	100
Wavin GmbH	Germany	100	100	100
Wavin Hungary Kft.	Hungary	100	100	100
Wavin Ireland Ltd.	Ireland	100	100	100
Wavin Italia SpA	Italy	100	100	100
Wavin Latvia SIA	Latvia	100	100	100
UAB Wavin Baltic	Lithuania	100	100	100
Wavin Metalplast-BUK Sp.zo.o.	Poland	100	100	100
Wavin Romania s.r.l.	Romania	100	100	100
OOO Wavin Rus	Russia	100	100	100
Wavin Balkan d o.o.	Serbia	100	100	100
Wavin Slovakia spol s.r.o.	Slovakia	100	100	100
AB Svenska Wavin	Sweden	100	100	100
Pilsa A.S.	Turkey	100	100	100
Wavin Ltd.	UK	100	100	100
Warmafloor (GB) Ltd.	UK	100	100	100
Wavin Ukrain O.O.O.T.O.V.	Ukraine	100	100	100

Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of Mexichem.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

- d. **Recognition of the effects of inflation** - The Entity recognizes the effect of inflation for entities that operate in highly-inflationary economies, which is when inflation over the preceding three years is greater than 100%. Mexichem in 2016, 2015 and 2014 recognized the effects of inflation in its Venezuelan operations.
- e. **Translation of financial statements of foreign subsidiaries** - The individual financial statements of each subsidiary of the Entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). To consolidate the financial statements of foreign subsidiaries are translated from the functional currency into U.S. dollars (the reporting currency), considering the following methodology:

Foreign operations whose functional currency is not the same as the currency in which transactions are recorded, translate their financial statements using the following exchange rates: i) the closing exchange rate in effect at the balance sheet date for assets and liabilities and ii) historical exchange rates for stockholders' equity and (iii) month average for revenues, costs and expenses. Translation effects are recorded in other comprehensive profit (loss). Exchange rate differences resulting from financial instruments that are initially recognized in other comprehensive income are reclassified to profit or loss when the net foreign investment is partially or fully sold. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For foreign entities that operate in a hyperinflationary economy, their financial statements are first restated in currency of purchasing power as of the date of the consolidated statement of financial position, using the price index of the country of origin of the functional currency and then they are translated using the official exchange rate of closing for all items. The transaction in Venezuela was converted at the exchange rate of 673.76, 198.69 and 12.00 bolivars per dollar as of December 31st, 2016, 2015 and 2014, respectively.

A summary of the main financial statement line items of this operation follows:

	2016	2015	2014
Total assets	\$ 25,636	\$ 17,570	\$ 125,670
Stockholders' equity	\$ 11,510	\$ 6,959	\$ 66,710
Net sales	\$ 15,498	\$ 6,019	\$ 62,386
Net income	\$ 9,074	\$ (668)	\$ 7,629

The exchange rate differences are recognized in profit or loss in the period in which they arise except for exchange differences on foreign currency loans relating to assets under construction qualifying for capitalization of interest, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency loans.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing exchange rate.

Transactions denominated in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to functional currency at the exchange rate prevailing at the date of the financial statements. Exchange rate fluctuations are recorded in profit and loss.

When there are several exchange rates available, that in which the future cash flows can be settled is used.

The subsidiaries with different functional currency to the U.S. dollar are the following:

Entity	Functional currency	Country	Business Group
VESTO PVC Holding GmbH, Marl	Euro	Germany	Vinyl
Mexichem Specialty Compounds	Pound sterling	UK	Vinyl
Vinyl Compounds Holdings	Pound sterling	UK	Vinyl
Mexichem UK	Pound sterling	UK	Fluor
Mexichem Fluor Japan	Japanese Yen	Japan	Fluor
Mexichem Soluciones Integrales	Mexican peso	Mexico	Fluent
Mexichem Canadá Holding	Canadian dollar	Canada	Fluent
Mexichem Guatemala	Guatemalan Quetzal	Guatemala	Fluent
Mexichem Honduras	Honduran lempiras	Honduras	Fluent
Mexichem Nicaragua	Nicaraguan Cordoba	Nicaragua	Fluent
Mexichem Costa Rica	Costa Rican colon	Costa Rica	Fluent
Mexichem Panamá	Panamanian Balboa	Panama	Fluent
Mexichem Colombia	Colombian peso	Colombia	Fluent
Pavco de Venezuela	Venezuelan bolivar	Venezuela	Fluent
Mexichem Argentina	Argentine peso	Argentina	Fluent
Mexichem Brasil Industria de Transformação Plástica	Brazilian real	Brazil	Fluent
Wavin N.V. and subsidiaries	Multicurrency	Europe	Fluent

- f. **Cash and cash equivalents** - Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments, highly liquid and easily convertible into cash. Cash is carried at nominal value and cash equivalents are measured at fair value.
- g. **Inventories** - Inventories are carried at the lower of cost and net realizable value (estimated selling price less all estimated costs of completion necessary to make the sale). Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, being valued on average costs method. Reductions in the value of inventories are recognized via reserves which represent the impairment of inventory.
- h. **Assets classified as held for sale** - Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Entity is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Entity will retain a non-controlling interest in its former subsidiary after the sale.

When the Entity is committed to a sale plan involving disposal of an investment, or a portion of an investment in an associate or joint venture, the investment, or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Entity discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Entity discontinues the use of the equity method at the time of disposal when the disposal results in the Entity losing significant influence over the associate or joint venture (see Note 31 for definition of significant influence).

After the disposal takes place, the Entity accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Entity uses the equity method (see the accounting policy regarding investments in associates or joint ventures above).

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

- i. **Property, plant and equipment** - Property, plant and equipment are initially recorded at acquisition cost.

The cost of debt incurred during the period of construction and installation of qualifying property, plant and equipment, are capitalized.

The gain or loss arising from the sale or retirement of an item of property, plant and equipment, is calculated as the difference between the proceeds received from the sale and the carrying value of the asset, which is recognized in profit or loss.

Properties that are in the process of construction for purposes of production are recorded at cost less any impairment loss recognized. Cost includes professional fees and, in the case of qualifying assets, the costs of loan capitalized in accordance with the accounting policy of the Entity. The depreciation of these assets is initiated when assets are ready for their planned use. As of December 31, 2016, the Entity determined impairment of \$3,322, recording an allowance for impairment of machinery and equipment. As of December 31, 2015, there was no indication of impairment. As of December 31, 2014, the Entity determined impairment of \$1,088, recording an allowance for impairment of machinery and equipment.

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

The remaining averages useful lives of property, plant and equipment are:

	Years
Buildings and constructions	19
Machinery and equipment	9
Furniture and fixtures	4
Vehicles	4 to 16

- j. **Leasing** - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, are assets so specific that only the lessee can use it without making substantial changes or lease presents most of the economic life of the asset. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Entity's general policy on loan costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

- k. **Loan cost** - Loan costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific loans pending their expenditure on qualifying assets is deducted from the loan costs eligible for capitalization. All other loan costs are recognized in profit or loss in the period in which they are incurred.
- l. **Investment in shares of associates and other entities** - An associated entity is an Entity over which significant influence is held and is initially recognized based on the fair value of its identifiable assets and liabilities at the incorporation or acquisition date. If indications of impairment are detected, investments in associated entities are subjected to impairment tests.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Following its initial recognition, the comprehensive income of associated entities and the distribution of profits or capital reimbursements are presented in the consolidated financial statements by using the equity method unless the investment is classified as held for sale, in which case it is recorded in conformity with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. When the equity held by Mexichem in the losses of the associated entity exceeds the investment value, the recognition of equity in these losses is discontinued. Additional losses are recognized when Mexichem has the legal obligation to settle payments in the name of its associated entity.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Entity's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Entity's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Entity's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Entity discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Entity retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Entity measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part of an interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Entity accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Investment in associate in 2016, 2015 and 2014 corresponds to 40% of GF Wavin AG (Switzerland), and 25% of Salz. Westfalen GmbH (Germany), equivalent to \$30,909, \$31,232 and \$33,354, in these years, and an equity income of \$(2,873), \$(3,080) and \$(2,729), respectively.

Interest in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When an entity undertakes its activities under joint operations, the Entity as a joint operator recognizes in relation to its interest in a joint operation:

-
- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its revenue from the sale of its share of the output arising from the joint operation.
- Its share of the revenue from the sale of the output by the joint operation.
- Its expenses, including its share of any expenses incurred jointly.

The Entity accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group Entity transacts with a joint operation in which a group Entity is a joint operator (such as a sale or contribution of assets), the Entity is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Entity's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When an entity transacts with a joint operation in which a group Entity is a joint operator (such as a purchase of assets), the Entity does not recognize its share of the gains and losses until it resells those assets to a third party.

- m. ***Intangible assets*** - Corresponds to non-compete agreement, the use of trademarks, intellectual property and customer portfolios. Intangible assets with finite useful lives are amortized over the straight-line method based on their remaining useful lives. Those that have indefinite useful life are not amortized, but are subject to annual impairment testing or more frequently if there is any indication that they may have been impaired. The estimated useful life, the residual value and amortization method are reviewed at the end of each year, with the effect of any changes in estimates being accounted for on a prospective basis.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, which is the fair value at the acquisition date less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

- n. **Government grants** - Government grants are not recognized until there is reasonable assurance that the Entity will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Entity should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

- o. **Goodwill** - The Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Entity's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Entity's policy for goodwill arising on the acquisition of an associate and a joint venture is described at Note 41 below.

- p. **Impairment of tangible and intangible assets other than goodwill** - The Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Intangible assets having an indefinite useful life are tested for impairment at least annually or sooner if an indication that the asset may have been impaired exists.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, only to the extent the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

- q. **Business combinations** - Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given and liabilities incurred or assumed. Acquisition-related costs are recognized in profit or loss as incurred.

The acquirer's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "*Business combinations*" are recognized at their fair value at the acquisition date, except that:

- i. Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes* and IAS 19, *Employee Benefits*, respectively;
- ii. Liabilities or equity instruments related to the replacement by the Entity of an acquirer's share-based payment awards are measured in accordance with IFRS 2, *Share-based Payment*; and
- iii. Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquirer's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

The measurement period is the date of acquisition until the Entity obtains all information on the facts and circumstances that existed at the date of acquisition, which is subject to a maximum of one year.

In the case of a payment made for an acquisition that includes an asset or liability derived from a contingent payment agreement and which is valued at fair value at the acquisition date, subsequent changes to that fair value are adjusted based on the acquisition cost whenever they are classified as adjustments of the valuation period. All other changes to the fair value of the contingent payment, classified as an asset or liability according with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, are directly recognized in results. However, changes to the fair value of a contingent payment classified as capital are not recognized.

When a business combination is achieved in stages, the Entity's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (the date when the Entity obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

- r. **Financial instruments** - Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.
- s. **Financial assets** - All financial assets are recognized and derecognized on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: “financial assets at fair value through profit or loss”, “held-to-maturity investments”, “available-for-sale financial assets” and “loans and accounts receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method - The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value financial asset through profit and loss.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as a fair value through profit and loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It is part of a contract containing one or more embedded derivatives, and IAS 39, *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as fair value through profit and loss.

Financial assets at fair value through profit and loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the “other income” line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in Note 12.

Held-to-maturity investments

Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

Available-for-sale financial assets

Listed shares held by the Entity that are traded in an active market are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 12.

Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the valuation of investments on available for sale securities for such investments with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the valuation of investments on available for sale securities is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Entity's right to receive the dividends is established.

The fair value of available-for-sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Loans and accounts receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as “loans and accounts receivables”. Loans and accounts receivables are measured at amortized cost using the effective interest method, less any impairment. The allowance for doubtful accounts is recognized in results when there is objective evidence that the accounts receivable are considered to be impaired. Interest income is recognized by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on payments.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Entity derecognizes a financial asset when the contractual rights to the cash flows from the asset expires, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized loan for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Entity retains an option to repurchase part of a transferred asset), the Entity allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities at fair value through profit and loss

Financial liabilities are classified as at fair value through profit and loss when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at fair value through profit and loss.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at fair value through profit and loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It is part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined hybrid contract (asset or liability) to be designated as at fair value through profit and loss.

Financial liabilities at fair value through profit and loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest on the financial liability and is included in the "other income" line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in Note 12.

Other financial liabilities

Other financial liabilities (including loans and trade and other payables) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

- t. ***Derivative financial instruments*** - Due to the Entity's national and international operations, it is exposed to the risks of fluctuation of prices in raw materials in the chemical industry, as well as interest rate risks related to the financing of its projects. The Entity's policy is to use certain hedges to mitigate the volatility of the prices of certain raw materials and interest rate and foreign exchange rate risks in its financing activities, all of which are related to its business.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The Entity designates certain hedging instruments as fair value, of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecasted transactions or hedges of foreign exchange risk on firm commitments (cash flow hedges), hedges of net investment in a foreign business.

Embedded derivatives

The Entity reviews all executed contracts to identify embedded derivatives which have to be separated from the host contract for purposes of their accounting valuation and recognition. When an embedded derivative is identified in other financial instruments or in other contracts (host contracts), they are treated as separate derivatives when their risks and characteristics are not strictly related to those of the host contracts, and when such contracts are not recorded at fair value through profit and loss.

- u. **Hedge accounting** - The Entity designates certain hedging instruments, which include foreign currency derivatives, interest rates and commodities and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Entity documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 13 sets out details of the fair values of the derivative instruments used for hedging purposes.

Cash flow hedges

The Entity documents the relationship of the hedge and the objective and strategy of management of risk for the Entity. Such documentation will include the method the Entity will use to measure the effectiveness of the instrument to hedge the risk of changes in the fair value cash flows of the item being hedged.

The Entity recognizes all of the assets or liabilities arising from transactions with derivative financial instruments in the consolidated statements of financial position at fair value, regardless of its intent for holding them. The fair value is determined based on recognized market prices and when not listed on a market, based valuation techniques accepted in the financial markets. The decision to enter into hedges is based on the conditions of the markets and expectations in the national and international economic environments.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The loss or gain relating to the ineffective portion is recognized immediately in profit or loss, and is included in the "other income" line item.

