

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

**Report of the Chairman of the Audit Committee to the Board of Directors of Mexichem, S.A.B.  
and Subsidiaries**

**April 2016-February 2017**

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

This report has been presented to the Audit Committee of the Society, and has been validated in content, scope and conclusions to be submitted to the consideration and validation of the Board of Directors and the Annual General Meeting of Shareholders of Mexichem, S.A.B. de C.V. to be held in April, 2017 as pursuant to Article 28, Section IV, paragraph a) of the Securities Market Act.

The Annual General Meeting of Shareholders of the Society of April 28, 2016 under advice from the Board of Directors ratified the undersigned as Chairman of the Audit Committee.

During the year being reported, the Committee met during the course of the year on the following dates: (i) April 25, 2016; (ii) July 18, 2016; (iii) July 25, 2016; (iv) October 24, 2016; (v) December 6, 2016; and (vi) February 20, 2017. It should be duly noted that since its meeting in October, 2016 this social entity meets exclusively as Audit Committee, having been made independent of the Corporate Practices Committee deriving from the resolutions issued by the Board of Directors in session on July 26, 2016.

These meetings were attended by the members of the Committee, the independent auditors, and the Mexichem officers who were asked to attend.

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

**I. Evaluation of the Internal Auditors' activities**

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

The committee was informed of the *Continuous Monitoring* project, an analysis of monitoring variations between real cost and standard cost in different products by company, by product and by level of review. In addition, a review was made of the progress of the Self-Assessment process and the 2017 Internal Audit Plan.

In this respect, satisfactory compliance of established work programs and activities for 2016 was achieved and the Work Plan and Budget for 2017 was also approved.

Furthermore, the members of the committee met with the Chairman of Internal Audit with no other company officers present to receive and discuss information deemed pertinent.

## **II. Financial Information**

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

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

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

Likewise, we reviewed and discussed the Audited Financial Statements for the business year ended December 31, 2016. The statements were received without objections and approved by this Committee, who in turn, recommended approval by the Board of Directors and submission to the Shareholders' Assembly.

The committee revised and approved the different assumptions and estimates prepared by Senior Management, which allow validation of the independent auditors' conclusion, as expressed by their expert opinion on said 2016 Financial Statements, of the operating continuity of the company.

The Society's budget for 2017 was revised and approved, making the recommendations deemed pertinent and resolving its submittal to the Board of Directors for approval.

## **III. Report of the Chief Executive Officer**

The Committee received and approved the report of the Chief Executive Officer on the activities for fiscal year 2016, agreeing to recommend its approval to the Board of Directors for presentation to the Shareholders' Assembly.

## **IV. Evaluation of the Independent Auditors' performance**

We continued to employ the services of Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte) as independent auditors for the company. The fees for fiscal year 2016 were duly reviewed and approved.

We received the audited financial statements as of December 31, 2016 from the Independent Auditor, with a clean ruling and with no observations, stressing the cooperative attitude of all company divisions in executing this task.

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

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

#### **V. Accounting Policies**

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

The accounting and reporting policies followed by Mexichem are considered appropriate and sufficient.

In the period under consideration, the committee was informed of the progress regarding the proposal for change in accounting policy for valuation of fixed assets.

#### **VI. Legal Report**

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

#### **VII. Material Events of the Year**

The committee was informed by the Chairman of the Board of the status of the accident that occurred on April 20, 2016 at the *Clorados III* plant, property of Petroquímica Mexicana de Vinilo S.A. de C.V. (PMV), and recommended the Board not to charge the account receivable to the recovery of the accident at the PMV plant until there is a report in writing by the expert hired by the society that could lead an insurance expert to conclude that the causes of the accident do not fall within the exclusions of the insurance policies, and therefore the right of the society to collect from the insurance company exists with “practical certainty”.

By December 31, 2016 sufficient elements had been collected to conclude that the claims to the insurance companies have become an account receivable; thus the amount related to damage to property, damage to third parties (civil liability) and executives and officers plus the amount for business interruption, was acknowledged in the statements as other revenue.

Acquisition of new businesses:

On October 18, 2016 Mexichem acquired 100% of the shares of Gravenhurst Plastic, Inc. a Canadian Ontario-based private company that produces plastic piping.

On November 25, 2016, Mexichem acquired 100% of the shares of Vinyl Compounds Holdings, Ltd. (VHCL), a leading company in PVC compounds that serves a wide range of industries, including: building and construction, production of pipes and fittings, footwear and consumer goods. VCHL is based in Derbyshire, UK.

On December 31, 2016, the equal-participation joint venture formalized on October 31, 2013 between Mexichem and Occidental Chemical Corporation (Oxychem), named Ingleside Ethylene LLC, for the construction of an ethylene cracker with a capacity of 550 thousand tons, is opened at the facilities of Oxychem at Ingleside, Texas, and will use the system of ducts and storage at Markham.

## **VIII. Conclusions**

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

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

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

In accordance with the work carried out, this recommends that the Board of Directors present the Audited Financial Statements of Mexichem, for the business year ended December 31, 2016, for approval of the Shareholders' Meeting.

Mexico City, February 20, 2017

Respectfully,

C.P. Fernando B. Ruiz Sahagún  
Chairman of the Audit Committee  
Mexichem, S.A.B. de C.V.