Amounts previously recognized in the other comprehensive income and accumulated in stockholders' equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from stockholders' equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Entity revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in stockholders' equity at that time remains in stockholders' equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in stockholders' equity is recognized immediately in profit or loss.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the consolidated statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Entity revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated under the heading translation effects of foreign operations. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the “other income” line item.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation effects are reclassified to profit or loss in the same way that the exchange rate differences relating to the foreign operation.

- v. **Provisions** - Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, 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 by it, either by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Entity.
- x. **Contingent liabilities acquired in a business combination** - Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less cumulative amortization recognized in accordance with IAS 18, *Revenue*.
- y. **Short-term employee benefits** - All employee benefits expected to be settled within 12 months after the end of the annual reporting period, in which employees provide services related to:

- (a) Wages and salaries and social security contributions;
 - (b) Rights related to paid time off and sick leave;
 - (c) Profit sharing and incentives; and
 - (d) Non-monetary benefits to current employees.
- z. **Buy-back shares program reserve** - Purchases and sales of shares are recorded directly in the buy-back shares program reserve at their acquisition cost. Any profit or loss generated is recorded in retained earnings.
- aa. **Income taxes** - Income tax expense represents the sum of current income tax and deferred income tax.
- i. Current taxes on income - The current tax calculated refers to income tax (ISR) and is recorded in results of the year that it is incurred. }
 - ii. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and interest in joint operations, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Special mining charge

For purposes of recognition in the financial statements of the holders of mining concessions or allotments, this charge should be treated as a tax on income, because it is determined based on a remnant of the Entity's revenues and expenses. Consequently, IAS 12 "Income Taxes" should be used to determine and recognize the liabilities and assets derived from taxes on income with regards to what is consider current and deferred tax. Furthermore, within the statement of comprehensive income or loss, it should be presented as part of the tax on income for the period or, as the case may be, as part of the other comprehensive income with which it is related.

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss whether in other comprehensive income or directly in stockholders' equity. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

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

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

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

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

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

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

Employee or third-party contributions to defined benefit plans

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

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

- If the contributions are not related to the service (for example, contributions are required to reduce the deficit which arises from the losses in the plan assets or from the actuarial losses), which are reflected in the new measurement of the net liability (asset) for defined benefits.
- If the contributions are related to the services, they reduce the service costs. Based on the contribution amount which depends on the number of years of service, the Entity reduces the service cost by attributing the contributions to the years of service, using the attribution method required by IAS 19, paragraph 70, for the gross benefits.

- cc. ***Share-based payments***

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

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

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

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

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

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

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

	LTIP restricted	LTIP for performance	Total
Balance, December 31, 2014	\$ -	\$ -	\$ -
Charge to profit and loss and adjustments	<u>1,327</u>	<u>1,990</u>	<u>3,317</u>
Balance, December 31, 2015	\$ 1,137	\$ 1,990	\$ 3,317
Charge to profit and loss and adjustments	<u>642</u>	<u>678</u>	<u>1,320</u>
Balance, December 31, 2016	<u>\$ 1,779</u>	<u>\$ 2,668</u>	<u>\$ 4,447</u>

Valuation of options at fair value and accounting recognition

The current options qualify as liability instruments and are valued at their fair value estimated at the financial statements date, with the changes in valuation recognized in the statement of income and other comprehensive results. The fair value of the options was determined considering the remaining life of the instruments and expected dividend, volatility, and interest rate assumptions based on fair market conditions, in accordance with the Black & Scholes methodology.

- dd. **Revenue recognition** - Revenues is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, and other similar discounts.

Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The significant risks and benefits derived from ownership of the goods have been transferred to the buyer.
- No implication is maintained in the ongoing management of the sold goods, in the degree usually associated to ownership, nor is effective control over such goods maintained.
- The amount of revenue can be measured reliably.
- The economic benefits associated to the transaction are likely to be received; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Income from dividends and interest income

Income from dividends from investments is recognized once established the shareholders' right to receive this payment has been established (provided that it is probable that the economic benefits will flow to the Entity and the amount of revenue can be measured reliably).

Interest income is recognized as accrued, the value may be reliably assessed and the economic benefits are likely to flow to the Entity.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

- ee. ***Earnings per share*** - (i) The basic earnings per common share from continuing operations is calculated by dividing the profit or loss attributable to owners (controlling interest) by the weighted average number of common outstanding shares during the year; (ii) basic earnings (losses) per common share from discontinued operations is calculated by dividing the net income from discontinued operations by the weighted average number of common shares outstanding during the year.
- ff. ***Reclassifications*** - Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2015 and 2014 have been reclassified to conform to the presentation of the 2016 consolidated financial statements, such as: (i) the presentation of freight paid by the Entity under cost of sales which was previously recorded under selling and development expenses of \$314,162 and \$281,134, respectively, in the consolidated statements of profit and loss and other comprehensive income, because this is the industry practice and is aligned to the conditions and circumstances of customer contracts in which Mexichem acts as principal, and (ii) segment information presented in Note 27 has been reclassified, presenting under other assets the elimination of investment in shares per business group, which was previously presented under consolidated eliminations. This reclassification does not affect the total consolidated asset amount.

5. Critical accounting judgments and key sources of estimation uncertainty

In the application of accounting policies, the Entity's management is required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities. The estimates and associated assumptions are based on experience and other factors that are considered as relevant. Actual results could differ from estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the review period and future periods if the revision affects both the current period and subsequent periods.

Critical accounting judgments and key sources of uncertainty when determining estimates included in the consolidated financial statements, and which could have a significant risk adjustment to the carrying value of assets and liabilities during the next financial period are as follows:

- a. The Entity reviews the estimated useful life of property, plant and equipment at the end of each annual period. Based on a detailed analysis the Entity's management made certain changes to the useful life of certain components of property, plant and equipment. The level of uncertainty associated with useful life estimates relates to changes in the market behavior and the use of assets in production volumes and technology development.
- b. For impairment testing of assets, the Entity is required to estimate the value-in-use of its property, plant and equipment, as well as the determination of its cash-generating units, in the case of certain assets. The value-in-use calculations require the Entity to determine the future cash flows for its cash-generating units and an appropriate discount rate to calculate their present value. The Entity forecasts 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 and salt), which represent the Entity's estimate of the remaining amount not exploited in its mines, which may be produced and sold for profit. Such estimates are based on engineering estimates derived from samples and assumptions of market prices and production costs in each of the respective mines. The Entity updates the estimate for mineral reserves at the beginning of each year.
- e. Discount rate used to determine the book value of the Entity's defined benefits obligations. The Entity's defined benefits obligations are discounted at the rate established in the market rates for high-quality corporate bonds at the end of the reporting period. Professional judgment must be used to establish the criteria for the bonds that should be included for the population from which the yield curve is derived. The most important criteria considered for the selection of the bonds include the size of the issue of the corporate bonds, their rating and the identification of the atypical bonds which are excluded.
- f. The Entity is subject to transactions or contingent events for which it uses professional judgment in the development of estimates of probability of occurrence. Factors that are considered in these estimates are the current legal situation at the date of the estimate and, the opinion of the legal advisors.
- g. Control over PMV - Note 4c states that PMV is a subsidiary of Mexichem, which holds 55.91% of the stock of PMV. Based on the contractual agreements between Mexichem and the other investor, Mexichem has the power to direct the relevant activities of PMV through the approval of the annual business plan, on which basis it has control over PMV.
- h. PMV accident - Note 2a describes the revenues and expenses generated by the accident in the VCM plant in the subsidiary PMV. Accordingly, as of December 31, 2016, costs have been recognized in relation to settlements paid to affected employees and families, third party and environmental liability of \$42 million, as well as an account receivable of \$275 million related to property damage, third party liability, and director and officer liability, given that the necessary elements for recording have been fulfilled in accordance with the Entity policy described in Note 4dd. above, plus business interruption of \$51 million.

- i. Control over Ingleside Ethylene LLC - Note 4c states that Ingleside Ethylene LLC is a subsidiary of Mexichem, which holds 50% of the stock of Ingleside Ethylene LLC. Based on the contractual agreements between Mexichem and the other investor, as a result of its participation in the Entity's Board of Directors, Mexichem takes the decisions regarding the control over the company's operation and management.

6. Business combination

- a. **Business acquisitions** - During 2016 and 2014, Mexichem acquired several businesses, which were recorded using the acquisition method. The results of these businesses have been included in the accompanying consolidated financial statements from the date of the acquisition. The most significant acquisitions and that are mentioned in detail in Note 2 are follows:

- Mexichem acquired 100% of the shares of Gravenhurst Plastics, Inc, in \$13 million.
- Mexichem acquired 100% of the shares of Vinyl Compounds Holdings, Ltd, in 24 million pounds sterling.
- Mexichem acquired 100% of the shares of Vestolit at a value of €219 million.
- Mexichem acquired 100% of the shares of Dura-Line at a value of \$630 million.

With the aforementioned acquisitions, Mexichem continues its strategy to provide greater value with respect to its basic raw materials, thereby strengthening its position in the American continent and becoming a global Entity with operations in America, Europe and Asia.

- b. **Consideration transferred**

2016	Cash		
Vinyl Compounds Holdings, Ltd	\$ 30,042		
Gravenhurst Plastics, Inc	<u>13,006</u>		
	<u>\$ 43,048</u>		
2014	Cash	Net liabilities assumed	Total
Dura-Line	\$ 630,000	\$ -	\$ 630,000
Vestolit	<u>258,231</u>	<u>14,950</u>	<u>273,181</u>
	<u>\$ 888,231</u>	<u>\$ 14,950</u>	<u>\$ 903,181</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 revenues, net" in the consolidated statements of profit or loss and other comprehensive income.

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

The Entity has not concluded the identification and measurement of the assets acquired and liabilities assumed in its acquisitions at the end of 2016, based on their fair values at the acquisition date. Therefore, the amounts presented in this note regarding 2016 acquisitions are temporary and will be retroactively adjusted once the measurement period concludes. In regard to 2014 acquisitions, the measurement period concluded in 2015 and the values are final.

2016	Vinyl Compounds Holdings, Ltd	Gravenhurst Plastics, Inc	Total
Assets:			
Cash and cash equivalents	\$ 723	\$ 334	\$ 1,057
Accounts receivable and other	7,744	2,896	10,640
Inventories	5,016	1,744	6,760
Property, plant and equipment	7,655	1,431	9,086
Identified intangible assets	19,942	8,360	28,302
Liabilities:			
Suppliers and other accounts payable	(15,881)	(1,974)	(17,855)
Deferred income taxes	<u>(4,963)</u>	<u>(2,257)</u>	<u>(7,220)</u>
Total net assets	<u>\$ 20,236</u>	<u>\$ 10,534</u>	<u>\$ 30,770</u>
2014	Dura-Line	Vestolit	Total
Assets:			
Cash and cash equivalents	\$ 18,861	\$ 38,325	\$ 57,186
Accounts receivable and other	109,898	40,617	150,515
Inventories	62,918	36,589	99,507
Property, plant and equipment	103,454	288,376	391,830
Identified intangible assets	281,885	45,655	327,540
Other long-term assets	-	9,377	9,377
Liabilities:			
Suppliers and other accounts payable	(107,808)	(186,571)	(294,379)
Deferred income taxes	<u>(5,564)</u>	<u>(33,513)</u>	<u>(39,077)</u>
Total net assets	<u>\$ 463,644</u>	<u>\$ 238,855</u>	<u>\$ 702,499</u>

d. *Goodwill on acquisitions*

2016		Consideration transferred	Value of the acquired net assets	Goodwill
Vinyl Compounds		\$ 30,042	\$ 20,236	\$ 9,806
Gravenhurst		<u>13,006</u>	<u>10,534</u>	<u>2,472</u>
		<u>\$ 43,048</u>	<u>\$ 30,770</u>	<u>\$ 12,278</u>
2014	Consideration transferred	Net liabilities assumed	Value of the acquired net assets	Goodwill
Dura-Line	\$ 630,000	\$ -	\$ 463,644	\$ 166,356
Vestolit	<u>258,231</u>	<u>14,950</u>	<u>238,855</u>	<u>34,326</u>
	<u>\$ 888,231</u>	<u>\$ 14,950</u>	<u>\$ 702,499</u>	<u>\$ 200,682</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.

e. *Net cash flow from acquisition of subsidiaries*

	2016
Consideration paid in cash	\$ 43,048
Less: balances of cash and cash equivalents acquired	<u>(1,057)</u>
Net	<u>\$ 41,991</u>
	2014
Consideration paid in cash	\$ 888,231
Less: balances of cash and cash equivalents acquired	<u>(57,186)</u>
Net	<u>\$ 831,045</u>

f. *Supplementary financial information from the acquisition date*

The following table presents the net sales and comprehensive income of Vinyl Compounds, Gravenhurst Plastic, Dura-Line and Vestolit from the acquisition date included in the condensed consolidated statement of comprehensive income for the year ended December 31, 2016 and 2014 respectively.

	2016	
	Net sales	Net (loss) income
Vinyl Compounds	\$ 3,221	\$ (216)
Gravenhurst	<u>3,832</u>	<u>179</u>
Total	<u>\$ 7,053</u>	<u>\$ (37)</u>
	2014	
	Net sales	Net (loss) income
Dura-Line	\$ 182,644	\$ 1,684
Vestolit	<u>30,867</u>	<u>(5,724)</u>
Total	<u>\$ 213,511</u>	<u>\$ (4,040)</u>

g. *Effect of acquisitions in the Mexichem results (unaudited)*

The following table presents the consolidated net sales and comprehensive income of Mexichem for the years ended December 31, 2016 and 2014 as if the acquisitions of Vinyl Compounds, Gravenhurst Plastics, Inc., Dura-Line and Vestolit had occurred as of January 1, 2016 and 2014 respectively.

	2016	
	Net sales	Net income
Total	<u>\$ 5,404,162</u>	<u>\$ 228,764</u>

	2014	
	Net sales	Net income
Total	\$ <u>6,513,399</u>	\$ <u>57,668</u>

7. Transactions which did not result in cash flows

During the year 2016, 2015 and 2014, the Entity performed the following nonmonetary financing and investing activities which are not reflected in the consolidated statements of cash flows:

- In 2016, the Entity acquired machinery and equipment of \$28,900 through a financial lease.
- In 2015, the Entity acquired \$2,000 of machinery and equipment under a financial lease.
- In 2014:

In the fourth quarter it acquired 100% of Vestolit. From the payment of such acquisition, 12 million euros (\$15 million) did not result in a cash outflow because of the corresponding to liabilities of Vestolit assumed by Mexichem. The acquisition was made for a price of €219 million (\$273 million), of which it paid in cash €207 million (\$258 million) and assumed net liabilities for €12 million (\$15 million), as indicated in Note 6.

The Entity acquired \$44 million of machinery and equipment under a financial lease.

8. Cash and cash equivalents

	2016	2015	2014
Cash	\$ 325,184	\$ 371,502	\$ 394,627
Cash equivalents:			
Government paper in Mexican pesos	-	3,000	-
Bank paper in Mexican pesos	19,685	50,264	202,909
Time deposits	248,721	148,480	-
Bank deposit certificates in Mexican pesos	<u>120,017</u>	<u>80,208</u>	<u>21,989</u>
	<u>\$ 713,607</u>	<u>\$ 653,274</u>	<u>\$ 619,525</u>

9. Accounts receivable

	2016	2015	2014
Customers	\$ 837,291	\$ 828,042	\$ 948,489
Less - Allowance for doubtful accounts	<u>(34,445)</u>	<u>(29,263)</u>	<u>(28,367)</u>
	802,846	798,779	920,122
Accounts receivable from insurance companies (PMV)	326,812	-	-
Recoverable and other taxes	<u>50,923</u>	<u>85,565</u>	<u>204,045</u>
	<u>\$ 1,180,581</u>	<u>\$ 884,344</u>	<u>\$ 1,124,167</u>

Trade receivables -

The average credit period on sales of goods is 49 days as of December 31, 2016. In general, no interest is charged on trade receivables unless some agreement is reached for restructuring payments. The Entity has recognized an allowance for doubtful debts of 4% against all receivables determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Before accepting any new customer, the Entity uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year or whenever evidence of possible losses exists.

Customer's receivables which are not past due or impaired, have the best credit rating attributable based on the credit rating systems used by the Entity. Due to the number of customers; no single customer represents more than 1.9% of the receivables balance.

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Entity has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is more than 60 days outstanding) are still considered recoverable. In certain cases the Entity has secured certain accounts receivable and does not maintain any collateral or credit improvements on these balances, or the legal right to offset them against any amount which the Entity might owe to the counterparty.

	2016	2015	2014
60-90 days	\$ 14,523	\$ 12,789	\$ 13,431
91-120 days	<u>15,598</u>	<u>22,335</u>	<u>27,969</u>
Total	<u>\$ 30,121</u>	<u>\$ 35,124</u>	<u>\$ 41,400</u>
Average age (days)	<u>49</u>	<u>46</u>	<u>53</u>

Movement in the allowance for doubtful debts:

	2016	2015	2014
Balance at the beginning of the year	\$ 29,263	\$ 28,367	\$ 35,733
Charge to results	10,156	8,355	7,374
Applications	(3,449)	(5,085)	(12,559)
Translation effects	<u>(1,525)</u>	<u>(2,374)</u>	<u>(2,181)</u>
Balance at the end of the year	<u>\$ 34,445</u>	<u>\$ 29,263</u>	<u>\$ 28,367</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.

10. Inventories

	2016	2015	2014
Finished products	\$ 371,690	\$ 408,700	\$ 483,212
Raw materials	188,297	197,157	224,876
Goods in-transit	35,737	33,085	54,288
Spare parts	<u>40,829</u>	<u>41,834</u>	<u>45,936</u>
	636,553	680,776	808,312
Less - Allowance for obsolete and slow-moving inventory	<u>(30,164)</u>	<u>(32,792)</u>	<u>(33,093)</u>
	<u>\$ 606,389</u>	<u>\$ 647,984</u>	<u>\$ 775,219</u>

At December 31 of 2016, 2015 and 2014 the inventories recognized in the cost of goods sold for consumption of inventories during the period regarding continuous operations was \$3,869, \$4,082 and \$4,105 million respectively. During 2016, 2015 and 2014, there were not write-downs of inventory to net realizable value.

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

	2016	2015	2014
Balance at beginning of the year	\$ 32,792	\$ 33,093	\$ 33,720
Charge to results	1,703	10,125	6,739
Applications	(3,838)	(7,076)	(5,128)
Business combination	785	-	1,832
Translation effects	<u>(1,278)</u>	<u>(3,350)</u>	<u>(4,070)</u>
Balance at end of the year	<u>\$ 30,164</u>	<u>\$ 32,792</u>	<u>\$ 33,093</u>

11. Derivative financial instruments

The Entity has exposure to market risks, operating risks and financial risks arising from the use of financial instruments that involves interest rates, credit risks, liquidity risks and exchange rate risks, which are managed centrally. The Board of Directors establishes and monitors policies and procedures to measure and manage those risks, which are described below.

- a. **Capital management** - The Entity manages its capital to ensure that it will continue as an “ongoing business”, while it maximizes returns to its shareholders through the optimization of the balances of debt and equity. The Entity is not exposed to any externally imposed capital requirements.

The Entity’s management reviews, on monthly basis, its net debt position and its cost of debts and their relationship with Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA), is presented as part of the Entity’s financial projections that is part of its business plan presented to the Board of Directors and shareholders of the Entity. The Entity has a policy to maintain a ratio of debt, net of cash and cash equivalents, of not more than two times EBITDA. (Pro Forma EBITDA considering the last 12 months of the businesses acquired in the year).

The net indebtedness ratio of the reporting period is as follows:

	2016	2015	2014
Net debt with cost	1,586,850	1,703,211	1,808,668
EBITDA Pro Forma (12 months)	<u>892,748</u>	<u>910,421</u>	<u>881,042</u>
Indebtedness ratio	<u>1.78</u>	<u>1.87</u>	<u>2.05</u>
EBITDA Pro Forma (12 months)	892,748	910,421	881,042
Total interest expenses	<u>192,372</u>	<u>212,075</u>	<u>195,013</u>
Interest coverage ratio	<u>4.64</u>	<u>4.29</u>	<u>4.52</u>

Net debt with cost includes in 2016 and 2015 \$1,394 and \$21,410, respectively, related to letters of credit and suppliers at over 180 days, which for financial restriction purposes is considered as financial debt.

The ratio of net debt to EBITDA is as follows:

	2016	2015	2014
Net debt with financial institutions	1,586,850	1,703,211	1,808,668
UAFIDA **	<u>883,754</u>	<u>910,421</u>	<u>818,414</u>
Ratio of net debt to EBITDA	<u>1.80</u>	<u>1.87</u>	<u>2.21</u>
UAFIDA **	883,754	910,421	818,414
Interest on debt	<u>182,637</u>	<u>190,290</u>	<u>160,334</u>
Interest coverage rate	<u>4.84</u>	<u>4.78</u>	<u>5.10</u>

** For purposes of this calculation is considered the actual UAFIDA, UAFIDA only includes businesses acquired from its date of incorporation.

- b. **Interest rate risk management** - The Entity is mainly exposed to interest rate risks because it has entered into debt at variable rates. The risk is managed by the Entity through the use of interest rate swap contracts when the variations of projected rates exceed a range of 100 to 200 basis points per quarter. The Entity's hedging activities are regularly monitored so that they align with interest rates and their related risk, ensuring the implementation of the most profitable hedging strategies.

The Entity's exposures to interest-rate risk are mainly related to changes in the Mexican Interbank THIE 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 THIE and Libor interest rates have had an increase of 100 basis points in each reporting period and all the other variables had remained constant, income before taxes for the year in 2016, 2015 and 2014 would have decreased by \$2 million, \$2 million and \$4 million, respectively. This is mainly attributable to the exposure of the Entity to LIBOR and THIE interest rates on their long-term loans.

- c. **Credit risk management** - Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss for the Entity, and stems mainly from trade accounts receivable and liquid funds. Credit risk with respect to cash and cash equivalents and derivative financial instruments is limited because counterparties are banks with high credit ratings assigned by credit rating agencies. The maximum exposure to credit risk is primarily represented by the balance of financial assets in the trade accounts receivable. The Entity sells products to customers in different economic environments primarily in Mexico, South America, Europe and United States of America, that demonstrates their economic solvency.

The total accounts receivable from all segments of business are comprised of more than 30,000 customers, which such customers do not represent a concentration of credit risk individually. However, the accounts receivable balance represents the maximum credit risk exposure to the Entity. The Entity periodically evaluates the financial condition of its customers and purchases collection insurance for export sales, while domestic sales generally require a guarantee. The Entity does not believe that there is a significant risk of loss from a concentration of credit with respect to its customer base and believes that any potential credit risk is adequately covered by its allowance for doubtful accounts, which represents its best estimate of impairment losses on receivables.

- d. **Liquidity risk management** - Ultimate responsibility for liquidity risk management rests with management of the Entity, which has established appropriate policies for the control of such risk through the monitoring of working capital, allowing management of the Entity's short-, medium-, and long-term funding requirements. The Entity maintains cash reserves and available credit lines, continuously monitoring projected and actual cash flows, reconciling the profiles of maturity of financial assets and financial liabilities.

The following table details the remaining contractual maturities of the Entity's non-derivative financial assets and financial liabilities, based on contractual repayment periods. The table has been designed based on un-discounted projected cash flows of financial assets and liabilities based on the date on which the Entity must make payments and expects to receive collections. The table includes both projected cash flows related to interest and capital on financial debt in the consolidated statements of financial position and the interest that will be earned on financial assets. Where the contractual interest payments are based on variable rates, the amounts are derived from interest rate curves at the end of the period. The contractual maturity is based on earliest date in which the Entity is required to make payment.

As of December 31, 2016	Weighted average effective interest rate	3 months	6 months	1 year
Bank loans	5.68%	\$ 95,870	\$ 24,986	\$ 227,100
Suppliers and credit letters	1.00%	688,091	580,219	1,000,000
Other accounts payable and others		437,354	41,378	85,000
Finance lease	5.36%	11,847	15,361	32,000
Derivative financial instruments (Net cash flow)		<u>483</u>	<u>-</u>	<u>-</u>
Total		<u>1,233,645</u>	<u>661,944</u>	<u>347,100</u>
Cash and cash equivalents		713,607	-	-
Trade accounts receivable and others		<u>1,122,516</u>	<u>47,712</u>	<u>13,000</u>
Total		<u>1,836,123</u>	<u>47,712</u>	<u>13,000</u>
Net		<u>\$ 602,478</u>	<u>\$ (614,232)</u>	<u>\$ (333,000)</u>

As of December 31, 2015	Weighted average effective interest rate	3 months	6 months	1 year
Bank loans	5.64%	\$ 47,509	\$ 12,846	\$ 8,000
Suppliers and credit letters	1.00%	783,692	395,919	2,000,000
Other accounts payable and others		297,990	88,125	9,000
Finance lease	5.27%	11,368	11,664	2,000
Derivative financial instruments (Net cash flow)		<u>-</u>	<u>-</u>	<u>-</u>
Total		<u>1,140,559</u>	<u>508,554</u>	<u>2,019,000</u>
Cash and cash equivalents		653,274	-	-
Trade accounts receivable and others		<u>796,570</u>	<u>58,898</u>	<u>3,000</u>
Total		<u>1,449,844</u>	<u>58,898</u>	<u>3,000</u>
Net		<u>\$ 309,285</u>	<u>\$ (449,656)</u>	<u>\$ (19,000)</u>

As of December 31, 2014	Weighted average effective	3 months	6 months	1 year
	interest rate			
Bank loans	5.81%	\$ 98,733	\$ 11,096	\$ 8
Suppliers and credit letters	1.00%	807,490	285,571	3
Other accounts payable and others		375,072	109,928	3
Finance lease	5.48%	22,318	15,329	3
Derivative financial instruments (Net cash flow)		295	-	1
Total		1,303,908	421,924	19
Cash and cash equivalents		619,525	-	-
Trade accounts receivable and others		951,653	170,556	
Total		1,571,178	170,556	
Net		\$ 267,270	\$ (251,368)	\$ (19)

The amounts included for debt with financial institutions includes both fixed and variable interest rate instruments. The financial liabilities at variable rates are subject to change if the changes in variable rates differ from the estimates of rates determined at the end of the reporting period is presented at fair value.

The Entity expects to meet its obligations with the cash flows from operations and resources received from the maturity of financial assets. In addition, as of December 31, 2016 the Entity has access to a line of revolving credit with a balance not executed of \$1,500 million and of 23.2 million euros.

- e. **Foreign exchange risk management** - The Entity carries out transactions denominated in foreign currency; consequently, it is exposed to fluctuations in exchange rates, which are managed within the parameters of the approved policies, using, where appropriate, forward exchange rate contracts, when considered effective.
- f. The carrying values of monetary assets and monetary liabilities denominated in foreign currency at the end of the period are as follows (foreign currencies in thousands):

	Assets			Liabilities		
	2016	2015	2014	2016	2015	2014
Euros	157,970	675,750	358,379	1,134,734	1,271,234	1,242,382
Brazilian real	369,330	427,402	422,383	219,793	239,141	91,030
Mexican pesos	2,491,061	2,220,211	5,461,428	7,245,894	8,370,724	3,939,579
Colombian pesos	205,452,231	155,713,132	145,422,806	201,012,783	279,169,550	248,126,129

- Foreign currency sensitivity analysis

The following table details the sensitivity of Mexichem to increases and decreases of 10% in the Mexican pesos against the relevant foreign currencies. The 10% represents the rate of sensitivity used when the exchange rate risk is reported internally to key management personnel, and represents the evaluation of the management on possible change in the exchange rates. The sensitivity analysis includes only the monetary items denominated in foreign currency and adjusts their conversion with a 10% fluctuation at the end of the period. The sensitivity analysis includes external loans as well as loans from foreign operations inside the Entity where the loan is denominated in a currency other than the U.S. dollar. A negative or positive figure, respectively, (as shown in the following table) indicates a (decrease) or increase in the results derived from a 10% weakening of the foreign currency against the foreign currency in question:

	2016	2015	2014
Euros	102,463	65,122	107,548
Brazilian real	(4,588)	(1,746)	(12,475)
Mexican pesos	23,881	35,563	(10,340)
Colombian pesos	148	3,889	4,293

Sensitivity analyses is not representative of the inherent foreign exchange risk, which may not necessarily reflect the exposure during the year.

At December 31, the exchange rate of U.S. dollar in the main countries in which the Entity operates, existing at the date of the financial statements were as follows:

	2016	2015	2014
Argentina	15.89	12.98	8.55
Brazil	3.25	3.90	2.65
Colombia	3,001.71	3,149.47	2,392.46
Mexico	20.66	17.20	14.71
United Kingdom	0.81	0.67	0.64
European Union (Euro)	0.95	0.91	0.82
Venezuela	673.76	198.69	12.00

- g. **Financial risk management objectives** - The Mexichem's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Entity through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk, liquidity risk and interest rate risk of cash flow.

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Entity's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on a continuous basis. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

- h. **Market risk** - The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see subsection e. of this Note) and interest rates (see subsection b. of this Note). The Entity enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

- Mexican peso-US dollar and US dollar-Euro Cross Currency Swaps to mitigate the exposure in debts in Mexican pesos and intercompany debt in Euros.
- Foreign currency Principal Only Swaps to hedge exchange risks arising in the translation of the Entity's investment in foreign operations into Euros, which is the functional currency.
- Euro-Turkish Lira exchange rate forward to mitigate intercompany debt exposure.

Market risk exposures are measured using a sensitivity analysis.

There has been no change to the Entity's exposure to market risks or the manner in which these risks are managed and measured.

- Cross Currency Swap** - According to the cross currency swap contracts, the Entity agrees to exchange Peso-Dollar flows calculated on the amounts of the notional values and interest rates established in such contracts. To hedge bank debt exposure in Mexican pesos and with related parties in Euros, respectively.

Principal Only Swaps - According to the cross country swap contracts, the Entity agrees to exchange Dollar-Euro cash flows on the principal and a fixed rate in dollars, as established in such contracts, which enable the Entity to mitigate the risk of fluctuations in the exchange rates due to the exposure generated by its Mexican peso debt and the investment in Euros for the acquisition of its subsidiaries in Europe, Wavin and Vestolit. The fair value of the cross currency swaps at the end of the reporting period is determined by discounting the future cash flows using the curves and exchange rates in effect at the date of the determination.

Mexichem is an entity whose functional currency is the US dollar. Mexichem issued: i) debt for 3,000 million Mexican pesos at 10 years, with a fixed rate of 8.12%, ii) debt for 3,000 million of Mexican pesos at eight years, at 0.825 percentage points above the variable Interbank Interest Rate (TIIE), and iii) debt for 750 million of Mexican pesos at 30 years, at a fixed rate of 5.875%. Furthermore, Mexichem acquired two foreign companies: Wavin and Vestolit for the amount of €612 million and €125 million, respectively.

The aforementioned cross currency swaps have been formally designated as hedge transactions for accounting purposes, as follows:

Mexichem currently has six US dollar-Euro Principal Only-Swaps, which are designated as net investment hedge relationships of European subsidiaries.

Similarly, the Entity has three Mexican peso-US dollar Cross Currency Swaps which have been designated as cash flow hedge relationships to hedge the Entity's exchange fluctuations related to the revaluation of debt in Mexican pesos. Up to December 23, 2016, there was one US dollar-Euro Cross Currency Swap designated as a cash flow hedge relationship to hedge the Entity's exchange fluctuations related to the revaluation of debt with its subsidiary Wavin in Europe, whose functional currency is the Euro. Such debt was repaid early as well as the related hedge.

In June 2015, the Entity recognized four of the above swaps turning them into two Principal Only Swaps and changing the currency to US dollar-Euro; therefore, the relationship turned into a foreign net investment hedge in Euros

Furthermore, in September 2015 a novation was negotiated for the 2 remaining Peso-Dollar Cross Currency Swaps, leaving 3 Peso-Dollar Cross Currency Swaps.

Additionally, the Entity negotiated 5 Dollar-Euro Principal Only-Swaps, which were also designated as net investment hedge relationships of their subsidiaries abroad in euros.

Mexichem has evaluated and measured the effectiveness, and concluded that the hedge strategy is highly effective as of December 31, 2016, 2015 and 2014. The Entity uses the ratio analysis method, based on the hypothetical derivative model to simulate the behavior of the element hedged. Such method consists of comparing the changes in the fair value of the hedge instruments with the changes in the fair value of the hypothetical derivative that would result in a perfect coverage of the element hedged.

As of December 31, 2016, 2015 and 2014, the fair value of the currency swaps represents a liability of \$100 million, \$68 million and \$62 million, respectively. The effect recognized in equity for the hedge of the investment in the foreign subsidiaries is \$88 million, \$98 million and \$47 million, with a deferred income tax effect of \$26 million, \$29 million and \$13 million, respectively. With regard to the portion covering the debt in Mexican pesos, the effect of the change in fair value is \$28 million, \$27 million and \$43 million, respectively, and is recognized in results of the period to cover the revaluation of the hedged item. The amount to be carried to results of the period during the next 12 months will depend on the behavior in the exchange rates.

12. Fair value of financial instruments

The fair value of financial instruments presented below has been determined by the Entity using information available in the markets or other valuation techniques that use assumptions that are based on market conditions existing at each consolidated statement of financial position date, but require judgment with respect to their development and interpretation. As a result, the estimated amounts presented below are not necessarily indicative of the amounts that the Entity could obtain in a current market exchange. The use of different assumptions and/or estimation methods could have a material effect on the estimated amounts of fair value.

The financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable are:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Entity considers that the carrying amount of cash, cash equivalents, accounts receivable and accounts payable from third parties and related parties, the current portion of bank loans approximate their fair values because they have short-term maturities. The Entity's long-term debt is recorded at amortized cost and incurs interest at fixed and variable rates that are related to market indicators.

To obtain and disclose the fair value of long-term debt, the Entity uses quoted market prices or inputs or quoted prices on similar instruments. Other techniques are used to determine the fair value of other financial instruments such as cash flow projections, considering the dates of the cash flows in market curves, discounting such cash flows using discount rates that reflect the credit risk of the counterparty as well as the Entity's own credit risk over the referenced period. The fair value of interest rate swaps is calculated as the present value of estimated future net cash flows. The fair value of currency futures is determined using the exchange rate futures quotes listed at the date of the consolidated statement of financial position.

- a. Fair value of the Entity's financial assets and liabilities which are measured at fair value on a recurring basis.

Some of the Entity's financial assets and liabilities are valued at fair value at the close of each year. The following table provides information on how the fair values of the financial assets and liabilities are determined (specifically, the valuation techniques and the entry data used).

Financial Assets/liabilities	31/12/16	Fair value 31/12/15	31/12/14 Liabilities	Fair value hierarchy	
1) Fixed interest rate swap (see Note 13)	\$ -	\$ -	\$ (3,354)	Level 2	Discounted cash flow model using interest rates (based on market and contractual interest rates) and contractual interest rates of various counterparties.
2) Exchange rate and interest rate Swap (see Note 13)	Liabilities (79,131)	Liabilities (60,341)	Liabilities (75,803)	Level 2	The Entity uses the market model to simulate the changes in the fair value of the hedged item. The Entity uses the market model to simulate the behavior of the hedged item. The Entity uses the market model to simulate the behavior of the hedged item.
3) Principal-only swap EUR/USD (see Note 13)	Liabilities (20,031)	Liabilities (8,141)	Assets 17,392	Level 2	The Entity uses the market model to simulate the behavior of the hedged item. The Entity uses the market model to simulate the behavior of the hedged item. The Entity uses the market model to simulate the behavior of the hedged item.
4) Contracts forward (see Note 13)	Liabilities (483)	-	Liabilities (10,399)	Level 2	Discounted cash flow model using exchange rates (based on market and contractual interest rates) and contractual interest rates of various counterparties.
	(99,645)	(68,482)	(72,164)		
Less- current portion	(483)	-	(10,399)		
Total	<u>\$ (99,162)</u>	<u>\$ (68,482)</u>	<u>\$ (61,765)</u>		

- b. The carrying amounts of financial instruments by category and their related fair values at December 31 are as follows:

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	\$ 713,607	\$ 713,607	\$ 653,274	\$ 653,274
Loans and accounts receivable:				
Customers and other current assets	1,183,846	1,176,272	885,921	885,921
Accounts payable	(1,994,225)	(1,994,225)	(1,913,132)	(1,913,132)
Bank loans and current portion of long-term debt	<u>(2,299,063)</u>	<u>(1,915,606)</u>	<u>(2,335,075)</u>	<u>(1,971,000)</u>
Total	<u>\$ (2,395,835)</u>	<u>\$ (2,019,952)</u>	<u>\$ (2,709,012)</u>	<u>\$ (2,345,211)</u>

As of December 31, 2016, 2015 and 2014, the hierarchy of the fair value of cash and cash equivalents for \$713,607, \$653,274 y \$619,525, respectively, is Level 1.

The fair values shown at December 31, 2016, 2015 and 2014 do not differ from carrying values, except bank loans including current portion of the long-term debt, as the values observed in the market are very similar to those recorded as of such date.

During the period, there were no transfers between Level 1 and 2.

13. Derivative financial instruments

a. *Exchange rate Swap*

An EUR/TRY exchange rate forward was obtained in 2016 with Ak Bank, effective from May 27, 2016 to January 27, 2017, with a notional amount of EUR\$8 million. The agreed upon exchange rate is 3.534 Turkish Lira per Euro.

During 2015, most of the forwards contracted (Dollar to Mexican pesos) matured, and in September 2015, those which remained in effect as of that date were canceled in advanced. Variances in the fair value were recognized in results of the period to match the revaluation of the item hedged, in the amount of \$20,968.

During 2014 forwards were contracted (US dollar to Mexican peso) with Morgan Stanley, BNP Paribas, JPMorgan, HSBC, Bank of America and Deutsche Bank, in effect from February 2014 to October 2015, for a notional amount of \$238 million, with approximate monthly maturities of \$17 million. The exchange rates agreed ranges from 13.52 to 14.33 Mexican pesos per one U.S. dollar and the fair value as of December 31, 2014 of the forwards described in this subsection is \$10,399.

b. *Interest rate and exchange rate Swap*

Swap contract transactions performed in 2016, 2015 and 2014 represent a hedge from an economic standpoint; for accounting purposes they were classified as for hedging and trading purposes. The fair value as of December 31, 2016, 2015 and 2014 was \$99,162, \$68,482 and \$61,765, respectively. The variations in fair value were recognized in comprehensive income under the headings of interest, exchange gain and loss in the respective period.

Up to December 23, 2016, there was one US dollar-Euro Cross Currency Swap designated as a cash flow hedge relationship to hedge the Entity's exchange fluctuations related to the revaluation of debt with its subsidiary Wavin in Europe, whose functional currency is the Euro. Such debt was early amortized, as well as the related hedge, recognizing exchange gain of \$3.4 million

The following exchange and interest rates swaps were contracted with different financial institutions, as follows:

Derivatives	Financial institution	Starting date	Ending date
Exchange rate and interest rate Swap	Morgan Stanley	09/October/2013	05/March/2021
Exchange rate and interest rate Swap	Bancomer	10/September/2015	05/March/2021
Exchange rate and interest rate Swap	HSBC	23/January/2014	05/March/2021
Principal-Only swap EUR/USD	Morgan Stanley	10/June/2015	17/March/2022
Principal-Only swap EUR/USD	Santander	11/June/2015	17/March/2022
Principal-Only swap EUR/USD	HSBC	17/September/2014	17/September/2024
Principal-Only swap EUR/USD	Bancomer	05/May/2015	18/March/2025
Principal-Only swap EUR/USD	Banamex	03/December/2015	17/March/2025
Principal-Only swap EUR/USD	Barclays	03/December/2015	17/March/2025
Exchange rate Forward	Ak Bank	27/May/2016	27/January/2017

Derivatives	Financial institution	Starting date	Ending date
Exchange rate and interest rate Swap	Morgan Stanley	09/October/2013	05/March/2021
Exchange rate and interest rate Swap	Bancomer	10/September/2015	05/March/2021
Exchange rate and interest rate Swap	HSBC	23/January/2014	05/March/2021
Principal-Only swap EUR/USD	Morgan Stanley	10/June/2015	17/March/2022
Principal-Only swap EUR/USD	Santander	11/June/2015	17/March/2022
Principal-Only swap EUR/USD	HSBC	17/September/2014	17/September/2024
Principal-Only swap EUR/USD	Bancomer	05/May/2015	18/March/2025
Principal-Only swap EUR/USD	Banamex	03/December/2015	17/March/2025
Principal-Only swap EUR/USD	Barclays	03/December/2015	17/March/2025
Exchange rate and interest rate Swap	Bank of Tokyo	30/October/2015	30/April/2018

Derivatives	Financial institution	Starting date	Ending date
	Rabo Bank, ABN		
Fixed interest rate swap	Amro y BNP	July 10, 2008	October 19, 2015
Fixed interest rate swap	Danske Bank	September 14, 2010	October 16, 2015
Fixed interest rate swap	ABN Amro	November 18, 2010	October 16, 2015
Exchange rate and interest rate Swap	Santander	April 1, 2013	March 9, 2022
Exchange rate and interest rate Swap	Morgan Stanley	April 8, 2013	March 9, 2022
Exchange rate and interest rate Swap	Morgan Stanley	April 24, 2013	March 9, 2022
Exchange rate and interest rate Swap	Morgan Stanley	May 24 2013	March 9, 2022
Exchange rate and interest rate Swap	Morgan Stanley	October 9, 2013	March 5, 2021
Exchange rate and interest rate Swap	HSBC	January 23, 2014	March 5, 2021
Principal-only swap EUR/USD	Banamex	September 17, 2014	September 17, 2024
Principal-only swap EUR/USD	Bancomer	September 17, 2014	September 17, 2024
Principal-only swap EUR/USD	Deutsche Bank	September 17, 2014	September 17, 2024
Principal-only swap EUR/USD	Deutsche Bank	September 17, 2014	September 17, 2024
Principal-only swap EUR/USD	HSBC	September 17, 2014	September 17, 2024
Forward USD to MXN	BNP PARIBAS	February 14, 2014	January 15, 2015
Forward USD to MXN	JP Morgan	February 21, 2014	January 21, 2015
Forward USD to MXN	Morgan Stanley	June 11, 2014	July 31, 2015
Forward USD to MXN	JP Morgan	August 26, 2014	December 30, 2014
Forward USD to MXN	JP Morgan	December 30, 2014	November 30, /2015
Forward USD to MXN	Morgan Stanley	August 26, 2014	December 29, 2014
Forward USD to MXN	Morgan Stanley	December 29, 2014	December 29, 2015
Forward USD to MXN	HSBC	August 26, 2014	July 30, 2015
Forward USD to MXN	JP Morgan	November 21, 2014	October 22, 2015
Forward USD to MXN	Bank of America	November 21, 2014	October 22, 2015
Forward USD to MXN	BNP Paribas	November 21, 2014	October 22, 2015
Forward USD to MXN	Deutsche Bank	November 28,2014	October 30, 2015

14. Property, plant and equipment (As Adjusted)

	Balances as of December 31, 2015	Additions	Acquisitions t business comb
Investment:			
Land	\$ 232,665	\$ 46	\$
Buildings	902,224	6,774	
Machinery and equipment	4,234,325	48,330	1
Furniture and fixtures	120,017	4,492	
Vehicles	35,302	281	
Construction in-progress	<u>1,272,755</u>	<u>548,896</u>	-
Total investment	6,797,288	608,819	1
Depreciation:			
Buildings	471,400	33,576	-
Machinery and equipment	2,475,783	218,068	
Furniture and fixtures	96,057	7,878	
Vehicles	<u>21,515</u>	<u>2,514</u>	
Total accumulated depreciation	<u>3,064,755</u>	<u>262,036</u>	
Net investment	<u>\$ 3,732,533</u>	<u>\$ 346,783</u>	<u>\$</u>

	Balances as of December 31, 2014	Additions	Acquisitions t business comb
Investment:			
Land	\$ 312,626	\$ 917	\$ -
Buildings	968,477	4,410	-
Machinery and equipment	4,338,229	53,597	-
Furniture and fixtures	143,999	3,269	-
Vehicles	38,703	351	-
Construction in-progress	<u>614,779</u>	<u>926,453</u>	-
Total investment	6,416,813	988,997	-
Depreciation:			
Buildings	507,536	29,240	-
Machinery and equipment	2,489,736	230,393	-
Furniture and fixtures	118,463	6,380	-
Vehicles	<u>18,179</u>	<u>7,218</u>	-
Total accumulated depreciation	3,133,914	273,231	-
Assets classified as held for sale	<u>3,089</u>	<u>5,413</u>	-
Net investment	<u>\$ 3,285,988</u>	<u>\$ 721,179</u>	<u>\$ -</u>

	Balances as of December 31, 2013	Additions	Acquisitions through business combinations
Investment:			
Land	\$ 326,196	\$ -	\$ -
Buildings	988,257	3,212	4,003,671
Machinery and equipment	4,003,671	52,548	34,003,671
Furniture and fixtures	154,018	2,848	
Vehicles	36,535	74	
Construction in-progress	<u>302,595</u>	<u>619,566</u>	<u>1,000,000</u>
Total investment	5,811,272	678,248	41,003,671
Depreciation:			
Buildings	497,480	32,587	
Machinery and equipment	2,529,185	232,330	2,529,185
Furniture and fixtures	132,252	4,985	-
Vehicles	<u>16,323</u>	<u>2,662</u>	<u>-</u>
Total accumulated depreciation	3,175,240	272,564	2,529,185
Assets classified as held for sale	<u>3,071</u>	<u>67</u>	<u>-</u>
Net investment	<u>\$ 2,639,103</u>	<u>\$ 405,751</u>	<u>\$ 39,474,486</u>

15. Intangible assets and goodwill

a. Intangible assets -

	Useful life	2016	2015
Non - compete agreements	5	\$ 1,800	\$ -
Customer portfolio	25	650,473	68,000
Use of trademark	Indefinite/definitive	402,570	41,000
Intellectual property	10	113,555	11,000
Other intangibles	5	<u>24,410</u>	<u>3,000</u>
		<u>\$ 1,192,808</u>	<u>\$ 1,24,000</u>
Cost	Non – compete agreement	Customer portfolio	Use of trademark
Balances as of December 31, 2013	\$ 182,000	\$ 744,885	\$ 34,000
Acquisitions through business combinations	770	185,255	12,000
New developments and investments	-	-	-
Effect of foreign currency exchange differences	<u>-</u>	<u>(27,025)</u>	<u>(1,000)</u>
Balances as of December 31, 2014	182,770	903,115	44,000
Acquisitions through business combinations	-	-	-
New developments and investments	-	-	-
Effect of foreign currency exchange differences	<u>-</u>	<u>(69,344)</u>	<u>(1,000)</u>
Balances as of December 31, 2015	182,770	833,771	42,000
Acquisitions through business combinations	1,745	20,734	-
Disposal of damage assets	-	(17,450)	-
New developments and investments	-	-	-
Effect of foreign currency exchange differences	<u>-</u>	<u>(20,590)</u>	<u>(1,000)</u>
Balances as of December 31, 2016 (cost)	<u>\$ 184,515</u>	<u>\$ 816,465</u>	<u>\$ 42,000</u>

	Amortization	Non – compete agreement	Customer portfolio	Use of trade
Balances as of December 31, 2013		\$ 145,900	\$ 83,199	\$ 1
Amortization		<u>20,601</u>	<u>39,795</u>	
Balances as of December 31, 2014		166,501	122,994	1
Amortization		<u>13,348</u>	<u>29,017</u>	
Balances as of December 31, 2015		179,849	152,011	1
Disposal of damage assets		-	(17,450)	-
Amortization		<u>2,866</u>	<u>31,431</u>	
Balances as of December 31, 2016 (amortization)		<u>182,715</u>	<u>165,992</u>	<u>1</u>
Net assets at December 31, 2016		<u>\$ 1,800</u>	<u>\$ 650,473</u>	<u>\$ 40</u>

b. **Goodwill –**

	2016	2015	2014
Dura-Line Holdings, Inc	\$ 166,356	\$ 166,356	\$ 16
Mexichem Resinas Vinílicas, S.A. de C.V.	101,176	101,176	10
Mexichem Amanco Holding, S.A. de C.V.	96,338	93,334	11
Mexichem Speciality Resins, Inc.	65,546	65,546	6
Mexichem Resinas Colombia, S.A.S.	54,593	54,593	5
Mexichem Specialty Compounds, Inc	52,805	52,805	5
Fluorita de México, S.A. de C.V.	45,682	45,682	4
Wavin N.V.	25,802	26,867	3
VESTO PVC Holding GmbH	27,097	28,216	3
Others	<u>54,788</u>	<u>43,582</u>	<u>5</u>
Total	<u>\$ 690,183</u>	<u>\$ 678,157</u>	<u>\$ 72</u>
Cost			
Balance at the beginning of the year	\$ 678,157	\$ 723,220	\$ 53
Additional recognized amounts of business combinations which occurred during the year (Note 6d)	12,278	-	20
Effect of differences in foreign currency exchange rates	<u>(252)</u>	<u>(45,063)</u>	<u>(1)</u>
Balance at the end of the year	<u>\$ 690,183</u>	<u>\$ 678,157</u>	<u>\$ 72</u>

16. Bank loans and long-term debt

At the end are integrated as follows:

	2016	2015	2014
Summary of agreements of loans in U.S. dollars, euros, yen and rupees:			
Issuance of an International Bond for the amount of \$750 million, which accrues semiannual interest at the fixed 5.875% rate. Principal will be settled through a single payment at maturity in September 2044.	\$ 750,000	\$ 750,000	\$ 75

	2016	2015	2014
Issuance of an International Bond for the amount of \$750 million, which accrues semiannual interest at the fixed 4.875% rate. Principal will be settled through a single payment at maturity in September 2022.	750,000	750,000	750,000
Issuance of an International Bond for the amount of \$400 million, which accrues semiannual interest at the fixed 6.75% rate. Principal will be settled through a single payment at maturity in September 2042.	400,000	400,000	400,000
Issuance of \$350 million bond that bears semi-annual interest at a fixed 8.75% rate. Principal is repaid in one installment at maturity in November 6, 2019; in September 2012, an amount of \$267.1 million was prepaid.	82,882	82,882	82,882
HSBC			
Line of credit of US\$100 million, bearing quarterly interest at Libor plus 1.50 %. Principal is paid in one installment at maturity in April 2020.	44,000	-	-
Mizuho Corporate Bank			
Unsecured loan documented with a promissory note of 2,700 billion yen that bear quarterly interest at a fixed rate of 2.17%. It was restructured on March 31, 2016 with three semiannual payments of the balance at that date by 1,620 million yen from June 31, 2016. Maturity is on June 30, 2017.	4,619	13,440	13,556
Lines of working capital of 138.1 million Turkish Lira, with terms ranging from one day to one year and an average weighted yearend interest rate of 11.38%.	8,862	7,485	15,907

	2016	2015	2014
Citibank			
Revolving credit for 767.7 million Rupees, earning interest at a rate of 10.25% to 10.75%. Maturity was October 15, 2015	-	-	12,052
Others	14,540	8,077	11,087
Loans in Mexican pesos:			
Securitization certificate for 3,000 million of Mexican pesos bearing interest each semester at a fixed rate of 8.12%. Principal on these loans is settled in March 2022 in a single payment.	145,180	174,353	203,832
HSBC			
Unsecured loans of 2,500 million of Mexican pesos documented with promissory notes, which bear quarterly interest at the TIIE rate plus 1.50 %. On May 29, 2015, it was restructured per an amount of 243.1 million Mexican pesos documented with promissory note bearing quarterly interest at the TIIE rate plus 1.25%. The maturing on April 29, 2017.	2,941	10,594	22,530
Bancomext			
Unsecured loan of 3,000 million bearing quarterly interest at TIIE plus 0.825%. Principal is amortized semiannually from September 5, 2016, through March 2021.	<u>133,687</u>	<u>178,389</u>	<u>208,550</u>
	2,336,711	2,375,220	2,470,396
Less: Current portion of bank loans and current portion of long-term debt	(57,693)	(43,653)	(61,736)
Less: Debt issuance costs	<u>(37,648)</u>	<u>(40,145)</u>	<u>(42,203)</u>
	<u>\$ 2,241,370</u>	<u>\$ 2,291,422</u>	<u>\$ 2,366,457</u>

Maturities of long-term debt as of December 31, 2016, net of the related placement expenses, are as follows:

Payable during -	
2018	\$ 32,053
2019	113,221
2020	73,708
2021	14,854
2022	895,180
2022 and thereafter	<u>1,112,354</u>
	<u>\$ 2,241,370</u>

As of December 31, 2016, some of the credits establish specific covenants, which have been fulfilled and are calculated on consolidated figures of Mexichem and on consolidated figures of Wavin, the most important of which are as follows:

- a. Certain restrictions regarding the application of new liens.
- b. Maintain a consolidated interest hedge ratio of at least between 3.0 and 1.0.
- c. Maintain an index of leverage on the profit before interest, taxes, depreciation and amortization not greater than 3.0 to 1.0.
- d. Insure and maintain property, plant and equipment in good working condition.
- e. Comply with all applicable laws, rules, regulations and provisions.

17. Obligations from financial leases

a. *Lease agreements*

The Entity leases certain manufacturing equipment through a financial lease, with an average five-year lease term and options to purchase the equipment for a nominal amount at the end of the lease. The Entity's obligations derived from financial leases are guaranteed by the lessors' ownership of the leased assets.

The underlying interest rates in all financial lease agreements are an annual average rate of 5.36%, 5.27% and 5.48% in 2016, 2015 and 2014, respectively.

b. *Financial liabilities from leases*

	Minimum lease payments			Present value of minimum lease payments		
	2016	2015	2014	2016	2015	2014
Up to one year	\$ 59,722	\$ 51,263	\$ 68,391	\$ 51,839	\$ 44,053	\$ 52,695
Between 1 and 3 years	69,310	116,079	121,339	57,176	105,437	99,839
Three years or more	<u>23,772</u>	<u>12,115</u>	<u>79,867</u>	<u>12,337</u>	<u>11,320</u>	<u>70,246</u>
	152,804	179,457	269,597	121,352	160,810	222,780
Less future financing charges	<u>31,452</u>	<u>18,647</u>	<u>46,817</u>	<u>-</u>	<u>-</u>	<u>-</u>
Present value of minimum lease payments	<u>\$ 121,352</u>	<u>\$ 160,810</u>	<u>\$ 222,780</u>	<u>\$ 121,352</u>	<u>\$ 160,810</u>	<u>\$ 222,780</u>

	2016	2015	2014
Included in the financial statements as:			
Short-term financial leases	\$ 51,839	\$ 44,053	\$ 52,695
Long-term financial leases	<u>69,513</u>	<u>116,757</u>	<u>170,085</u>
	<u>\$ 121,352</u>	<u>\$ 160,810</u>	<u>\$ 222,780</u>
		Present value of minimum lease payments by item 2016	Present value of minimum lease payments by item 2015
Building		\$ 13,427	\$ 17,054
Machinery and equipment		104,546	140,159
Furniture and fixtures		2,355	1,573
Vehicles		<u>1,024</u>	<u>2,024</u>
		<u>\$ 121,352</u>	<u>\$ 160,810</u>

18. Employee benefits

a. *Defined contribution plans*

In the Mexican subsidiaries are carried out payments on integrated salary of its employees to the contribution plan defined by concept of statutory retirement savings system.

Some subsidiaries have defined contribution retirement benefit plans for certain eligible employees. Plan assets are maintained separate from Entity assets in funds, under the control of trustees. If the employee abandons the plan before ten years, he does not acquire all contributions and the amount payable by the Entity is reduced by the lost contribution amount.

Employees in certain subsidiaries have a retirement benefit plan managed by local governments. To finance the plan, subsidiaries are obligated to contribute a specific percentage of the employees' consideration to the retirement benefit scheme. The Entity's only legal obligation in regard to these plans is to make the specified contributions.

Benefits of defined contribution plans are paid monthly.

b. *Defined benefit plans*

In certain subsidiaries the Entity sponsors funded defined benefit plans for qualifying employees of its subsidiaries. The defined benefit plans are administered by a separate Fund that is legally separated from the Entity. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund.

The Entity's Mexican subsidiaries manage a plan that also covers seniority premium, which consists of a one-time payment of 12 days for each year worked based on the last wage, limited to twice the minimum wage established by law. The related liability and the annual cost of benefits are calculated by an independent actuary in accordance with the bases defined in the plans, using the projected unit credit method.

The Entity manages defined contributions plans for employees that qualify in 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, 2016 by independent actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2016	2015	2014
Discount rate(s)	3.47%	3.96%	3.07%
Expected rate(s) of salary increase	2.77%	2.63%	2.14%
Expected yield on defined contribution plan assets	3.47%	3.96%	3.07%
Average longevity at retirement age for current pensioners (years)			
- Males	21.1	21.4	21.1
- Females	23.0	23.6	23.5
Expected return on plan assets			
Average longevity at retirement age for current employees (years)			
- Males	22.3	22.7	22.9
- Females	24.5	25.1	25.3

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

	2016	2015	2014
Service cost:			
Current service cost	\$ 5,126	\$ 6,782	\$ 13,244
Past service cost and (gain)/loss from settlements	(8,764)	(5,473)	(4,718)
Net interest expense	<u>3,352</u>	<u>4,724</u>	<u>3,463</u>
Components of defined benefit costs recognized in profit or loss	<u>\$ (286)</u>	<u>\$ 6,033</u>	<u>\$ 11,989</u>
Remeasurement on the net defined benefit liability:			
Return on plan assets (excluding amounts included in net interest expense)	\$ (38,148)	\$ 3,309	\$ (65,676)

	2016	2015	2014
Actuarial (gains) and losses arising from changes in demographic assumptions	69,724	(38,844)	119,784
Actuarial (gains) and losses arising from changes in financial assumptions	4,545	(4,732)	4,059
Actuarial (gains) and losses arising from experience adjustments	<u>(2,194)</u>	<u>(230)</u>	<u>(223)</u>
Components of defined benefit costs recognized in other comprehensive income	<u>33,927</u>	<u>(40,497)</u>	<u>57,944</u>
Total	<u>\$ 33,641</u>	<u>\$ (34,464)</u>	<u>\$ 69,933</u>

In 2015, Wavin Netherlands adjusted the values of its provision as a result of the change from a defined benefits plan to a defined contribution collective plan, generating a net reduction in the labor liability of \$38.7 million, which mainly affected other comprehensive results. During 2016 and 2015 the costs of past services and (gains)/losses for settlements include the early reduction of obligations due to restructuring and amendments to the pension plans for \$(8,764) and \$(5,473), respectively, in the operations of Vestolit, Wavin UK and Wavin Netherlands in 2015 and in Wavin UK, Ireland and Netherlands in 2014.

The current service and financial cost net of the year are included in benefits spending to employees in the consolidated statement of profit or loss and other comprehensive income, both in selling and development expenses as in administrative expenses.

The remeasurement of the net defined benefit liability is included in other comprehensive income.

The amount included in the consolidated statement of financial position arising from the Entity's obligation in respect of its defined benefit plans is as follows:

	2016	2015	2014
Present value of funded defined benefit obligation	\$ (458,608)	\$ (448,784)	\$ (931,822)
Fair value of plan assets	<u>287,635</u>	<u>293,812</u>	<u>710,289</u>
Net liability arising from defined benefit obligation	<u>\$ (170,973)</u>	<u>\$ (154,972)</u>	<u>\$ (221,533)</u>

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

	2016	2015	2014
Opening defined benefit obligation	\$ 448,784	\$ 931,822	\$ 777,808
Current service cost	5,126	6,782	13,244
Interest cost	13,350	19,843	29,636
Remeasurement (gains)/losses:			
Actuarial (gains) and losses arising from changes in financial assumptions	74,521	(8,014)	120,047
Actuarial (gains) and losses arising from changes in financial assumptions	5,614	(521)	1,545
(Gains) / losses actuarial arising from past adjustments	(3,096)	(4,384)	2,311
Past service cost, including losses/(gains) on curtailments	(8,764)	(5,473)	(4,718)
Liabilities assumed in a business combination	-	-	91,256
Exchange differences on foreign plans	(59,454)	(79,185)	(74,091)
Benefits paid	(17,533)	(18,469)	(27,531)
Contributions from plan participants	60	50	2,315
Movements to a defined contribution plan	<u>-</u>	<u>(393,667)</u>	<u>-</u>
Closing defined benefit obligation	<u>\$ 458,608</u>	<u>\$ 448,784</u>	<u>\$ 931,822</u>

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

	2016	2015	2014
Opening fair value of plan assets	\$ 293,812	\$ 710,289	\$ 697,612
Interest income	9,998	15,117	26,173
Remeasurement (gains)/losses:			
Return on plan assets (excluding amounts included in net interest expense)	38,148	(3,308)	65,676
Contributions from the employer	5,189	8,450	13,136
Contributions from plan participants	52	50	2,313
Exchange differences on foreign plans	(45,745)	(59,694)	(66,260)
Assets acquired in a business combination	-	-	(22,064)
Benefits paid	(13,819)	(14,730)	(2,981)
Administrative cost	-	(1,354)	(3,316)
Movements to a defined contribution plan	<u>-</u>	<u>(361,010)</u>	<u>-</u>
Closing fair value of plan assets	<u>\$ 287,635</u>	<u>\$ 293,812</u>	<u>\$ 710,289</u>

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

	2016	2015	2014
Equity investments	\$ 84,860	\$ 127,159	\$ 299,229
Debt investments	164,915	149,947	382,082
Others	<u>37,860</u>	<u>16,706</u>	<u>28,978</u>
Total	<u>\$ 287,635</u>	<u>\$ 293,812</u>	<u>\$ 710,289</u>

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

As of December 31, 2016, 2015 and 2014, the plan assets include ordinary shares of the Entity with an accumulated fair value of \$86, \$654 and \$932, respectively.

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate is 1% higher or lower, the defined benefit obligation would decrease \$12,764 and increase \$16,267, respectively.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Each year an Asset-Liability-Matching study is performed in which the consequences of the strategic investment policies are analyzed in terms of risk-and-return profiles. Investment and contribution policies are integrated within this study. Main strategic choices that are formulated in the actuarial and technical policy document of the Fund are:

Asset mix based on 69% equity instruments, 16% debt instruments and 15% cash.

There has been no change in the process used by the Entity to manage its risks from prior periods.

The main categories of plan assets, and the expected return rate in each category at the end of the reporting period, are:

	<u>Expected return</u>		
	2016	2015	2014
Equity instruments	1.02%	1.71%	1.29%
Debt instruments	<u>2.45%</u>	<u>2.25%</u>	<u>1.78%</u>
Weighted average expected return	<u>3.47%</u>	<u>3.96%</u>	<u>3.07%</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.

The history of experience adjustments made, is as follows:

	2016	2015	2014
Present value of defined benefit obligation	\$ 458,608	\$ 448,784	\$ 931,822
Fair value of plan assets	<u>(287,635)</u>	<u>(293,812)</u>	<u>(710,289)</u>
Net liability	<u>\$ 170,973</u>	<u>\$ 154,972</u>	<u>\$ 221,533</u>
Adjustments based on experience on plan liabilities	<u>\$ 1,808</u>	<u>\$ (4,270)</u>	<u>\$ 63,275</u>
Adjustments based on experience on plan assets	<u>\$ (39,754)</u>	<u>\$ (3,301)</u>	<u>\$ (120,509)</u>

19. Provisions

	Legal	Restructuring	Guarantees	Other	Total
Balance at December 31, 2013	\$ 14,201	\$ 24,021	\$ 9,224	\$ 28,138	\$ 75,584
(Credit) debit to results	(179)	(11,823)	-	6,273	(5,729)
Applications	(223)	(358)	-	(4,542)	(5,123)
Translation effects	<u>(1,585)</u>	<u>(2,679)</u>	<u>(1,029)</u>	<u>(2,994)</u>	<u>(8,287)</u>
Balance at December 31, 2014	12,214	9,161	8,195	26,875	56,445
(Credit) debit to results	4,291	12,439	336	(5,707)	11,359
Applications	(3,390)	(9,446)	(2,582)	(1,340)	(16,758)
Translation effects	<u>(3,159)</u>	<u>(721)</u>	<u>(735)</u>	<u>(2,278)</u>	<u>(6,893)</u>
Balance at December 31, 2015	9,956	11,433	5,214	17,550	44,153
(Credit) debit to results	(484)	4,859	932	(1,558)	3,749
Applications	(5,802)	(10,458)	(1,028)	(3,421)	(20,709)
Translation effects	<u>1,052</u>	<u>(736)</u>	<u>(145)</u>	<u>(1,670)</u>	<u>(1,499)</u>
Balance at December 31, 2016	<u>\$ 4,722</u>	<u>\$ 5,098</u>	<u>\$ 4,973</u>	<u>\$ 10,901</u>	<u>\$ 25,694</u>
Current	\$ 235	\$ 5,098	\$ 2,539	\$ 867	\$ 8,739
Non-current	<u>4,487</u>	<u>-</u>	<u>2,434</u>	<u>10,034</u>	<u>16,955</u>
Balance at December 31, 2016	<u>\$ 4,722</u>	<u>\$ 5,098</u>	<u>\$ 4,973</u>	<u>\$ 10,901</u>	<u>\$ 25,694</u>

The provisions recognized are generated during the normal course of business and are common in the industry in which these business activities take place. Commercial, tax and labor lawsuits are recorded based on the opinion of the Entity's internal and external attorneys, these contingencies have a risk level of less than probable and higher than remote of resulting in unfavorable verdicts for the Entity. In any case, the Entity considers that these legal proceedings will not have an adverse material effect on its consolidated financial position.

Restructuring - Provisions are created based on the plans announced in the Entity to those that will be affected by it. It is expected that they will be created within a term of one to two years as of the date of their dissemination.

Guarantees - A provision is recognized for the products sold on the basis of the claims received and the historical data related to the costs of the warranty. The reserve amount covers an estimated five-year period, mainly in the Wavin operations.

Legal - Legal provisions referred to risks identified in the Entity. The majority of the cash outlays related to legal provisions are expected to occur within one to five years.

Other provisions - The other provisions are generated in the normal course of the business, and are expected to be disbursed within a term of one to five years.

20. Stockholders' equity

a. *Paid-in capital*

At December 31, 2016, 2015 and 2014, common stock is represented by 2,100,000,000 common, nominative shares with voting rights and at no par value, which have been fully paid-in. Fixed capital is represented by nominative Class I shares without withdrawal rights. Variable capital is represented by nominative Class II shares at no par value which must not exceed 10 times the Entity's minimum fixed capital. At December 31, 2016, 2015 and 2014 the number of shares and amount of common stock are composed as follows:

	Number of shares	Amount
Capital subscribed-		
Class I	308,178,735	\$ 37,598
Class II	<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.

b. *Buy-back shares program reserve*

At a Stockholders' Ordinary General Meeting held on April 28, 2016, the stockholders approved a partial cancellation of the repurchase fund balance which was not used from April 30, 2015 through April 27, 2016 of \$173,419; similarly, the stockholders agreed to increase such reserve by \$400,000 to achieve a total of \$551,581 as the maximum amount of resources which the Entity may use to purchase its own shares or credit instruments representing such shares. Any related gain or loss is recorded in retained earnings. As of December 31, 2016, 2015 and 2014, the reserve balance was \$551,579, \$156,219 and \$126,663, respectively; as of such dates, the Entity has 877; 48,585,778 and 37,397,647 of its own shares, respectively.

At a Stockholders' Ordinary General Meeting held on April 30, 2015, the stockholders approved a partial cancellation of the repurchase fund balance which was not used from April 30, 2014 through April 29, 2015 of \$110,725; similarly, the stockholders agreed to increase such reserve by \$146,405 to achieve a total of \$325,000.

At a Stockholders' Ordinary General Meeting held on April 29, 2014, the stockholders approved an increase to the repurchase reserve of \$141,838 for a total of \$305,320. Similarly, at a Stockholders' Ordinary General Meeting held on November 28, 2015, the stockholders approved a partial cancellation of this reserve of \$16,000, for a total of \$289,320.

c. ***Earned capital***

At a Stockholders' Ordinary General Meeting held on December 7, 2016, the stockholders approved the payment of a cash dividend of \$105 million, applied to retained earnings and the net tax income account (CUFIN) generated before December 31, 2013, payable in four installments during 2017.

Similarly, they approved the payment of an additional dividend for mandatory reinvestment in Entity shares at a rate of 0.025 shares per outstanding share at that date, i.e., one new share per every 40 outstanding shares. The CUFIN balance will not be decreased by such distribution. The difference between the dividend amount paid and the value of the reinvested shares generated a loss of \$24 million, which was recorded under retained earnings.

At the Stockholders' Ordinary General and Special Meeting held on November 30, 2015, it was approved the declaration and payment of dividends for the amount of \$63,447 (1,050 million of Mexican pesos), applied to the retained earnings account and net tax income account (CUFIN) generated prior to December 31, 2013, equivalent to 0.50 Mexican pesos per share; such dividend will be paid in four settlements during 2016.

At the Stockholders' Ordinary General Meeting held on April 29, 2014 it was agreed to make a transfer of accumulated income for the amount of \$233,549 to the share issuance premium.

At the Stockholders' Ordinary and Special Meeting held on November 28, 2014 it was approved the declaration and payment of dividends for the amount of US\$76,520 (1,050 million of Mexican pesos), applied to the retained earnings account and net tax income account (CUFIN) generated prior to December 31, 2013, equivalent to 0.50 Mexican pesos per share. Such dividend was paid in four payments during 2015.

Stockholders' equity, except for restated paid-in capital and tax retained earnings will be subject to income tax payable by the Entity at the rate in effect upon distribution.

Any tax paid on such distribution may be credited against annual and estimated income tax of the year in which the tax on dividends is paid and the following two fiscal years.

Retained earnings include the statutory legal reserve. In Mexico, the General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. At December 31, 2016, 2015 and 2014, the legal reserve was \$51,928 in each period.

Dividends paid from profits generated as of January 1, 2014 to Mexican resident individuals and foreign residents may be subject to an additional 10% income tax, which must be withheld by the Entity.

The balances of the stockholders' equity tax accounts as of December 31, are:

	2016	2015	2014
Contributed capital account	\$ 1,292,820	\$ 1,502,129	\$ 1,719,503
CUFIN	\$ 398,478	\$ 413,249	\$ 488,405

21. Balances and transactions with related parties

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

	2016	2015	2014
Due from related parties:			
Elementia, S.A. de C.V.	\$ 1,157	\$ 212	\$ 1,568
Pochteca Materias Primas, S.A. de C.V.	810	964	1,381
Mexalit Industrial S.A de C.V.	539	-	-
Eternit Colombiana, S.A.	431	178	424
Elementia Servicios Administrativos, S.A. de C.V.	121	-	-
Controladora GEK, S.A. de C.V.	8	-	109
Fenix Fluor Limited	-	221	548
Others	<u>199</u>	<u>2</u>	<u>28</u>
	<u>\$ 3,265</u>	<u>\$ 1,577</u>	<u>\$ 4,058</u>
Due to related parties:			
Kaluz, S.A. de C.V.	\$ 49,447	\$ 26,355	\$ 32,089
Others	<u>2,040</u>	<u>395</u>	<u>457</u>
	<u>\$ 51,487</u>	<u>\$ 26,750</u>	<u>\$ 32,546</u>

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

	2016	2015	2014
Revenues from -			
Sales	\$ 7,336	\$ 7,640	\$ 8,364
Administrative services	1,036	1,610	1,667
Interest	<u>-</u>	<u>-</u>	<u>1,760</u>
	<u>\$ 8,372</u>	<u>\$ 9,250</u>	<u>\$ 11,791</u>
Expenses from -			
Administrative services	\$ 10,507	\$ 14,724	\$ 16,237
Purchases	1,347	1,270	813
Donations	445	1,364	1,810
Others	<u>678</u>	<u>582</u>	<u>1,019</u>
	<u>\$ 12,977</u>	<u>\$ 17,940</u>	<u>\$ 19,879</u>

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

	2016	2015	2014
Short-term benefits	\$ 7,695	\$ 6,080	\$ 5,654
Postretirement benefits	729	583	463
Terminated benefits	<u>659</u>	<u>337</u>	<u>1,100</u>
	<u>\$ 9,083</u>	<u>\$ 7,000</u>	<u>\$ 7,217</u>

22. Cost of sales and operating expenses

- a. *Cost of sales*

	2016 (As Adjusted)	2015 (As Adjusted)	2014 (As Adjusted)
Changes in inventories of finished goods and work in progress and raw materials and consumables used	\$ 3,868,661	\$ 4,082,188	\$ 4,104,976
Depreciation	<u>240,307</u>	<u>256,699</u>	<u>256,223</u>
	<u>\$ 4,108,968</u>	<u>\$ 4,338,887</u>	<u>\$ 4,361,199</u>

- b. *Selling and development expenses:*

	2016	2015	2014
Salaries, wages and other benefits	\$ 179,842	\$ 183,849	\$ 191,894
Repair and maintenance	4,220	3,919	4,759
External services	34,665	31,706	23,614
Lease	17,000	17,379	21,098
Advertising and marketing	22,724	25,263	28,813
Commissions on sales	21,293	21,619	19,946
Taxes and duties	1,942	1,229	1,391
Insurance	3,006	3,174	2,748
Telephony	200	244	172
Packaging materials	5,688	3,236	2,226
Allowance for doubtful accounts	11,437	8,355	7,374
Others	41,040	59,721	57,212
Depreciation	16,098	14,909	14,752
Amortization	<u>15,887</u>	<u>16,587</u>	<u>18,169</u>
	<u>\$ 375,042</u>	<u>\$ 391,190</u>	<u>\$ 394,168</u>

- c. *Administrative expenses:*

	2016 (As Adjusted)	2015 (As Adjusted)	2014 (As Adjusted)
Salaries, wages and other benefits	\$ 145,901	\$ 151,367	\$ 134,477
External services	41,577	44,592	48,087
Taxes and duties	7,184	9,223	13,108
Telephone	2,388	2,787	3,068

	2016 (As Adjusted)	2015 (As Adjusted)	2014 (As Adjusted)
Repair and maintenance	13,315	14,279	14,985
Insurance	6,207	7,394	7,448
Lease	9,085	9,437	10,308
Administrative services affiliates	10,507	14,724	16,237
Depreciation	13,407	15,610	14,748
Amortization	45,127	58,753	64,355
Others	<u>33,136</u>	<u>26,541</u>	<u>19,619</u>
	<u>\$ 327,834</u>	<u>\$ 354,707</u>	<u>\$ 346,440</u>

d. **Other income**

	2016	2015	2014
Expenses:			
Asset write-off due to accident (PMV)	\$ 276,153	\$ -	\$ -
Accident expenses (PMV)	41,668	-	-
Fixed asset impairment	3,322	-	-
Expenses related to acquisitions	-	-	5,307
Loss on items hedged with forwards	-	20,968	-
Donations	1,863	3,081	1,810
Other	<u>3,364</u>	<u>-</u>	<u>-</u>
	<u>326,370</u>	<u>24,049</u>	<u>7,117</u>
Income:			
Accounts receivable from insurance companies (PMV)	\$ (275,496)	\$ -	\$ -
Account receivable related to business interruption (PMV)	(51,316)	-	-
Anticipated reduction of labor obligations	-	(6,582)	(4,718)
Recovery of expenses and claims	(5,333)	(10,327)	(10,131)
Gain on insurance claim	-	(6,933)	-
Gain on sale of fixed assets	(1,333)	(2,990)	(1,302)
Gain on sale of waste materials	(2,309)	(2,372)	(3,547)
Severance by arbitration	-	-	(16,775)
Extraordinary income	(3,280)	(6,417)	(6,290)
Others	<u>(2,271)</u>	<u>(8,683)</u>	<u>(1,982)</u>
	<u>(341,338)</u>	<u>(44,304)</u>	<u>(44,745)</u>
Other income, net	<u>\$ (14,968)</u>	<u>\$ (20,255)</u>	<u>\$ (37,628)</u>

23. Income taxes

ISR is based on tax profit, which differs from the profit reported in the consolidated statement of profit and loss and other comprehensive income, due to prior year taxable revenue, expense, or deductible line items and items which are never taxable or deductible. The Entity's liability for current income tax payable using the tax rates enacted or substantially enacted at the end of the reporting period in the countries in which the Entity and its subsidiaries operate.

a. **ISR**

The income tax rates applicable in 2014 in the countries where the Entity operates are as follows:

	%		%
Argentina	35	Japan	36
Austria	25	Latvia	15
Belgium	33	Lithuania	15
Brazil	34	Mexico	30
Bulgaria	10	Netherlands	25
Canada	27	Nicaragua	30
China	25	Norway	25
Colombia	39	Oman	12
Costa Rica	30	Panama	25
Croatia	20	Peru	28
Czech Republic	19	Poland	19
Denmark	22	Romania	16
Ecuador	22	Russia	20
El Salvador	30	Serbia Republic	15
Estonia	20	Slovakia	22
Finland	20	South Africa	28
France	33	Sweden	22
Germany	34	Switzerland	24
Guatemala	25	Taiwan	17
Honduras	25	Turkey	20
Hungary	19	U.K.	20
India	34	Ukraine	18
Ireland	13	U.S.A.	42
Italy	28	Venezuela	34

b. **Deferred taxes**

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

	2016 (As Adjusted)	2015 (As Adjusted)	2014 (As Adjusted)
Property, plant and equipment	\$ 329,119	\$ 330,725	\$ 311,166
Inventories	1,015	765	2,817
Liabilities deductible upon payment	(18,393)	(17,349)	(31,534)
Tax loss carry forwards	(368,998)	(204,216)	(189,375)
Intangible assets	102,933	95,161	125,976
Others	<u>39,149</u>	<u>(57,522)</u>	<u>(46,103)</u>
	84,825	147,564	172,947
Deferred tax asset	<u>66,025</u>	<u>186,989</u>	<u>169,122</u>
Deferred tax liability	<u>\$ 150,850</u>	<u>\$ 334,553</u>	<u>\$ 342,069</u>

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

	2016 (As Adjusted)	2015 (As Adjusted)	2014 (As Adjusted)
Beginning balance	\$ 147,564	\$ 172,947	\$ 22,947
Income tax provision applied to results	(54,539)	(41,937)	(54,539)
Effect of assets and liabilities of acquired companies	7,220	-	3,106
Effect of foreign currency conversion	(3,106)	(23,440)	(3,106)
Discontinued operations	1,000	-	-
Effect on capital of other comprehensive income entries	<u>(13,314)</u>	<u>39,994</u>	<u>-</u>
	<u>\$ 84,825</u>	<u>\$ 147,564</u>	<u>\$ 17,311</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:

	2016 (As Adjusted)	%	2015 (As Adjusted)
Profit before income taxes	\$ 392,873	34.30	\$ 30,756
Permanent items that modified the tax base:			
Accruable (deductible) annual adjustment for inflation	67,232	5.64	3,106
Non-accruable income	(4,507)	(0.38)	(1,000)
Non-deductible items	38,694	3.24	3,106
Tax losses recognized of previous years	81,638	6.84	1,000
Effect of changes in tax rate	234	0.02	-
Mining tax and others	18,320	1.54	-
Fixed asset and other tax incentives	(23,327)	(1.96)	(2,340)
Foreign exchange tax and translation effect, net	(133,612)	(11.20)	(3,106)
Others	<u>(2,331)</u>	<u>(0.20)</u>	<u>(1,000)</u>
Total permanent items	<u>42,341</u>	<u>3.55</u>	<u>1,000</u>
Base profit for income taxes	<u>\$ 435,214</u>	<u>30.75</u>	<u>\$ 31,756</u>
Current income tax	\$ 189,295		\$ 14,756
Deferred income tax	<u>(54,539)</u>		<u>(4,000)</u>
Total tax	<u>\$ 134,756</u>		<u>\$ 9,756</u>
Effective rate	34.30%		32.30%
Average legal rate	30.75%		30.75%

The benefits of tax loss carry forwards, restated for inflation as permitted by tax law in certain countries, for which the deferred income tax asset has been partially recognized, may be recovered subject to certain requirements. The years of expiration of the tax losses and recoverable asset tax of the individual entities and their restated amounts as of December 31, 2016 are as follows:

Year of expiration	Tax loss carry forwards
2018	\$ 5,606
2019	535
2021	81,881
2022	13,439
2023	37,861
2024	149,951
2025	261,066
2026	623,559
Without expiration	<u>313,490</u>
	<u>\$ 1,487,388</u>

24. Discontinued operations

- a. Asset disposal plan for O & G and M & I in the United States - During 2016, Mexichem decided to close its Oil & Gas (O & G) and Municipal & Infrastructure (M & I) operations in the United States. In recent years, the O & G and M & I markets have faced major challenges due to the drop in prices and low margins, mainly originated by an increase in supply and the number of competitors. Accordingly, such operations in the United States are no longer competitive.

The Entity is currently selling the assets of these US operations and analyzing the best option to close the sale.

- b. Asset disposal in the UK - During 2015, Mexichem decided to close its Hydrofluoric Acid (HF) operation in the UK, and discontinue its participation in the company Fenix Fluor Limited, which produces chlorodifluormethane. In the last few years, the (HF) market has faced major challenges due to the drop in its prices, mainly in Europe, as a result of excess offer, and imports from China as well as the closure of operations of its main customers, which meant that the Mexichem HF plant in Rocksavage was no longer competitive.

- c. *Analysis of profits for the year from discontinued operations*

The combined results of the discontinued operations included in the statement of income and other items of comprehensive income are detailed below. The comparative profits and cash flows derived from the discontinued operations have been presented again to include the operations classified as discontinued in the current period.

	At December 2016	At December 2015	At December 2014
Sales	\$ 31,320	\$ 110,823	\$ 71,090
Costs of sales	(36,898)	(111,370)	(72,134)
Other income (expenses)	-	-	6,450
Severance by arbitration	(8,951)	(59,635)	(793)
Financial (costs) income	113	738	142
Income tax	<u>3,636</u>	<u>5,279</u>	<u>(1,750)</u>
Net loss from discontinued operations	<u>\$ (10,780)</u>	<u>\$ (54,165)</u>	<u>\$ 3,005</u>

25. Operating lease arrangements

As of December 31, 2016, 2015 and 2014, the Entity has contractual commitments for operating leases related to machinery and equipment and operating leases for real estate in the amount of \$62,926, \$85,789 and \$67,360, respectively.

Maturities of contractual commitments at December 31, 2016, are as follows:

Years	Amount	
2017	\$	10,779
2018		11,982
2019		12,220
2020		11,008
2021 and thereafter		<u>16,937</u>
	\$	<u>62,926</u>

Operating lease concept	Amount 2016	Amount 2015
Building	\$ 32,047	\$ 33,319
Machinery and equipment	28,158	41,374
Furniture and fixtures	459	6,531
Vehicles	<u>2,262</u>	<u>4,565</u>
	<u>\$ 62,926</u>	<u>\$ 85,789</u>

26. Assets and contingent liabilities

Assets:

- a. On April 20, 2016, there was an explosion in the Pajaritos Petrochemical Complex, where two of the three plants of PMV, VCM and Ethylene, are located. The Chlorine and Soda production plant is at a separate location and was not damaged. The VCM plant (Clorados III) suffered the greatest damage; therefore, the economic impact was the recording of asset loss and the closing of the plant.

PMV, together with its stockholders (Mexichem and Pemex), is assessing various strategic options for the business in the future. Accordingly, it decided to adopt a conservative policy related to the monetary amount recognized in the account receivable, reflecting the actual cash value of the plant as of December 31, 2015. When the business plan is finalized, the amount of the account receivable from the insurance company may change.

Contingent liabilities:

- a. As a consequence of the accident at the VCM plant (Clorados III) described above, PMV performed an environmental assessment to determine whether any pollutants were deposited in the areas surrounding the plant. This assessment was delivered to environmental authorities and they are working together to determine if there is environmental damage. Similarly, PMV may be liable for damages to third parties, if any. With the information available as of the date of these financial statements, there is no evidence that such liability is material.

As discussed above, depending on the decision made by PMV and its stockholders, once the future of the business is decided, PMV will assess the impacts on the rest of its assets in the Pajaritos Complex.

- b. The subsidiary Mexichem Brasil Industria de Transformação Plástica, Ltda. (formerly Amanco Brasil, Ltda.) was notified in 2016 by the Brazilian Economic Defense Administrative Council (CADE) of alleged breaches by such Company and certain executives to the economic competition standards of that country between 2003 and 2009. Mexichem is fully committed to compliance with local regulations in every country in which it operates. As of the date of these consolidated financial statements, due to the phase of this administrative process, Mexichem Management is unable to estimate the obligation, if any, resulting from this procedure.

27. Information by industry segment

Segment information is presented according to the business group, which are grouped according to the vertical integration of their raw materials; the Entity's operating decisions are made based on such segmentation for purposes of assigning resources and assessing the performance of each segment.

The Entity's operating segments are included in the three business groups: Vinyl, Fluor and Fluent. The main goods of such segments are: resins and polyvinyl chloride compounds (PVC), fluorite, fluoro compounds, hydrofluoric acid, cooling gases and medical propellants, as well as PVC, polyethylene (PE) and polypropylene (PP), high-density polyethylene (HDPE) and geosynthetic piping and connections, among others.

Below is a summary of the most significant line items of the consolidated financial statements for each business group:

	Vinyl	Fluor	Fluent
Net sales	\$ 2,031,795	\$ 582,858	\$ 2,89
Cost of sales	<u>1,752,828</u>	<u>344,537</u>	<u>2,16</u>
Gross profit	278,967	238,321	72
General expenses	137,746	62,142	43
Other expenses (income) related parties	44,258	14,720	1
Exchange loss (gain), Net	(31,472)	(6,151)	(1
Interest expense	35,308	5,595	5
Interest income	(1,221)	(5,515)	(
Monetary position loss	-	-	(1
Income from dividends	-	(70)	
Equity in income of associated	<u>(826)</u>	<u>8</u>	<u>(</u>
Profit before income taxes	95,174	167,592	25
Income taxes	<u>29,846</u>	<u>59,086</u>	<u>8</u>
Profit for the year from continuing operations	65,328	108,506	17
Discontinued operations	<u>-</u>	<u>(3,818)</u>	<u>(</u>
Consolidated profit (loss) of the year	<u>\$ 65,328</u>	<u>\$ 104,688</u>	<u>\$ 16</u>

	Vinyl	Fluor	Fluent
Net sales	\$ 2,139,962	\$ 607,545	\$ 3,02
Cost of sales	<u>1,820,863</u>	<u>373,832</u>	<u>2,31</u>
Gross profit	319,099	233,713	71
General expenses	142,603	47,579	45
Other expenses (income) related parties	53,520	16,231	1
Exchange loss (gain), Net	(17,345)	(5,028)	
Interest expense	29,639	6,523	8
Interest income	(1,658)	(5,270)	(1
Monetary position loss	-	-	(
Income from dividends	-	(18)	
Equity in income of associated	<u>486</u>	<u>-</u>	<u>(</u>
Profit before income taxes	111,854	173,696	17
Income taxes	<u>61,763</u>	<u>60,886</u>	<u>4</u>
Profit for the year from continuing operations	50,091	112,810	13
Discontinued operations	<u>-</u>	<u>(48,869)</u>	<u>(</u>
Consolidated profit (loss) of the year	<u>\$ 50,091</u>	<u>\$ 63,941</u>	<u>\$ 12</u>

	Vinyl	Fluor	Deecem Fluent
Net sales	\$ 1,907,775	\$ 637,364	\$ 3,19
Cost of sales	<u>1,705,592</u>	<u>388,131</u>	<u>2,50</u>
Gross profit	202,183	249,233	68
General expenses	107,056	52,711	50
Other expenses (income) related parties	59,006	17,612	
Exchange loss (gain), Net	(6,070)	478	2
Interest expense	26,098	6,422	8
Interest income	(2,962)	(4,440)	(1
Monetary position loss	-	-	
Income from dividends	-	(3)	
Equity in income of associated	<u>1,055</u>	<u>(5)</u>	<u>(</u>
Profit before income taxes	18,000	176,458	9
Income taxes			
Profit for the year from continuing operations	<u>26,476</u>	<u>57,895</u>	<u>2</u>
Discontinued operations	<u>(8,476)</u>	<u>118,563</u>	<u>6</u>
Consolidated profit (loss) of the year	<u>\$ (8,476)</u>	<u>\$ 121,423</u>	<u>\$ 6</u>

The accounting policies of the segments being reported are the same as the accounting policies of the Entity described in Note 4. This represents the valuation reported to the officer who takes the operating decisions for purposes of distribution of resources and evaluation of the performance of the business group.

	Vinyl	Fluor	Fluent
Current assets:			
Cash and cash equivalents	\$ 127,472	\$ 124,235	\$ 30,460
Accounts receivable, Net	611,299	112,421	46,411
Other current assets	240,496	333,082	41,100
Assets classified as held for sale	-	7,566	1,200
Total current assets	<u>979,267</u>	<u>577,304</u>	<u>1,200</u>
Property, plant and equipment, Net	2,520,927	302,195	91,430
Other assets, Net	<u>623,165</u>	<u>157,794</u>	<u>1,430</u>
Total assets	<u>\$ 4,123,359</u>	<u>\$ 1,037,293</u>	<u>\$ 3,540</u>
Current liabilities:			
Bank loans and current portion of long-term debt	\$ 18,707	\$ 19,473	\$ 1,430
Suppliers and credit letters	785,279	40,997	43,100
Other current liabilities	544,422	48,906	35,100
Liabilities classified as held for sale	-	12,216	81,100
Total current liabilities	<u>1,348,408</u>	<u>121,592</u>	<u>81,100</u>
Bank loans and long-term debt	95,699	51,652	57,100
Other non-current liabilities	<u>502,822</u>	<u>175,783</u>	<u>57,100</u>
Total liabilities	<u>\$ 1,946,929</u>	<u>\$ 349,027</u>	<u>\$ 1,390</u>

	Vinyl	Fluor	Fluent
Current assets:			
Cash and cash equivalents	\$ 128,778	\$ 98,071	\$ 25,480
Accounts receivable, Net	283,084	125,863	48,420
Other current assets	269,751	349,241	42,100
Assets classified as held for sale	-	11,533	1,160
Total current assets	<u>681,613</u>	<u>584,708</u>	<u>1,160</u>
Property, plant and equipment, Net	2,446,306	324,286	95,440
Other assets, Net	<u>620,781</u>	<u>179,868</u>	<u>1,440</u>
Total assets	<u>\$ 3,748,700</u>	<u>\$ 1,088,862</u>	<u>\$ 3,560</u>
Current liabilities:			
Bank loans and current portion of long-term debt	\$ 16,103	\$ 17,879	\$ 45,100
Suppliers and credit letters	709,595	38,957	45,100
Other current liabilities	490,786	67,111	37,100
Liabilities classified as held for sale	-	19,617	-
Total current liabilities	<u>1,216,484</u>	<u>143,564</u>	<u>83,100</u>
Bank loans and long-term debt	83,445	84,320	68,100
Other non-current liabilities	<u>445,971</u>	<u>182,865</u>	<u>68,100</u>
Total liabilities	<u>\$ 1,745,900</u>	<u>\$ 410,749</u>	<u>\$ 1,520</u>

	Vinyl	Fluor	Fluent
Current assets:			
Cash and cash equivalents	\$ 149,468	\$ 46,035	\$ 24
Accounts receivable, Net	338,630	175,883	59
Other current assets	320,958	272,868	67
Assets classified as held for sale	-	2,796	
	<u>809,056</u>	<u>497,582</u>	<u>1,52</u>
Total current assets			
Property, plant and equipment, Net	1,777,076	379,496	1,12
Other assets, Net	<u>488,586</u>	<u>160,449</u>	<u>1,34</u>
Total assets	<u>\$ 3,074,718</u>	<u>\$ 1,037,527</u>	<u>\$ 3,99</u>
Current liabilities:			
Bank loans and current portion of long-term debt	\$ 22,530	\$ 9,038	\$ 3
Suppliers and credit letters	543,975	49,317	53
Other current liabilities	474,360	119,749	48
Liabilities classified as held for sale	-	6,759	
Total current liabilities	<u>1,040,865</u>	<u>184,863</u>	<u>1,04</u>
Bank loans and long-term debt	103,843	108,280	
Other non-current liabilities	<u>489,251</u>	<u>84,418</u>	<u>1,18</u>
Total liabilities	<u>\$ 1,633,959</u>	<u>\$ 377,561</u>	<u>\$ 2,24</u>

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

	Depreciation and amortization (As Adjusted)		
	2016	2015	2014
Vinyl	\$ 130,911	\$ 136,734	\$ 12
Fluor	51,595	55,132	5
Fluent	136,280	150,500	16
Other	1,031	-	-
Holding Entity	<u>11,009</u>	<u>20,192</u>	<u>2</u>
	<u>\$ 330,826</u>	<u>\$ 362,558</u>	<u>\$ 36</u>

Below is the financial information classified by geographical area:

Country	Net sales from external customers		
	At December 2016	At December 2015	At Decem 2014
Mexico	\$ 1,094,624	\$ 1,280,399	\$ 1,37
Northwest Europe	1,071,944	996,536	62
U.S.A.	847,184	831,595	63
Southwest Europe	544,464	559,808	59
Colombia	467,551	492,436	57
Brazil	343,446	377,394	56
Central and Eastern Europe	214,618	241,621	28
Central America	180,542	174,174	17
Southeast Europe	159,077	152,104	20
Others	134,567	157,327	4
Ecuador	90,722	101,408	11
Peru	73,662	85,839	8
Japan	49,278	50,391	6
Argentina	35,877	54,782	4
Other Europe	26,753	46,464	4
Venezuela	15,498	10,114	6
Total	<u>\$ 5,349,807</u>	<u>\$ 5,612,392</u>	<u>\$ 5,51</u>

28. Subsequent events

In August 2017, Mexichem Soluciones Integrales Holding, S.A. de C.V. (“MSIH”), a subsidiary of Mexichem, reached an agreement for the acquisition of i) the stock representing 80% of the voting shares of capital stock, ii) all non-voting shares representing approximately 0.4% of the capital stock, both of Netafim, and iii) certain credits granted by some of the stockholders of Netafim Bluedrip S.ar.l, y Netafim Hatzetim Holdings, Cooperative Association Limited, in favor of Netafim (the “Acquisition” or “Operation”).

Netafim is a company with its headquarters in Israel, a presence in 10 countries, 17 plants and which holds a 30% global market share in the area of irrigation solutions for agriculture, greenhouses, landscaping and mining, with demand for its products in 110 countries. As this acquisition is subject to regulatory approval, the transaction is expected to be concluded during the fourth quarter of 2017. To finance the Acquisition, Mexichem is intending to (i) use cash on hand in an amount of approximately \$300,000, (ii) draw down on its revolving line of credit in an amount of approximately US\$200 million and, (iii) the remaining balance for approximately \$1,000,000 will be financed with long term debt securities.

On February 27th, Mexichem announced that its ethylene cracker 50/50 joint venture with Occidental Chemical Corporation (OxyChem), a subsidiary of Occidental Petroleum Corporation (NYSE:OXY), which is located at OxyChem’s Ingleside, Texas complex, began operations on schedule and on budget. The ethylene cracker is currently in a production stabilization phase. The cracker, which will be operated by OxyChem, has the capacity to produce 1.2 billion pounds (550,000 metric tons) of ethylene per year and provide OxyChem with an ongoing source of ethylene for manufacturing vinyl chloride monomer (VCM), which Mexichem will use to produce polyvinyl chloride (PVC resin) and PVC piping systems. The companies have a 20-year supply agreement. Due to this, all the figures in this report include the results of Ingleside Ethylene, LLC.

29. Financial statement issuance authorization

The consolidated financial statements for the year ended December 31, 2014 were approved by the Audit Committee, the Board of Directors and the Stockholders' Annual General Meeting on February 23 and 24, and April 30, 2015, respectively, whereas those for the year ended December 31, 2015 were approved on February 22 and 23 and April 28, 2016, respectively. The consolidated financial statements as of December 31, 2016 were approved on February 21, 2017, February 22, 2017 and April 25, 2017, respectively.

These consolidated financial statements, as adjusted, for the years ended December 31, 2016, 2015 and 2014 were approved by Mr. Rodrigo Guzmán Perera, the Entity's CFO on September 14, 2017. Consequently, they do not reflect any events which occurred after that date and are subject to the approval of the Audit Committee, the Board of Directors and the Stockholders' Annual General Meeting, which may determine that they should be amended in accordance with that established in the General Companies Law.

* * * * *

PRINCIPAL EXECUTIVE OFFICES

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

Río San Javier No.10, Fraccionamiento Viveros del Río
Tlalnepantla, Estado de México
54060 México

TRUSTEE, REGISTRAR, PRINCIPAL PAYING AND TRANSFER AGENT

Deutsche Bank Trust Company Americas
60 Wall Street, 16th Floor
MS NYC60-1630
New York, New York 10005
USA

LUXEMBOURG LISTING, PAYING AND TRANSFER AGENT

Deutsche Bank Luxembourg S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg
Luxembourg

LEGAL ADVISORS

*To the Issuer
as to United States Law*

Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York, New York 10006
USA

*To the Issuer
as to Mexican Law*

Bufete Robles Miaja, S.C.
Bosque de Alisos 47A-1er Piso A2-11
Bosques de las Lomas
México, Distrito Federal 05120
México

*To the Initial Purchasers
as to United States Law*

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017
USA

*To the Initial Purchasers
as to Mexican Law*

Creel, García-Cuellar, Aiza y Enriquez, S.C.
Paseo de los Tamarindos 60, Piso 3
Bosques de las Lomas
México, Distrito Federal 05120
México

INDEPENDENT AUDITORS

Galaz, Yamazaki, Ruiz Urquiza, S.C.
(Member of Deloitte Touche Tohmatsu Limited)
Paseo de la Reforma 505 – 28th Floor
Colonia Cuauhtémoc
México, Distrito Federal 06500
México

mexichem.[®]